Nine

ANNUAL REPORT 2018

CONTENTS

YEAR IN BRIEF

During FY18, the strong operating performance of traditional linear television has enabled Nine to step up the focus on, and commitment to, the long-term growth of the overall business.

Positive ratings momentum combined with Nine's focus on the 25-54 demographic is translating to improved revenue share in Free To Air (FTA) television. In Digital, 9Now is experiencing strong revenue and profit growth as the business continues to mature and the Digital Publishing business has reported accelerating growth in revenues and EBITDA, driven by video-led content and based around the key verticals of News, Sport, Entertainment and Lifestyle. Stan has passed through the milestone of 1 million subscribers and remains focussed on building a long term competitive and profitable SVOD business.

During the year, Nine has challenged the paradigm – trialling new content, investing in new distribution platforms and creating new ways to engage with its audiences and advertisers. The progress has been tangible.

RESULT IN BRIEF

In FY18, NEC reported Group EBITDA of $257 million, up 25% on FY17, driven by a 6% increase in Group revenues. Nine increased its share of a Free To Air market which returned to growth over the year, underpinning the result. Importantly for the future of the business, Nine's FTA growth was augmented by strong growth in 9Now and Digital Publishing.

Net Profit after Tax and before Specific Items increased by 27% to $157 million compared to the FY17 result. On the same basis, earnings per share grew by 27%. The Statutory Net Profit after Specific Items, which aside from the profit on the sale of the Willoughby premises were predominately accounting-led non-cash items, was $222 million.

Operationally, Nine gained significant positive momentum across all aspects of its business.

YEAR TO JUNE, $M	FY18	FY17	VARIANCE
REVENUE	**1,318.2**	1,237.8	+6%
GROUP EBITDA	**257.2**	205.6	+25%
NPAT, BEFORE SPECIFIC ITEMS	**156.7**	123.6	+27%
STATUTORY NPAT, AFTER SPECIFIC ITEMS	**209.7**	(203.4)	NA
OPERATING FREE CASH FLOW	**242.6**	109.2	+122%
EARNINGS PER SHARE, BEFORE SPECIFIC ITEMS – CENTS	**18.0**	14.2	+27%
DIVIDEND PER SHARE – CENTS	**10.0**	9.5	+0.5C

Operating free cash flow for the year, before Specific Items, interest and tax, was $243 million. This was before the cash impact of the Warner Specific Item ($43 million). Net Debt at 30 June 2018 was $121 million, down from $225 million 12 months earlier. During the year, $87 million was returned to shareholders through dividends, $125 million was received via the sale of the Group's Willoughby premises, and nearly $100 million was invested in the business, including through Stan and Pedestrian.

REPORTED, AS AT	30 JUNE 2018	30 JUNE 2017	
NET DEBT, $M	**121.3**	224.5	-$103.2M
NET LEVERAGE	**0.5X**	1.1X	-0.6X
EBITDA INTEREST COVER	**114.5X**	36.7X	

Create Great Content
Distribute it Broadly
Engage Audiences
and Advertisers

OPERATIONAL HIGHLIGHTS 2018

NINE: WHER
AUSTRALIA CON

Nine was home to the No 1 entertainment program of 2017 with *The Block – Winner Announced* achieving a national audience of more than 3.5m

15 episodes of *Love Island Australia* attracted a larger audience on 9Now than linear TV, and was Nine's most live streamed (non sport) program to date

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23%
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REVENUE, A
ALL PLATFO

15% GROWTH
IN 25-54S AUDIENCE*
FOR SEASON 5 OF
MARRIED AT FIRST SIGHT

* CONSOLIDATED 28, NATIONAL

FORMATION
AUSTRAL
CHANNEL
NEW BUSINE
YOUR

ACQUISITION OF EXCLUSIVE LIVE RIGHTS TO ALL PREMIUM TENNIS PLAYED IN AUSTRALIA FOR SEASONS 2019-2024

AUSTRALIA'S LOVE ISLAND DRIVES RECORD YOUNGER AUDIENCES TO 9GO! AND 9NOW

ROLL OUT OF
9GAL
OPTIMISING T
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NECTS

27% GROWTH
IN 25-54S AUDIENCE*
FOR SEASON 13 OF THE BLOCK
* CONSOLIDATED 28, NATIONAL

6.8M*
REGISTERED USERS
OF 9NOW
* AS AT SEPTEMBER 2018

M
UBSCRIBERS
STAN

#1
BROADCAST
NETWORK IN 25-54
DEMOGRAPHICS
(SOURCE: 12 MONTHS TO
JUNE 2018, 6AM-MIDNIGHT)

N PREMIUM
ACROSS
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OF JV WITH
IAN NEWS
TO LAUNCH
SS CHANNEL,
MONEY

AXY
HE RETURN
REMIUM

60 Minutes
– celebrating
its 40th year
on air in 2018

CHAIRMAN'S ADDRESS

"The advantage we have against the new technology companies....is our premium content in a trusted and brand-safe environment for audiences."

Nine has made great progress during FY18. Growth in audiences – on Free To Air TV, Broadcast Video on Demand, Subscription Video on Demand and across our broader digital publishing assets - has translated to Group revenue which was up 6%, and a 25% increase in Group EBITDA for the year.

The year started strongly in July 2017 with the launch of *Australian Ninja Warrior*, which set the basis for a very strong ratings period for Nine. Perennial favourite *The Block* and relative new-comer *Married at First Sight* proved that Free To Air audiences can grow with the right content. And the consumer can now take the opportunity to find that content on whichever platform they wish to view it.

It was pleasing to see the TV market return to growth this year, as advertisers, many of them digital companies, recognised the unrivalled power of Free To Air television when it comes to building their brand. The advantage we have against the new technology companies that are entering the market is our premium content in a trusted and brand-safe environment for audiences.

Nine's catch up and live streaming business, 9Now, has continued to build both in terms of registered users, and revenue and profit growth. These registered users have formed the core of Nine's proprietary data-base. Nine's unique suite of assets – linear television, Broadcast Video On Demand (BVOD) and digital publishing – can now offer advertisers the full spectrum of advertising alternatives, from mass market brand-building to truly addressable advertising. The market's response to this opportunity has been very encouraging.

Stan reached the milestone of 1m active subscribers towards the end of the year and the momentum has not slowed. Stan's exclusive content, sourced both from a range of international studios and its own commissions, is gaining popular appeal, driving market awareness, and importantly subscriber take-up. With the right balance of premium content, we are more excited than ever about the future of Stan.

During the year, we entered into a partnership agreement with Tennis Australia for the broadcast rights to all premium tennis played in Australia for the 2019 to 2024 seasons. This landmark deal is a testament to the work done by Nine's sports teams who are to be congratulated for their determination and the different perspective they were willing to take on an established equation. As a Company, we are looking forward to our first broadcast of Australian Tennis in January 2019.

In October 2017, we completed the sale of the Willoughby site, after more than 60 years. In 2020, our Sydney business will be relocating to 1 Denison Street in North Sydney, bringing together Nine's Sydney CBD and Willoughby offices for the first time. Culturally and physically, this move will mark the beginning of an exciting new era for the Company.

The Today Show wrapped up the 2017 ratings year as the most watched breakfast show in the country's two largest markets of Sydney and Melbourne.

Post balance date, in July 2018, Nine approached Fairfax Media with a proposal to merge our two companies. Both Nine and Fairfax have played an important role in shaping the Australian media landscape over many years. The combination of our businesses and our people will position us to deliver new opportunities and further innovation for our shareholders, staff and all Australians in the years ahead. As a Company, we are very excited about the prospect of being able to take our combined premium content propositions across television, digital, radio and print in a mutually beneficial way.

We are constantly reviewing the way we remunerate and reward our people. Whilst there have been no substantive changes this year, we continually seek feed-back from our shareholders and the market overall. We need to ensure that the levels of our employee compensation enable Nine to attract and retain a leading team of executives, fit for the modern media world and competitive with our international peers.

I would like to thank my fellow Board members for their commitment this year, particularly these past few months when Company-defining decisions have been made. It's been a year of stability with no changes to a Board that retains an enviable mix of skills across media, finance and general business and the ability to move swiftly, and in the interests of all shareholders. I would like to thank my fellow Directors for their ongoing commitment to Nine.

We will continue to focus on ensuring superior returns for all of our shareholders. We are excited by what the future has to offer, and look forward to sharing the rewards of that future with all of Nine's stakeholders.

In closing, results like these cannot be achieved without an incredible group of passionate and committed people. I would like to thank all of Nine's employees for their efforts this year. We have markedly improved the performance of the traditional business, while containing costs and we have delivered on our longer term goal of broadening the base of our revenue streams with new and enlarged digital audiences. And we are well-positioned for this momentum to continue.

P Costello

PETER COSTELLO, AC
CHAIRMAN

The Voice continues to deliver for Nine, with the 2018 grand final attracting a national audience of more than 1.5m

CHIEF EXECUTIVE OFFICER'S ADDRESS

> "Our ambition to be able to provide advertising solutions supported by data across the entire spectrum is becoming a reality."

2018 has been a great year for Nine, with positive momentum recorded across all of our assets. As a result, we reported strong FY18 results – Group EBITDA of $257 million, up 25% on FY17 and a Net Profit After Tax of $157 million, pre Specific Items, up 27%. Our shareholders were rewarded not just with a 10c fully franked dividend, but with strong share price performance across the year.

The Metro television ad market returned to growth in FY18, while BVOD continued to surge. Metro Free To Air revenues increased by 2.5%, which included a notable 3.8% growth in the second half while BVOD ad revenues increased 32%. With the strong support of Think TV, the medium's unsurpassed ability to build brand has again come to the fore.

Nine's Free To Air TV ratings showed steady growth across FY18 and we focussed effectively on improving the monetisation of our content, both in terms of premium revenue and cross platform opportunities. This drove Nine to the number one revenue share position for both the first half of FY18, and the financial year as a whole, for the first time in 12 years.

This positive momentum has enabled us to continue to invest in those areas that will be important to both the short and long term future of Nine – through investment in content that continues to increase the depth and consistency of Nine's schedule, and in content that thrives in a complementary non-linear environment. In this fragmenting environment, the increasing value of content is becoming clearer and Nine's strategy over the past few years has played to this theme.

9Now was a direct beneficiary of our investment, and its user base, engagement and sales proposition continue to expand. The experiment of *Love Island,* content that was tailored specifically for the streaming platform, was a great success with more than half of the total audience viewing *Love Island* through 9Now. As the user education and experience has matured, 9Now has become a major contributor to Group profit, and growing strongly. The net result being that our Digital business, ex the discontinued Bing sales relationship, doubled its profit contribution to $34 million. A result that bodes well for the future.

Stan is a further step in this strategy, providing an outlet for much of the content that no longer works on Free To Air TV but which has a passionate and loyal following on SVOD. Content like *Billions, Younger, Better Call Saul* and *No Activity* has driven Stan to a subscriber base of more than 1.1 million in just three years of operation. Stan is now in a very strong position to take the next steps critical to drive its growth from its current subscriber base to 2 million or even 3 million subscribers in the medium term. This can be achieved, assisted by the potential of the enhanced strategic relationships which will be influential in accelerating Stan's future growth.

Over the past two years, we have been actively investing in our technology and systems. We have completed and rolled out Australia's first automated trading platform, Galaxy, and the early results in terms of ease, efficiency and inventory optimisation have been very

pleasing. In just 8 months, we now have 23% of all of our off peak and multi-channel advertising bookings being processed through Galaxy, driving greater efficiencies for our business and for our agency partners. We have committed to developing 9Galaxy 2.0 with a development roadmap out until the end of 2020. This will enable Nine to include 9Now with every television campaign, to increase the utilization of our inventory cross platform and to deliver campaigns with unduplicated reach.

At the same time, we have been building out Nine's data offering. The ambition to extend our proposition to addressable and ultimately targeted advertising is finally becoming a reality. This is possible due primarily to the data we are currently accessing from 9Now through our single sign on, and also from Stan and our data partners. As our portfolio of assets matures, and potentially grows, our ambition to be able to provide advertising solutions supported by data across the entire spectrum – from mass market brand building to very targeted transactional campaigns – is becoming a reality.

Subsequent to the end of the financial year, in July 2018, we made a decision to pursue a merger proposal with Fairfax Media.

There were many drivers behind this decision. None of them reflect on our business which, as you can see from this result, is in great shape and has a strong balance sheet and operational momentum. What the merger will do, is help to `super-charge' many of the opportunities that both Fairfax and Nine are already exploring separately. Effectively an extension of the strategy we have been working on over the last couple of years that is delivering the results we are now achieving.

Benefits in scale both in terms of advertising relationships and the opportunities afforded by data, as well as the combined Group's ability to maximise the operating performance of both Domain and the aggregated news product, and the potential presented by a consolidated Stan, are exciting to consider. And whilst we have cited an initial estimate of at least $50 million of cost synergies, this was not a merger that was instigated or even justified by cost out. The really exciting parts for us and for Fairfax, are the growth opportunities that will emerge or be accelerated by virtue of the combination.

In closing, I'd like to thank all of our staff and the Board for their ongoing support and dedication as we continue to redefine our business. Nine has great momentum and we have used this period to invest in our future. These past twelve months have been both challenging and rewarding and we are equally excited about our future.

Thank you

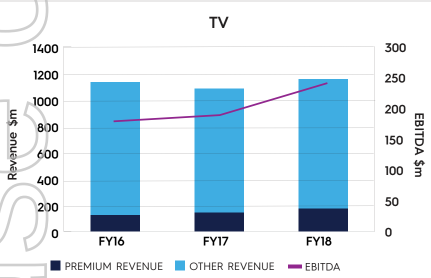
HUGH MARKS
CEO

Family Food Fight was new to the schedule this year, and ensured Nine's season 2017 finished strongly, with an average national audience of almost 800,000

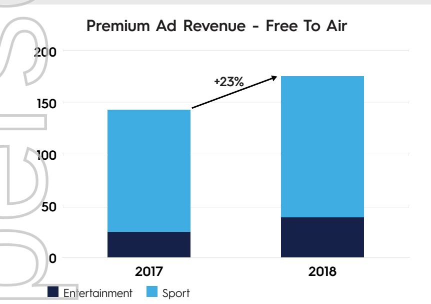
OPERATIONAL REVIEW

FREE TO AIR TELEVISION

Nine's Free To Air business recorded its strongest result in many years in FY18. Growth in ratings and revenue share underpinned a 26.5% increase in TV EBITDA to $238 million.



Total revenues were up 7%, on the back of a Metro TV market which grew by 2.5% for the 12 months. Nine's share of Metro revenues for the year was 38.6%, up from 35.7%, despite the broadcast of a number of special events on competing networks. Nine continued to grow its premium revenue base, up 23% for the year. This growth reflects Nine's focus on offering innovative advertising solutions extending beyond the use of traditional advertising spots.



For the year to June 2018, Nine was the #1 Free To Air Network in all of the key buying demographics.

Network ratings for the year

#1	25-54s	38.2% commercial share	+1.9pts
#1	16-39s	38.4% commercial share	+2.5pts
#1	GB+CH	40.5% commercial share	+2.6pts

OzTAM data, 12 months to end of June 2018, 6am-midnight, ex Commonwealth Games

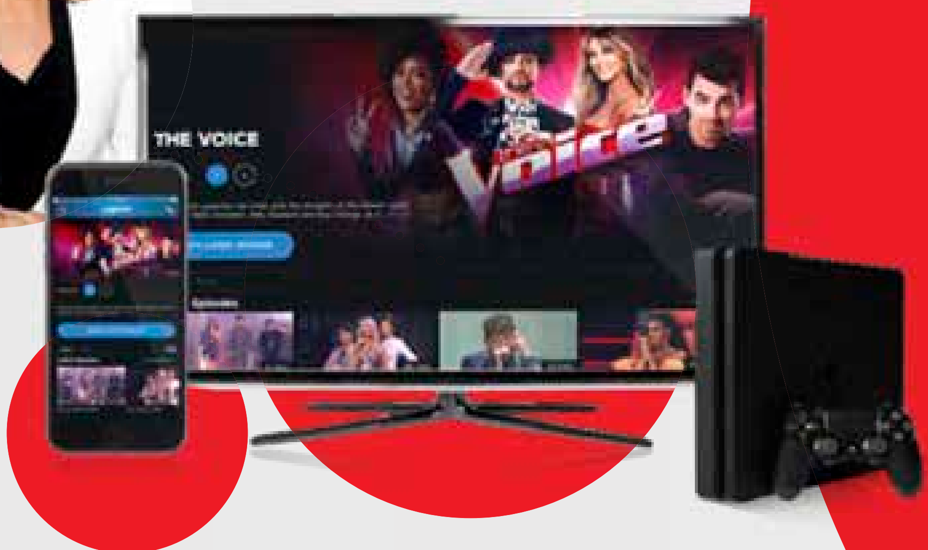
The year started strongly for Nine, with the launch of *Australian Ninja Warrior* in July 2017. The opening night momentum – an audience of 2.5 million nationally, or almost 1.8 million on a 5 city basis – continued throughout the series and set the stage for a schedule that showed increasing depth and consistency across the year. Season 13 of *The Block* again showed the industry what can be achieved with premium original content and an integrated sales effort that brought around 30 advertising partners into the show. Average audiences for *The Block* were up around 25%, on both a 5-city metro and national basis.

The return of *Married At First Sight* at the start of calendar 2018 meant Nine had strongly positive momentum for the start of the ratings season. MAFS captured the heart and imagination of Australia for 8 weeks, recording 10% growth in linear audiences on 2017 and an average audience, including live streaming, of almost 2.4 million per episode.

Nine now has a strong and consistent schedule of premium entertainment content across the full calendar year. *Married at First Sight, The Voice, Australian Ninja Warrior, The Block* and *Family Food Fight* to close the year has created an unrivalled consistency for our advertisers. Moreover, Nine has further increased its depth around these core titles – *Travel Guides, This Time Next Year, Doctor Doctor* and *Hamish and Andy* to name a few.

NEWS AND CURRENT AFFAIRS

News remains core to Nine, with around 65 hours of television news and current affairs broadcast each week. Nine's 6pm news service is consistently one of the top five shows for the night, attracting a Free To Air audience of almost 1m people, 365 days a year. Nine prides itself on the depth, breadth and independence of its news coverage.



OPERATIONAL REVIEW (CONT)

In FY18, Nine extended its regional news coverage, gathering and producing news from 15 regional markets, for broadcast through its Southern Cross affiliation. This news initiative has brought more than 170,000 people in these regional markets to Nine's local news services.

As media has fragmented, the Nine news and current affairs brands have also extended their reach through Nine's digital publishing platforms. 15 million news video streams through nine.com.au and 9News.com which attracts a unique audience of more than 8.5 million Australians each month. This reach is further augmented by social with Facebook, Twitter and Instagram together accounting for around 250 million views each month.

Nine retains its ambition to be the primary supplier of news to all Australians – across all demographics, and distribution platforms. Nine's commitment to and investment in all things news remains, with a focus on optimising the monetisation of all of Nine's own platforms and ensuring fair monetisation from those platforms that use the content.

SPORT

Sport is a key component of Nine's programming schedule. In FY18, Nine broadcast 700 hours of premium sport across the year, in addition to around 230 hours of other sports-related content.

In FY18, Nine's Summer of Cricket benefitted from the touring English team and The Ashes. Nine broadcast 39 days in total of cricket coverage over summer, with a national reach of 16.1 million and an average national audience of 1.3 million.

The NRL remains Nine's core winter sport. For the first 24 rounds of season 2018, Nine's regular NRL broadcasts attracted an average audience of more than 3 million league supporters each week, a fertile audience for advertisers chasing that tight demographic. *The State of Origin* series reached a massive 9.9 million people nationally – one of the few events in Australia to reach such a big audience and accounted for three of the top ten shows on Australian television in the year to June 2018.

Across the 2018 season of Suncorp Super Netball, total audience reach of 6.7 million viewers equated to a match average of 140,000, up 26% on 2017. In addition, 9Now streamed more than 18 million minutes across the season, with live minutes viewed more than trebling.

Through Nine's digital publishing platform, WWOS has taken Nine's traditional sports franchise even further. WWOS recorded growth across all major demographics for the year with strong double digit growth in audiences and solid single digit growth in engagement. These trends accelerated into the June half with 30% growth in 25-54 audiences and double-digit growth in engagement across all key demographics.

During the year, Nine successfully bid for the rights for premium tennis in Australia and from FY19 will broadcast The Australian Open over summer, complementing its winter of NRL and Super Netball. The decision to switch after 40 years of cricket to tennis was not taken lightly and reflects a confluence of factors – the changing demographics of the Nine audiences, the timing of tennis which attracts huge audiences leading into a new season of television, the aligned view of the sport taken by Nine and Tennis Australia, as well as fundamentally enhanced economics.

9GALAXY

In early 2018, Nine rolled out 9Galaxy, its advanced automated trading platform for television, designed to provide advertisers with guaranteed delivery of campaigns, to target demographics with pricing certainty and result in significant buying efficiencies. For Nine, it provides an efficient way to sell advertising inventory and an ability to better optimise inventory usage.

State of Origin game 1 2018 was the largest streaming event ever on 9Now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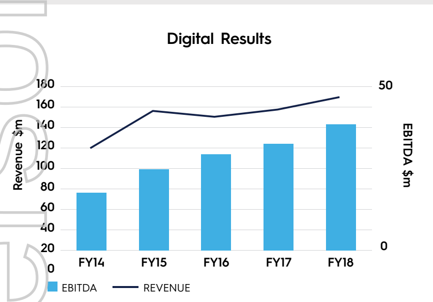
OPERATIONAL REVIEW (CONT)

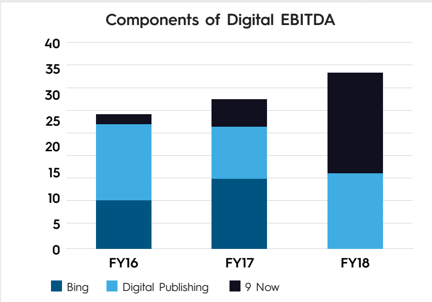
By June 2018, more than 20% of Nine's multi channel and off-peak television inventory was traded through 9Galaxy. And by the end of calendar 2018, Nine intends to add 9Now's inventory onto the platform, enabling the trading of audiences across linear TV and 9Now against age and sex demographics, and importantly, a range of behavioural segments. It will be done in one seamless transaction to optimise the utilisation of inventory and maximise the value of audiences across every platform, making Nine even easier to deal with.

DIGITAL

For the 12 months to June, Nine Digital recorded a revenue increase of 7%, underpinned by long form video, particularly 9Now, and an increasing contribution from both Pedestrian TV and CarAdvice. This growth more than offset the declining revenue in the traditional display category and the absence of contribution from Bing.

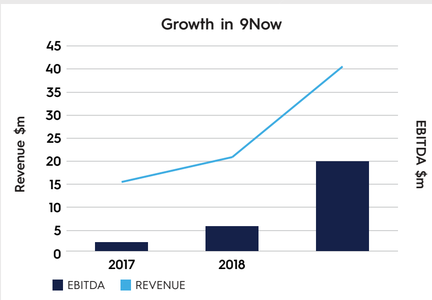


EBITDA growth of 18% reflected this revenue growth and the changing mix to increasing premium and higher margin revenues. The Digital business's ability to grow reported EBITDA in FY18 was significant given the negative impact of the absence of Bing as well as the increased investment in the newer businesses of 9Honey and Future Women



9NOW

2018 was a landmark year for 9Now, Nine's live streaming and catch-up service. This has been reflected in significant growth in all of the Group's key metrics – registered users, engagement, revenue and profitability.



This success has been primarily driven by the broad performance of Nine's schedule. In particular, the popularity of *Married At First Sight, The Voice* and *Love Island* helped to underpin a 93% increase in long form streams for the year. This resulted in revenue growth of 86% and a more than three-fold increase in profit contribution from 9Now.

Importantly, Nine has invested above and beyond its traditional linear content in 9Now. The performance of *Love Island* in particular, has reset the definition of true cross platform programming and driven a new population of audience to 9Now. Young females, a traditionally difficult to reach audience segment, embraced the platform to tune into the latest instalment from the Island, vindicating the decision to invest in content primarily for an on-line audience. For the season in total, more than half of the total audience for *Love Island Australia* was derived from 9Now, there were 13m stream starts across catch-up and live and almost 400 million minutes of content was viewed.

There is much work still to do. 9Now is now available across all major platforms. And while the content has been attracting viewers at a rate far surpassing expectations, conversion to revenue has lagged. Technical issues and advertiser take-up have hindered the industry globally but these are now being resolved.

#1 Commercial BVOD site by Unique Audience (2.6m)

Source: Nielsen June 2018

#1 Commercial BVOD site by Engagement (2hr 25 mins)

Source: Nielsen June 2018

6.4m
Registered users as at 30 June 2018

MAFS #1
VPM rating for a reality program

Year to June 2018

OPERATIONAL REVIEW (CONT)

Industry-wide BVOD revenue of $90 million in FY18 was up 31% and is expected to continue to grow strongly as usage continues to increase and advertiser support grows. Nine's share of 39.4% was indicative of its market leading proposition.

9Now is instrumental to the success of Nine – a distribution platform adding incrementally to the returns Nine is achieving on its premium content and enabling broader demographics to engage with this content.

9Now's unique single sign-in process has enabled the development of a proprietary data base which is becoming a key asset for Nine for the future. Data will allow advertisers to better target their audiences, increasing advertising effectiveness for them and ultimately yield for Nine. Early in FY19, 9Now introduced addressable advertising, enabling the serving of differentiated advertising content to customer bases with specific gender, age and location characteristics. From an advertisers' perspective, addressable advertising brings together the very best of television and the best of digital. 9Now's signed in user base gives Nine an important and unique competitive advantage.

DIGITAL PUBLISHING

Nine's Digital Publishing business has been built around the same content verticals as Nine's traditional Free To Air business – News, Sport, Lifestyle and Entertainment.

Nine.com.au is the gateway to Nine's Digital Publishing business, a genuine commitment between the broadcast and digital editorial teams to ensure a seamless way of connecting Australians.

9Honey, Nine's lifestyle vertical, was first launched in 2016 and quickly established itself as a leading women's lifestyle brand. The combination of Nine's content and 9Honey's audience has created adjacent opportunities with initiatives like *Talking Married*, a half hour chat show broadcast on 9Life, and complementing *Married At First Sight* on Channel Nine. Overall, the program drew total audiences of around 200,000 (including encore and VPM) to make it among the most watched shows in 9Life's history. Over the past year, 9Honey's average monthly audience has consolidated at around 2.4 million.

During the year, Nine invested in Future Women a premium subscription site for women. The launch of a different revenue model for a different audience was about attracting incremental revenue outside the mass market appeal of 9Honey. Future Women launched in August 2018.

The aim is to extend Nine's relationship with audiences and advertisers by leveraging the Network's unique premium content, news, brands, talent, production and cross promotional capability across additional platforms. Nine is constantly seeking incremental opportunities to further grow its Digital Publishing business.

Nine.com.au
53%
growth in streams
Source: Omniture, year on year

9Honey
#1
lifestyle site by engagement
Source: Nielsen, June 2018

Nine.com.au
#2
commercial news site by unique users
Source: Nielsen, June 2018

Nine Fix
#2
entertainment website by unique users and engagement
Source: Nielsen, June 2018

PEDESTRIAN

Towards the end of FY18, Nine acquired the outstanding 40% minority interest in Pedestrian TV. Pedestrian is Australia's largest youth focussed publishing brand, with a monthly reach of more than 1 million 16-35 year old Australians, a notoriously difficult to reach demographic.

Pedestrian has a unique business model which ensures that its predominately native advertising content is monetisable across every platform on which it is consumed. Advertisers effectively employ Pedestrian to create engaging content and distribute that content, with its embedded advertising message, across both its own platform as well as other social media platforms like Facebook, Snapchat and Instagram.

Pedestrian's revenue grew by c50% in FY18 while profits close to doubled.

CARADVICE

In September 2016, Nine acquired a majority stake in CarAdvice, the leading publisher of online automotive editorial content in Australia. This acquisition marked an expanded presence for Nine in one of Australia's largest video advertising categories, and provides Nine with a unique proposition for its automotive advertisers across multiple platforms.

CarAdvice and Nine are now successfully working to maximise share of the automotive market, through their collaborative data and inventory capabilities.

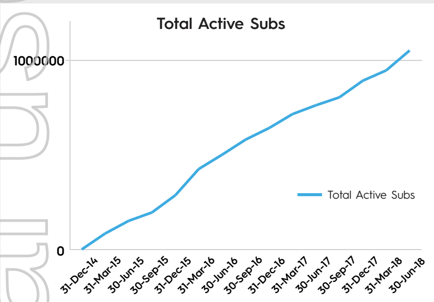
During FY18, CarAdvice's contribution to revenue for the year grew by c40% while the EBITDA contribution more than doubled.

Married At First Sight won the early year ratings war, with the 2018 finale attracting an average national audience of 2.6m

OPERATIONAL REVIEW (CONT)

STAN

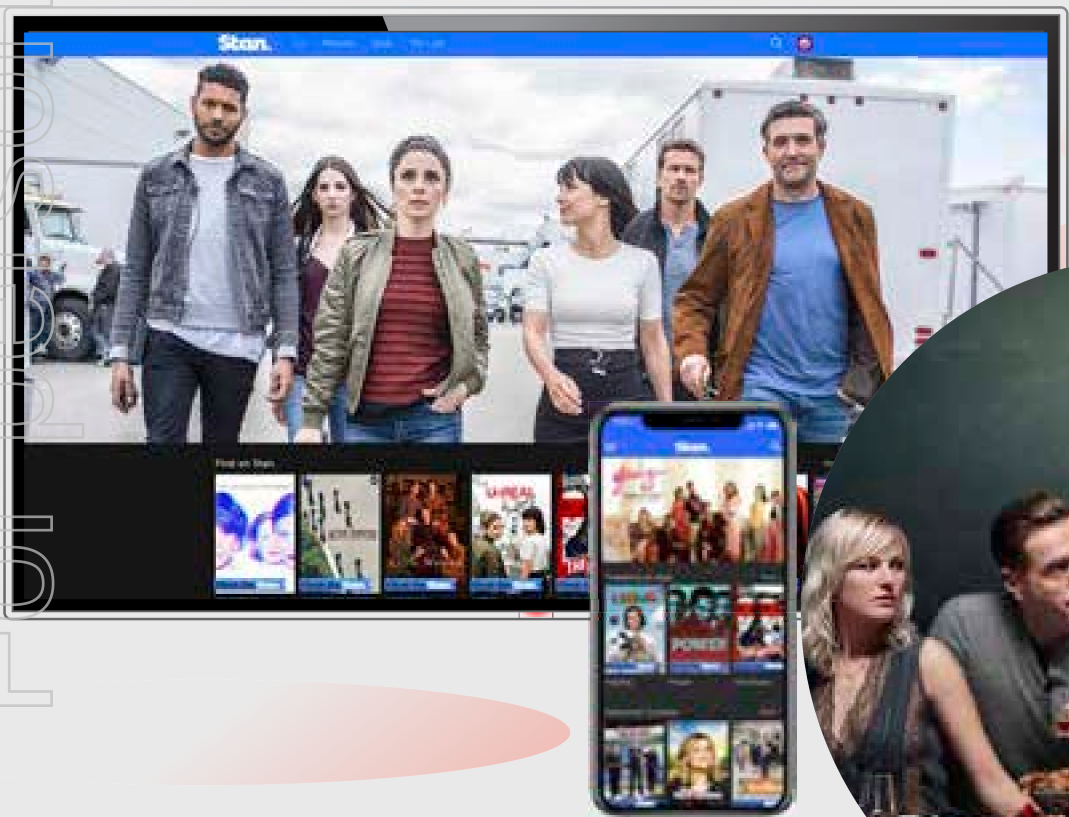
Ownership and control of content is key to Nine's business and Stan is a natural fit. Taking premium video content into a subscription environment. Stan is now clearly the leading local player in Subscription Video On Demand with more than 1.1 million active subscriptions, a number which is growing every month. Subscriber engagement is strong with year-on-year viewing per subscriber up around 25%.



Stan continues to build and finesse its content offering, with around 10,000 hours now available. Stan has exclusive output deals with Showtime, Starz and MGM, bringing Australians exclusives like *Billions, Sherlock, Better Call Saul, Younger* and *Twin Peaks* and Stan originals such as *Wolf Creek, No Activity* and *Romper Stomper*. The key to Stan's success has been a world-class line-up of international and locally produced exclusive content which is refreshed and supplemented monthly. It is generally different content to what audiences love about Nine – edgier and often more niche in its appeal but nonetheless compelling to its viewers.

As the business is reaching critical mass, Stan has introduced tiering of its service to cater for a range of audience preferences and to enable greater control of its top line. Revenue growth of 72% in FY18 coupled with cost increases of 23% highlights the leverage of the business, and underpinned a markedly improving profile of quarterly operational results.

Having reached the milestone of 1 million subscribers, Stan is increasingly focused on further building its subscriber base, offering content providers a compelling route to market and solidifying Stan's long term competitive position.



Billions and Younger, two of Stan's key shows driving active subscriber growth of nearly 40% across the year

Nine introduced a range of new formats in season 2017, including *True Story with Hamish and Andy*. This original comedy series wrapped up a ten-episode season with a national average audience of almost 1.5m

OPERATIONAL REVIEW (CONT)

PROPOSED MERGER WITH FAIRFAX

In July 2018, Nine and Fairfax Media entered into a Scheme Implementation Agreement under which the companies will merge to establish Nine as one of Australia's leading, independent media companies. The combined business will include Nine's Free-to-Air television network, a portfolio of high growth digital businesses including Domain, 100% of Stan and 9Now, as well as Fairfax's mastheads and radio interests through Macquarie Media.

Further details regarding the proposed merger are available with the Scheme documentation (released early October). Completion, which is anticipated before the end of calendar 2018, is subject to a number of conditions including approval of Fairfax shareholders and the Federal courts and no regulatory intervention.

REGULATORY REVIEW

Presently, a regulatory imbalance exists within Australia's media market. Incumbent businesses including Nine bear a great deal of regulatory responsibility including obligations to produce local content, restrictions on advertising and the classification of content, while new entrants are unencumbered by this type of regulation. As the media market rapidly changes, Nine welcomes the regulatory reviews that are underway. In particular, the ACCC's review of digital platforms, the Government's review of content regulations and their review of the competitive behaviour of the public broadcasters. A great deal of thought and resources have gone into Nine's participation in these reviews. Nine continues to advocate for meaningful reform as a result of these reviews to ensure a more level playing field into the future.

THE FUTURE

The core to all of Nine's businesses is premium content, based broadly around the pillars of News, Sport, Entertainment and Lifestyle. Over the past 12 months, Nine's strategy has focussed on investing in content and in the broader distribution of that content. As is evidenced in these results, Nine's business has a clear strategy and strong operational momentum.

Through linear television, 9Now, Stan and Digital Publishing, Nine offers a genuine cross platform opportunity for monetisation of content. Additionally, Nine has been proactive in exploring and implementing premium advertising opportunities, ensuring closer relationship with clients, and the ability to maximise returns for both parties.

Nine's collection and use of data will ensure heightened relevance of the advertising message, further improving both the efficiency and therefore value of Nine's ecosystem.

And with the successful investment in sales technology through 9Galaxy, Nine has also ensured the ease and efficiency of delivery of advertising for clients.

Which brings us back to our mantra – Create Great Content. Distribute it Broadly, Engage Audiences and Advertisers.

The first season of *Australian Ninja Warrior* was a ratings smash with all episodes surpassing 2m viewers

GOVERNANCE

DIVERSITY AND INCLUSION

At Nine, we know that for us to deliver against our strategy, we need to create a workplace where our people can be their best every day. This means creating an environment where diversity of thought, background and experience as well as gender, sexual orientation, age and race is recognised and valued. In doing this, we create a vibrant, creative organisation that mirrors the diversity of our audience and our advertisers.

WOMEN @ NINE

We are proud of our gender representation, at both Board and Senior Executive level and believe that this demonstrates our commitment to attracting, selecting and developing the right people for the right roles, regardless of gender. There is always more to do however, particularly to support the development of our women at Nine.

On International Women's Day in March we launched *Women @ Nine*, a range of initiatives for our people centred around development through mentoring, inspiration and networking. This included gifting all of our employees a 12-month subscription to *Future Women*, Nine's new subscription site aimed at professionals and entrepreneurs.

In addition, we announced the *9Mentor Program*, designed to support the career progression of women at Nine. Two programs were introduced, one for women with more than 9 years experience in the media industry who aspire to leadership roles, and a second, 9Gen, for those earlier in their career wanting support and professional advice for important decisions, workplace challenges and goal setting.

We have also introduced *Through Her Lens*, a video and event series to showcase the stories behind Nine's leading women and share inspiration and knowledge. Commencing in FY19, we will host a series of live events, each featuring one of our amazing women with a look at life through her lens. The live event will be streamed into other states, enabling all of our people to participate, regardless of where they are located. We will also be publishing a monthly video content series with specific topics covered by our business leaders.

PAY EQUITY

During 2018, we undertook analysis of equity in remuneration and incentive review outcomes for approximately 950 salaried employees (primarily non-Award covered employees). This analysis demonstrated that incentive and remuneration outcomes are not influenced by gender. Reviewing gender pay equity is something we are constantly aware of and we continue to fine-tune our approach and methodology. Whilst we are of the view that we are paying market rates for roles regardless of gender, we recognise the need to proactively focus on ensuring future remuneration reviews use the best available market data for each role, and that our managers are provided with the appropriate processes and support to make unbiased decisions.

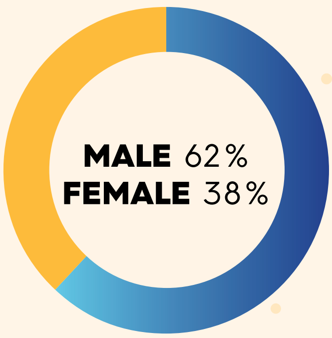
#MeToo

FY18 saw the rise around the world of the MeToo movement, particularly in regards to allegations of inappropriate behaviour in the entertainment industry. Nine is committed to providing a workplace free from bullying or harassment of any nature. In response to MeToo, we provided current and former employees and contractors with the opportunity to call an anonymous outsourced hotline (provided through our Employee Assistance Provider, Converge International), to report any current or historical allegations of bullying or harassment, particularly sexual harassment, and receive counselling if required. This hotline has remained open to our current and former employee and contractors; and we continue to encourage employees to report any allegations of harassment through our internal processes.

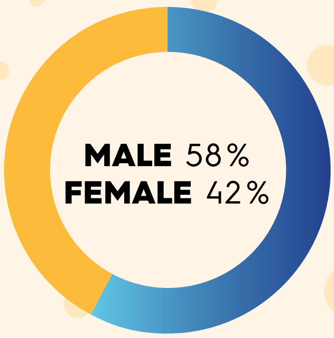
DEVELOPING OUR PEOPLE

In FY18, we continued to focus efforts on building our leadership capability through our Leading @ Nine programs. Designed over three modules, the program is aimed at the introductory or early career leadership levels. Almost 300 leaders have now completed Modules 1 and 2. In FY19,

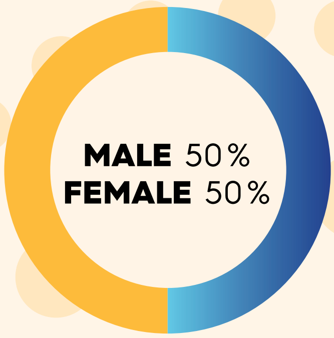
NEC MANAGEMENT



NEC TOTAL EMPLOYEES



NEC BOARD



Source: Workplace Gender Equality Report, 2018 we will focus on completing the final module, and ensuring ongoing implementation into everyday leadership.

After the successful introduction of the Senior Leadership program in the first half of FY18, we undertook to review the program with a view to continuing to build our leadership capability consistently across Nine. The refreshed program has been designed with reputable external partners delivering a bespoke program tailored to the leadership needs at Nine. A second cohort of senior leaders (the first to complete the refreshed program) commenced the program in August 2018. We are committed to building our leadership capability, and will conduct the senior leader program at least annually over the coming years.

ENGAGING OUR PEOPLE

Our people are at the heart of everything we do at Nine. We know that to engage our audiences and advertisers, we need to continue to engage our people.

Across Nine, we have measured the engagement of our people in a variety of ways across departments. For example, our Sales team undertook the Media I Industry Survey in May 2018 which measures both internal and external perceptions. The results of this survey indicated positive year on year growth in every internal measurement, with an overall 'Happiness' result of 86%. This increase in internal results correlated strongly with external perceptions from agencies, with significant growth in measures such as proactivity and net promoter scores.

In FY19, we intend to gather further employee insight through conducting our first organisation-wide survey to support our continuing build of employee engagement.

KEEPING OUR PEOPLE SAFE

During FY18, we engaged Aon Hewett to conduct an assessment of Nine's Health and Safety Management System based on the Australian self-insurer's standard. The assessment consisted of examining a sample of records to assess the health and safety standards and procedures in place. Observations in the workplace and interviews with a sample of our people were also conducted to gauge the level of implementation of those standards and procedures. Pleasingly, the assessment did not find any areas of non-compliance, but found both positive aspects of our health and management system and opportunities for improvement. We have created an Action Plan to address these areas for continuous improvement, with both short and long term objectives, and with quarterly reporting to the People and Remuneration Committee on progress.

CORPORATE GOVERNANCE

Nine's Corporate Governance Statement demonstrates the extent to which Nine has complied with the ASX's Corporate Governance Council Principles and Recommendations and corporate governance best practice.

The Corporate Governance Statement, Charters and related corporate governance policies are available on Nine's website (http://www.nineentertainmentco.com.au/investor-centre).

MEDIA ETHICS AND CONTENT REGULATION

As a commercial television licence holder, Nine is bound by the Commercial Television Code of Practice, which prohibits certain types of programs and advertisements, requires classification of program material and broadcasts in suitable time slots, and puts limits on the amount of advertising and other non-programming matter which can be broadcast. It also promotes editorial accuracy, fairness and protection of privacy for individuals in relation to news and current affairs. The Commercial Television Code of Practice requires Nine to ensure advertisers comply with the AANA Advertiser Code of Ethics and the AANA Code of Advertising and Marketing Communications to Children.

Further, Nine's commercial television licences issued under the Broadcasting Services Act are subject to conditions around specific matters such as advertising of tobacco and interactive gambling, obligations to broadcast matters of national interest, and prohibitions on the broadcast of material with certain classifications.

Nine provides regular training for employees on Nine's obligations under the Commercial Television Code of Practice and compliance with other applicable laws, relating to matters such as defamation and contempt of court.

Nine.com.au is a member of the Press Council of Australia. The Press Council has issued a Statement of General Principles, a Statement of Privacy Principles and Specific Principles covering matters such as the reporting of suicides, which guide the publication of content by nine.com.au. As a member of the Press Council, nine.com.au must cooperate with the Press Council's consideration of complaints against it and publish any decisions by the Press Council following a complaint to nine.com.au.

NINE CARES

Nine Cares provides a valuable service utilising Nine's network of media assets across television, digital and social and Nine's role as a content creator to connect communities. Nine's reach in terms of both depth and breadth makes it a unique platform for many needy individuals and organisations, and Nine Cares' commitment to continuing its role in drawing attention to and support for some of Australia's most critical social issues remains unwavering.

In FY18, Nine Cares managed and provided almost $30 million of airtime for Community Service Announcements (CSAs) for community or not-for-profit organisations in support of causes including the Mates4Mates, St Vincent de Paul, the Children's Tumour Foundation, Jeans 4 Genes, the Gidget Foundation and the Mark Hughes Foundation. Nine Cares is committed to providing community groups with the ability to connect with the general public and maximise the reach and understanding of their messages.

During FY18, Nine was again instrumental in the raising of almost $20 million for the local children's hospitals through telethons in Sydney and Brisbane and the Easter Appeal in Adelaide. These telethons remain key to the hospitals' annual fundraising efforts, with the proceeds used to provide essential equipment, services and research. The telethons are televised on Nine in their local markets, with many of Nine's key talent volunteering to staff the phone lines, further encouraging the public's generosity.

Nine again joined forces with the NRL and the broader rugby league community to help fund brain cancer research. Through the Beanies for Brain Cancer Round 12 in May, the Mark Hughes Foundation raised more than $4.5 million, helping to fund research into a cancer which kills more people under 40 in Australia than any other cancer and yet receives less than 5% of government cancer research funding.

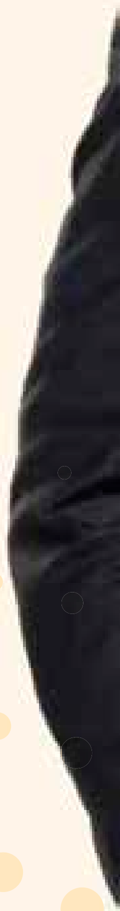
The AFL Footy Show *My Room* Telethon raised $1.1 million for the children's cancer charity, My Room Charity.

A Current Affair serves a significant community interest by publicising news-worthy human interest stories. Genuinely needy people are provided a forum to tell their stories, often with incredible outcomes. Donations of money, care or essential devices are not uncommon as the nightly 1m-plus audiences are inspired. *A Current Affair* also promotes the national ACA Christmas hamper giveaway where tens of thousands of dollars worth of food are donated, packed and distributed to hundreds of needy families.

Nine Cares also continues its active involvement in communities around Australia, sponsoring local council events and surf clubs, as well as The Australian Maritime Museum, The Adelaide Zoo, The Perth City To Surf, the Mater Little Miracles Easter Appeal, the Melbourne Mothers' Day Classic, as well as Carols by Candlelight across many of the Australian capital cities.

Post balance date, Nine joined forces with the National Farmers' Federation and Rotary Australia to launch a national fundraising drive to support drought-affected farming families. The 2018 Drought Relief Fund was launched on Nine's *Today* show by hosts Georgie Gardner and Karl Stefanovic.

Nine's support ensured that the call for assistance reached a national audience with the Fund promoted across Nine's national programming spanning news, sport and entertainment as well as on social media and the response was overwhelming. Nine's staff answered the phones, while viewers around the country opened their hearts and wallets, raising an astounding $3,268,449 in the first week, and more than $10 million overall.



$40M IN PUBLICITY AND ASSISTANCE

INCLUDING $29M IN CSA AIRTIME (CSA = COMMUNITY SERVICE ANNOUNCEMENT)

~ALMOST $75M RAISED BY TELETHONS SINCE INCEPTION

Sydney Gold Telethon 2018, David Campbell and Ollie (the face of the Telethon)

BOARD OF DIRECTORS

PETER COSTELLO
(INDEPENDENT NON-EXECUTIVE CHAIRMAN)

Mr Costello was appointed to the Board in February 2013 as an independent, Non-Executive Director and in March 2016 became Chairman of the Board. He is also a member of the Audit & Risk Management Committee.
Mr Costello is currently Chairman of the Board of Guardians of Australia's Future Fund and serves on a number of advisory boards. His business ECG Financial Pty Ltd is a boutique advisor on mergers and acquisitions, foreign investment, competition and regulatory issues which affect business in Australia.
Mr Costello served as a member of the House of Representatives from 1990 to 2009 and was Treasurer of the Commonwealth of Australia from March 1996 to December 2007.

Prior to entering Parliament Mr Costello was a barrister. He has a Bachelor of Arts and a Bachelor of Laws (Hons) and a Doctorate of Laws (Honoris Causa) from Monash University. In 2011 Mr Costello was appointed a Companion of the Order of Australia.

HUGH MARKS
(DIRECTOR AND CHIEF EXECUTIVE OFFICER)

Mr Marks was appointed Chief Executive Officer of Nine Entertainment Co. in November 2015. Prior to this, Mr Marks had been an independent, Non-Executive Director since February 2013. Mr Marks has over 20 years experience as a senior Executive in content production and broadcasting in Australia and overseas.
Prior to his appointment as CEO, Mr Marks owned talent management agency RGM Artists and had ownership and management interests in a number of independent companies producing content for broadcast and pay TV.
Before joining the Board, Mr Marks was an authority member for the Australian Communications and Media Authority for over two years.
Previously, Mr Marks was Chief Executive Officer of the Southern Star Group. Mr Marks has also worked with the Nine Network as legal counsel and then as Director of Nine Films & Television for seven years.

Mr Marks received a Bachelor of Commerce and Bachelor of Laws from the University of New South Wales.

DAVID GYNGELL
(NON-EXECUTIVE DIRECTOR)

Mr Gyngell was the Company's Chief Executive Officer from November 2010 until November 2015, having previously served as the Chief Executive Officer of Nine Network from September 2007. Mr Gyngell became a Non-Executive Director of the Company in November 2015. He has almost 20 years of experience at the Company and over 25 years overall media sector experience. Previously, Mr Gyngell was Chief Executive Officer of Granada Television and also Director of International Management Group and Transworld Media International. He has also worked as Executive Director, Group Marketing and Communications for Publishing & Broadcasting Limited.

JANETTE KENDALL
(INDEPENDENT NON-EXECUTIVE DIRECTOR)

Ms Kendall was appointed to the Board in June 2017 as an independent, Non-Executive Director and is a member of the People & Remuneration Committee.
Ms Kendall has more than 23 years board experience across public, private and not-for-profit organisations, spanning a range of industries including marketing and technology, advertising, digital media, supermarkets and the arts. She is currently a Non-Executive Director of Costa Group (since October 2016), Vicinity Centres (since December 2017), Wellcom Group (since January 2016), Placer Property and the Melbourne Theatre Company.
Ms Kendall is a former senior executive who has held various roles in her career including Senior Vice President of Marketing at Galaxy Entertainment Group in Macau, China; Executive General Manager of Marketing at Crown Melbourne; General Manager, Pacific Brands; Managing Director of emitch Limited; and Executive Director of Clemenger BBDO.
Ms Kendall holds a Bachelor of Business – Marketing, and is also a Fellow of the Australian Institute of Company Directors.

SAMANTHA LEWIS

(INDEPENDENT NON-EXECUTIVE DIRECTOR)

Ms Lewis joined the Board in March 2017 as an independent, Non-Executive Director and is Chair of the Audit & Risk Management Committee and a member of the People & Remuneration Committee. Ms Lewis has extensive financial experience, with 20 years at Deloitte Touche Tohmatsu including 14 years as a Partner. In that role, she led the audit of a number of major Australian listed companies, in the retail/FMCG and industrial sectors. During her time at Deloitte, Ms Lewis also provided accounting advice and transactional advisory services, including due diligence, IPOs and debt/equity raising. Since retiring from Deloitte in 2014, Ms Lewis has been appointed to the Boards of ASX-listed Orora Ltd (since March 2014) and Aurizon Holdings Ltd (since February 2015) and is also the Chair of the Audit Committee of the Australian Prudential Regulatory Authority. She is a Member of the Institute of Chartered Accountants in both Australia, and England and Wales, and is a Member of the Australian Institute of Company Directors.

Ms Lewis holds a Bachelor of Arts (Hons) degree from the University of Liverpool.

CATHERINE WEST

(INDEPENDENT NON-EXECUTIVE DIRECTOR)

Ms West was appointed to the Board in May 2016 as an Independent, Non-Executive Director and is the Chair of the People & Remuneration Committee and a member of the Audit & Risk Management Committee. Ms West has more than 20 years' business and legal affairs experience in the media industry, both in Australia and the UK. Her most recent executive role was Director of Legal – Content Commercial and Joint Ventures for Sky Plc in the UK. In this role, Ms West was responsible for all of Sky's content relationships, distribution, commercial activities and joint ventures. Ms West is currently a non-executive director of Southern Phones and a Graduate Member of the Australian Institute of Company Directors and a Vice President of the Sydney Breast Cancer Foundation at Chris O'Brien Lifehouse.

Ms West holds both a Bachelor of Laws (Hons) and Bachelor of Economics degree from the University of Sydney.

"Nine has made great progress during FY18. Growth in audiences – on Free To Air TV, Broadcast Video on Demand, Subscription Video on Demand and across our broader digital publishing assets..."

DIRECTORS' REPORT

The Directors present the financial report for the year ended 30 June 2018. The financial report includes the results of Nine Entertainment Co. Holdings Limited (the "Company") and the entities that it controlled during the year (the "Group").

DIRECTORS

The Directors of the Company at any time during the financial year or up to the date of this report were as follows.

Directors held office for the entire period.

NAME	TITLE	DATE APPOINTED
Peter Costello	Independent Non-Executive Chairman	6 February 2013
Hugh Marks	Chief Executive Officer	6 February 2013
David Gyngell	Non-Executive Director	25 November 2010
Janette Kendall	Independent Non-Executive Director	5 June 2017
Samantha Lewis	Independent Non-Executive Director	20 March 2017
Catherine West	Independent Non-Executive Director	9 May 2016

Peter Costello (Independent Non-Executive Chairman)

Mr Costello was appointed to the Board in February 2013 as an independent, Non-Executive Director and in March 2016 became Chairman of the Board. He is also a member of the Audit & Risk Management Committee. Mr Costello is currently Chairman of the Board of Guardians of Australia's Future Fund and serves on a number of advisory boards. His business ECG Financial Pty Ltd is a boutique advisor on mergers and acquisitions, foreign investment, competition and regulatory issues which affect business in Australia. Mr Costello served as a member of the House of Representatives from 1990 to 2009 and was Treasurer of the Commonwealth of Australia from March 1996 to December 2007.

Prior to entering Parliament Mr Costello was a barrister. He has a Bachelor of Arts and a Bachelor of Laws (Hons) and a Doctorate of Laws (Honoris Causa) from Monash University. In 2011 Mr Costello was appointed a Companion of the Order of Australia.

Hugh Marks (Director and Chief Executive Officer)

Mr Marks was appointed Chief Executive Officer of Nine Entertainment Co. in November 2015. Prior to this, Mr Marks had been an independent, Non-Executive Director since February 2013. Mr Marks has over 20 years experience as a senior Executive in content production and broadcasting in Australia and overseas. Prior to his appointment as CEO, Mr Marks owned talent management agency RGM Artists and had ownership and management interests in a number of independent companies producing content for broadcast and pay TV. Before joining the Board, Mr Marks was an authority member for the Australian Communications and Media Authority for over two years. Previously, Mr Marks was Chief Executive Officer of the Southern Star Group. Mr Marks has also worked with the Nine Network as legal counsel and then as Director of Nine Films & Television for seven years.

Mr Marks received a Bachelor of Commerce and Bachelor of Laws from the University of New South Wales.

David Gyngell (Non-Executive Director)

Mr Gyngell was the Company's Chief Executive Officer from November 2010 until November 2015, having previously served as the Chief Executive Officer of Nine Network from September 2007. Mr Gyngell became a Non-Executive Director of the Company in November 2015. He has almost 20 years of experience at the Company and over 25 years overall media sector experience. Previously, Mr Gyngell was Chief Executive Officer of Granada Television and also Director of International Management Group and Transworld Media International. He has also worked as Executive Director, Group Marketing and Communications for Publishing & Broadcasting Limited.

Janette Kendall (Independent Non-Executive Director)

Ms Kendall was appointed to the Board in June 2017 as an independent, Non-Executive Director and is a member of the People & Remuneration Committee. Ms Kendall has more than 23 years board experience across public, private and not-for-profit organisations, spanning a range of industries including marketing and technology, advertising, digital media, supermarkets and the arts. She is currently a Non-Executive Director of Costa Group (since October 2016), Vicinity Centres (since December 2017), Wellcom Group (since January 2016), Placer Property and the Melbourne Theatre Company. Ms Kendall is a former senior executive who has held various roles in her career including Senior Vice President of Marketing at Galaxy Entertainment Group in Macau, China;

Executive General Manager of Marketing at Crown Melbourne; General Manager, Pacific Brands; Managing Director of emitch Limited; and Executive Director of Clemenger BBDO. Ms Kendall holds a Bachelor of Business – Marketing, and is also a Fellow of the Australian Institute of Company Directors.

Samantha Lewis (Independent Non-Executive Director)

Ms Lewis joined the Board in March 2017 as an independent, Non-Executive Director and is Chair of the Audit & Risk Management Committee and a member of the People & Remuneration Committee. Ms Lewis has extensive financial experience, with 20 years at Deloitte Touche Tohmatsu including 14 years as a Partner. In that role, she led the audit of a number of major Australian listed companies, in the retail/FMCG and industrial sectors. During her time at Deloitte, Ms Lewis also provided accounting advice and transactional advisory services, including due diligence, IPOs and debt/equity raising. Since retiring from Deloitte in 2014, Ms Lewis has been appointed to the Boards of ASX-listed Orora Ltd (since March 2014) and Aurizon Holdings Ltd (since February 2015) and is also the Chair of the Audit Committee of the Australian Prudential Regulatory Authority. She is a Member of the Institute of Chartered Accountants in both Australia, and England and Wales, and is a Member of the Australian Institute of Company Directors.

Ms Lewis holds a Bachelor of Arts (Hons) degree from the University of Liverpool.

Catherine West (Independent Non-Executive Director)

Ms West was appointed to the Board in May 2016 as an Independent, Non-Executive Director and is the Chair of the People & Remuneration Committee and a member of the Audit & Risk Management Committee. Ms West has more than 20 years' business and legal affairs experience in the media industry, both in Australia and the UK. Her most recent executive role was Director of Legal – Content Commercial and Joint Ventures for Sky Plc in the UK. In this role, Ms West was responsible for all of Sky's content relationships, distribution, commercial activities and joint ventures. Ms West is currently a non-executive director of Southern Phones and a Graduate Member of the Australian Institute of Company Directors and a Vice President of the Sydney Breast Cancer Foundation at Chris O'Brien Lifehouse.

Ms West holds both a Bachelor of Laws (Hons) and Bachelor of Economics degree from the University of Sydney.

REMUNERATION REPORT

The Remuneration Report is set out on the pages that follow and forms part of this Directors' Report.

DIRECTORS' INTERESTS

The relevant interests of each Director in the equity of the Company and related bodies corporate as at the date of this report are disclosed in the Remuneration Report.

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the year, and the number of meetings attended by each Director, were as follows:

	BOARD		AUDIT & RISK MANAGEMENT COMMITTEE		PEOPLE & REMUNERATION COMMITTEE	
	MEETINGS HELD*	MEETINGS ATTENDED	MEETINGS HELD*	MEETINGS ATTENDED	MEETINGS HELD*	MEETINGS ATTENDED
Hugh Marks	11	11	–	–	–	–
Peter Costello	11	11	4	4	4	4
David Gyngell	11	9	–	–	–	–
Janette Kendall	11	10	–	–	4	4
Samantha Lewis	11	11	4	4	4	4
Catherine West	11	11	4	4	4	4

* The number of meetings held refers to the number of meetings held while the Director was a member of the Board or Committee.

DIRECTORS' REPORT continued

COMPANY SECRETARY

Rachel Launders (General Counsel and Company Secretary)

Ms Launders was appointed joint Company Secretary on 4 February 2015 and became sole Company Secretary on 29 February 2016. Ms Launders holds the role of General Counsel and Company Secretary at the Group. Prior to joining the Group in January 2015, Ms Launders was a partner at Gilbert + Tobin for over 13 years where she specialised in mergers and acquisitions, corporate governance and compliance.

Ms Launders holds a Bachelor of Arts and Bachelor of Laws (Hons) from the University of Sydney. She also completed the Graduate Diploma of Applied Finance and Investment at the Financial Services Institute of Australasia and is a Fellow of the Financial Services Institute of Australasia and a graduate of the Australian Institute of Company Directors.

PRINCIPAL ACTIVITIES

The principal activities of the entities within the Group during the year were:

- Television broadcasting and program production; and
- Digital, internet, subscription video, and other media sectors.

DIVIDENDS

Nine Entertainment Co. Holdings Limited paid an interim dividend of 5 cents per share, fully franked, in respect of the year ended 30 June 2018 amounting to $43,537,912 during the year. Since the year end, the Company has proposed a final dividend of five cents per share, fully franked, in respect of the year ended 30 June 2018 amounting to $43,557,105.

The Company declared and paid a final dividend of 5 cents per share, fully franked, in respect of the year ended 30 June 2017 amounting to $43,537,908 during the current year.

CORPORATE INFORMATION

Nine Entertainment Co. Holdings Limited is a company limited by shares that is incorporated and domiciled in Australia. It is the parent entity of the Group.

The registered office of Nine Entertainment Co. Holdings Limited is 24 Artarmon Road, Willoughby NSW 2068.

REVIEW OF OPERATIONS

For the year to 30 June 2018, the Group reported a consolidated net profit after income tax of $209,666,000 (2017: loss $203,438,000).

The Group's revenues from operations for the year to 30 June 2018 increased by $158,990,000 (12.8%) to $1,403,945,000 (2017: $1,244,955,000).

The Group's earnings before interest, tax, depreciation and amortisation (EBITDA) and before specific items (Note 1.4) for continuing operations for the year ended 30 June 2018 was a profit of $257,237,000 (2017: profit of $205,619,000).

The Group's cash flows generated in operations for the year to 30 June 2018 were $161,087,000 (2017: used in operations: $4,186,000).

Further information is provided in the Operating and Financial Review on pages 49 to 52.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the year, the Group acquired 80% of Future Women Pty Ltd and the remaining 40% of Pedestrian TV (refer to Note 5.3 for further details).

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

NATIONAL PLAYOUT CENTRE

On 1 July 2018, Nine completed the transfer of assets relating to the National Playout Centre, and employment of a number of employees, to NPC Media Pty Ltd, a joint venture company owned 50% by each of Nine and Seven Network (Operations) Limited. The purchase price payable by NPC Media Pty Ltd reflected the written down value of the transferred assets, subject to adjustment for leave liabilities assumed by NPC Media Pty Ltd for transferring employees. NPC Media Pty Ltd now provides playout services to Nine.

MERGER WITH FAIRFAX MEDIA

On 26 July 2018, Nine and Fairfax Media (ASX: FXJ) announced that they had entered into a Scheme Implementation Agreement ("the Scheme") under which the companies will merge. The proposed transaction will, subject to required approvals, be implemented by Nine acquiring all Fairfax shares under a Scheme of Arrangement. Under the Scheme of Arrangement, Nine will acquire all of the outstanding shares in Fairfax, in return for the issue of 0.3627 shares in Nine and 2.5 cents cash, per Fairfax Share. This will result in Nine shareholders holding approximately 51.1% of the expanded capital and Fairfax shareholders holding 48.9%. Further details will be announced with the Scheme documentation, expected to be released in October 2018. Nine currently expects that the transaction will be completed by December 2018.

Other than noted above, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than the developments described in this report, the Directors are of the opinion that no other matters or circumstance will significantly affect the operations and expected results of the Group.

UNISSUED SHARES AND OPTIONS

As at the date of this report, there were no unissued ordinary shares or options. There have not been any share options issued during the year or subsequent to the year end.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, Nine Entertainment Co. Holdings Limited has paid premiums in respect of a contract insuring all the Directors and officers of the parent entity and its controlled entities against costs incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as Director or officer of Nine Entertainment Co. Holdings Limited or its controlled entities. The insurance contract specifically prohibits disclosure of the nature of the insurance cover, the limit of the aggregate liability and the premiums paid.

AUDITOR'S INDEPENDENCE DECLARATION

The Directors have received the Auditor's Independence Declaration, a copy of which is included on page 29.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided by the auditor during the year are set out in Note 6.3 of the financial statements.

The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

DIRECTORS' REPORT continued

ROUNDING

The amounts contained in the financial statements have been rounded off to the nearest thousand dollars (where rounding is applicable) under the option available to the Group under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. Nine Entertainment Co. Holdings Limited is an entity to which the Instrument applies.

Signed on behalf of the Directors in accordance with a resolution of the Directors.

Peter Costello
Chairman

Hugh Marks
Chief Executive Officer and Director

Sydney, 23 August 2018

AUDITOR'S INDEPENDENCE DECLARATION

Building a better working world

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Auditor's Independence Declaration to the Directors of Nine Entertainment Co. Holdings Limited

As lead auditor for the audit of Nine Entertainment Co. Holdings Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Nine Entertainment Co. Holdings Limited and the entities it controlled during the financial year.

Ernst + Young

Ernst & Young

John Robinson
Partner
23 August 2018

REMUNERATION REPORT – AUDITED

LETTER FROM COMMITTEE CHAIR

I am pleased to present the Company's 2018 Remuneration Report on behalf of the Board.

Our result reflects the strong performance of the business in embracing transformation and delivering to our Group strategy. In 2018, the Group continued to build on momentum and delivered significant EBITDA growth as well as delivering on strategic objectives to drive sustainable growth. During this period, the share price rose from $1.38 to $2.48 and net profit after tax (pre Specific Items) rose 27%.

Whilst delivering a strong FY18 result, the team has also been focused on setting the business up for a sustainable future, considering growth opportunities outside of our traditional revenue streams. This has seen us continue to explore and develop strategic opportunities such as joint ventures.

As foreshadowed last year, we made changes to our Short-Term Incentive plan in FY18. These changes included changing the Group's financial performance measure to Group EBITDA and upweighting the individual objective metrics (from 25% to 40%). Individual objectives included both financial and strategic objectives aligned to our long-term strategy. The Board is of the view that these changes contributed to our overall Group results through enabling greater accountability for our executives to the areas that could make the greatest contribution to our strategy, focusing on driving our core business whilst delivering on business transformation initiatives. The FY18 Short-Term Incentive plan outcomes are reflective of our strong performance, with differentiated outcomes depending on the Executive KMP scope of accountability, business and performance.

The 2016-2018 Long Term Incentive Plan grant was tested at the conclusion of FY18. The 2016-2018 Long-Term Incentive Plan provided targets for Total Shareholder Return (TSR) and Earnings per Share Growth (EPSG). With significant increase in the share price particularly in FY18, Total Shareholder Return requirements were met, resulting in vesting of 100% of the rights attributable to that hurdle. The cumulative EPSG threshold target was also achieved, resulting in vesting of 55.8% of the rights attributable to that hurdle. This resulted in participants receiving a total of 77.9% of the maximum possible benefits under the Long-Term Incentive Plan.

The Board intends to take a considered and measured approach to changes in the remuneration framework over time. We continue to review our position on how to ensure alignment of incentives to our longer-term growth areas whilst reducing dependence on traded revenues so we can drive sustainable shareholder value. Should we proceed with any changes, we will engage with stakeholders to seek their views and understanding of any changes.

There were no changes this year to either the Board or the Key Management Personnel.

On behalf of the Board I would like to thank our people for executing Nine's strategy and delivery of strong performance.

I trust you will find this report informative. I encourage you to vote in favour of the report, and welcome any questions at the Annual General Meeting.

Yours faithfully

Catherine West
Chair of the People and Remuneration Committee

REMUNERATION REPORT
– AUDITED continued

1 KEY MANAGEMENT PERSONNEL

The Remuneration Report details the remuneration framework and arrangements for Key Management Personnel (KMP), as set out below for the year ended 30 June 2018. KMP are those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether Executive or otherwise) of the Company. The tables detail movements during the 2018 financial year and current KMP and Directors.

KEY MANAGEMENT PERSONNEL

NAME	POSITION	TERM 2018
Non-Executive Directors (NEDs)		
Peter Costello	Chairman (independent, Non-Executive)	Full year
David Gyngell	Director (Non-Executive)	Full year
Janette Kendall	Director (independent Non-Executive)	Full year
Samantha Lewis	Director (independent Non-Executive)	Full year
Catherine West	Director (independent Non-Executive)	Full year
Executive Director		
Hugh Marks	Chief Executive Officer	Full year
Other Executive KMP		
Greg Barnes	Chief Financial Officer	Full year
Michael Stephenson	Chief Sales Officer	Full year
Former Key Management Personnel		
Amanda Laing[1]	Managing Director	Ceased to be KMP on 3 July 2017

1. Amanda Laing resigned effective 3 July 2017.

2 EXECUTIVE SUMMARY

The Table below outlines each component of the remuneration framework, metrics and the link to Group strategic objectives

COMPONENT	PERFORMANCE MEASURE	AT RISK PORTION	LINK TO STRATEGIC OBJECTIVE
Fixed remuneration Salary, non-monetary benefits and statutory superannuation. *Further detail in section 3.3*	Performance and delivery of key responsibilities as set out in the position description.	Not applicable	Fixed remuneration is set at competitive levels to attract and retain high performance individuals. Other considerations include: • Scope of role and responsibility; • Capability, experience and competency; and • Internal and external benchmarks.
Annual short term incentive (STI) Cash payments and deferred shares. *Further detail in section 3.4.*	Financial measures: 60% – Group Earnings Before Interest, Tax, Depreciation and Amortisation before specific items (EBITDA). Individual measures: 40% – Individual objectives related to the KMP's role and responsibilities	Chief Executive Officer: Target 100% of fixed remuneration Maximum 150% of fixed remuneration. Other Executive KMP: Target 50% of fixed remuneration Maximum 75% of fixed remuneration.	The financial measure rewards Group performance. The financial performance measure was chosen because it contributes to the determining of dividend outcomes and share price performance over time. Individual measures reflect individuals' performance and contribution to the achievement of both business unit and Group long-term objectives including growth of supplementary revenue streams, content production and monetisation, audience share and talent management. A portion is paid in cash and a portion (33%) delivered as NEC shares deferred for up to two years to ensure continued alignment to shareholder outcomes and a positive impact beyond the performance year of the incentive.
Long term incentive (LTI) Performance rights used to align the reward of executives to the returns generated for NEC shareholders. *Further detail in section 3.5.*	50% – Total Shareholder Return (TSR) – relative to S&P/ASX 200 Index companies. 50% – Earnings Per Share Growth (EPSG). Measured over a three-year performance period.	Chief Executive Officer: 100% of fixed remuneration. Other Executive KMP: 50% of fixed remuneration.	Creates a strong link with the creation of shareholder value. Relative TSR was chosen as it provides an external market performance measure having regard to S&P/ASX 200 Index companies representing Consumer Discretionary, Consumer Staples, Information Technology and Telecommunication Services. EPSG was chosen as it aligns with shareholder dividends over time.
Total Remuneration	The remuneration mix is designed to align Executive remuneration and rewards to the creation of long term shareholder value. The remuneration of Executive KMP is set on appointment and then reviewed annually. We set both fixed remuneration and the total remuneration opportunity by considering factors such as experience, competence and performance in the role, competitive market pressures, and internal equity with peers.		

REMUNERATION REPORT
– AUDITED continued

2.1 SUMMARY OF EXECUTIVE REMUNERATION OUTCOMES

The table below is a summary of remuneration outcomes for financial year 2018.

Fixed remuneration	• During the 2018 financial year, no increases were made to CEO or other Executive KMP fixed remuneration.
Short-term incentive (STI)	• At a reported level, pre-specific items, NEC, and the Television and Digital divisions' actual EBITDA results exceeded STI targets (budget) for the year. • The Personal Objectives component of individual STI outcomes was assessed against specific targets and awarded where achieved.
Long-term Incentive (LTI)	• LTI grants were made in line with plan rules for Executive KMP in financial year 2018.
Award vesting	• LTI grants made in financial year 2016 were tested at 30 June 2018 in line with the plan rules. TSR requirements were met, resulting in maximum vesting of this portion of the grant (50% of total grant). The cumulative EPSG threshold target was also achieved, resulting in vesting of 55.8% of this portion of the grant (27.9% of total grant), resulting in a total of 77.9 % of the performance rights vesting.
Non-executive director fees	• The total amount paid to non-executive directors in financial year 2018 was $985,000.

3 EXECUTIVE REMUNERATION

3.1 REMUNERATION PRINCIPLES

The remuneration framework is designed to attract and retain high performing individuals, align executive reward to NEC's business objectives and to create shareholder value. The remuneration framework reflects the Company's remuneration approach and considers industry and market practices and advice from independent external advisers.

The Company's executive reward structure is designed to:

- Align rewards to the creation of shareholder value, implementation of business strategy and delivery of results;
- Implement targeted goals that encourage high performance and establish a clear link between executive remuneration and performance, both at Company and individual business unit levels;
- Attract, retain and motivate high calibre executives for key business roles;
- Provide a balance between fixed remuneration and at-risk elements and short- and long-term outcomes that encourages appropriate behaviour to provide reward for short-term delivery and long-term sustainability; and
- Implement an industry competitive remuneration structure.

3.2 APPROACH TO SETTING REMUNERATION

Our Executive KMP reward is designed to support and reinforce the NEC strategy and reward delivery against our objectives and returns to shareholders. The Group aims to reward the Chief Executive Officer and other Executive KMP (**Executive KMP**) with competitive remuneration and benefits based on consideration of all the relevant inputs and provides a mix of remuneration (comprising fixed remuneration, short- and long-term incentives) appropriate to their position, responsibilities and performance within the Group and aligned with industry and market practice.

The key components of the remuneration framework for Executive KMP detailed in this remuneration report include fixed remuneration and at-risk remuneration.

- Fixed remuneration is made up of base salary, non-monetary benefits and superannuation; and
- At-Risk remuneration is made up of Short Term and Long Term incentives which form the at-risk component of Executive KMP remuneration.

The Company reviews remuneration on a periodic and case-by-case basis that considers market data, performance of the Company and individual and market conditions. The policy is to position remuneration for Executive KMP principally within a competitive range of direct industry peers in light of the small pool of executive talent with appropriate media and entertainment industry experience and skills. There is also consideration of other Australian listed companies of a similar size, complexity and prominence. Total remuneration at target is positioned at the median of this comparator group, while providing the opportunity to earn top quartile rewards for outstanding performance against stretch targets.

The following table summarises the Executive KMP remuneration structure and mix under the Company's Remuneration Framework.

3.3 REMUNERATION MIX (AT TARGET)

CHIEF EXECUTIVE OFFICER

FIXED REMUNERATION	SHORT-TERM INCENTIVE		LONG-TERM INCENTIVE	TOTAL AT RISK
33.3%	33.3%		33.3%	**66.6%**
	Cash – 67%	Deferred Shares – 33%		

OTHER EXECUTIVE KMP

FIXED REMUNERATION	SHORT-TERM INCENTIVE		LONG-TERM INCENTIVE	TOTAL AT RISK
50%	25%		25%	**50%**
	Cash – 67%	Deferred Shares – 33%		

LONGER TERM FOCUS THROUGH INCENTIVE DEFERRAL

The remuneration mix is structured so that a substantial portion of remuneration is delivered through Deferred STI or LTI. The table below shows that remuneration awards to KMPs are earned over a period of up to three years. This ensures that the interests of executives are aligned with shareholders and the delivery of the long-term business strategy.

YEAR 1	YEAR 2	YEAR 3
Fixed remuneration		
STI — cash	STI — deferred shares	STI — deferred shares
LTI — 3 year performance period		

3.4 FIXED REMUNERATION

Fixed remuneration represents the amount comprising base salary, non-monetary benefits and superannuation appropriate to the Executive KMP's role. Fixed Remuneration is set at a competitive level to attract and retain talent and considers the scope of the role, knowledge and experience of the individual and the internal and external market.

3.5 SHORT TERM INCENTIVE PLAN (STI) PLAN

Purpose and overview	• The STI plan is the annual incentive plan that is used for the Executive KMPs and other Executives. The STI plan is designed to align individual performance to the achievement of the business strategy and increased shareholder value. • Awards are made annually and are aligned to the attainment of clearly defined Group, business unit and individual targets. • The STI plan is subject to annual review by the People and Remuneration Committee (**PRC**). The structure, performance measures and weightings may therefore vary from year to year.
STI funding	• The pool to fund STI rewards is determined by the Group's financial performance before significant items. • The STI is weighted 60% to a Group financial measure and 40% to individual measures.
STI Opportunity (at target)	

	% OF FIXED REMUNERATION
CEO	100
Other Executive KMP	50

REMUNERATION REPORT – AUDITED continued

Group Financial Measures

- Group EBITDA (60% of the STI).
- Group EBITDA was chosen to align executive performance with the key drivers of shareholder value and reflect the short-term performance of the business.
- Group Financial performance measures for future years will be determined annually.
- Payouts based on financial measures are detailed below (pro-rata between bands).

PERFORMANCE AGAINST TARGET	% PAYOUT (OF GROUP FINANCIAL COMPONENT) VS TARGET PAYOUT
<95%	Subject to Board consideration
95%	50%
100%	100%
105%	110%
110%	125%
>115%	150%

Individual measures

- Executive KMPs are assigned individual objectives based on their specific area of responsibility. These objectives are directly aligned to the Board approved financial, operational and strategic objectives and include quantitative measures where appropriate. Weightings are assigned to each objective to reflect their relative importance to delivery of the strategy and required focus.
- Individual objectives include audience share, revenue share and supplementary revenue streams, strategic growth opportunities, and reduction in operating expenditure.

Payouts based on individual measures are detailed below.

PERFORMANCE ASSESSMENT BASED ON DELIVERY OF PERSONAL KPIS	% PAYOUT (OF INDIVIDUAL COMPONENT) VS TARGET PAYOUT
Unsatisfactory	Nil
Performance Requires Development	25-75%
Valued Contribution	75-110%
Superior Contribution	110-130%
Exceptional Contribution	130-150%

Deferred STI Payment

- 33% of any STI outcome is deferred into NEC shares (Shares) that vest in two tranches and cannot be traded until after they have vested.
- Any unvested Shares may be forfeited if the executive ceases to be an employee before a vesting date.

The following allocation of any STI payment between cash and Shares applies for financial year 2018.

	CASH	DEFERRED SHARES	
Date Payable/of Vesting	Following results release	1 year following end of performance period	2 years following end of performance period
Percentage	67%	16.5%	16.5%

	• The number of Shares subject to deferral is determined by dividing the deferred STI amount (being 33% of the STI payable) by the volume weighted average price (VWAP). VWAP is calculated over the period commencing 5 trading days before and ending 4 trading days after the performance period results release (i.e. over a total period of 10 trading days). • The Executive KMP will receive all benefits of holding the Shares in the period before vesting, including dividends, capital returns and voting rights. • Shares which have vested can only be traded, within specified trading windows, consistent with NEC's Securities Trading Policy or any applicable laws (such as the insider trading provisions). • The Board has determined that Shares will be acquired on-market to satisfy awards under this component of the STI Plan.
Assessment and Board discretion	• Actual performance against group financial and individual measures is assessed at the end of the financial year. • In assessing the achievement of group financial and individual measures the People and Remuneration Committee may exercise its discretion to adjust outcomes for significant factors that are considered outside the control of management that contribute positively or negatively to results. Adjustments are by exception and are not intended to be regular. Any adjustment will require the judgement of the PRC and should balance ensuring fair outcomes that reflect management's delivery of financial performance, with ensuring the outcomes experienced by NEC's shareholders. They are not intended to deliver an advantage or a disadvantage to the incentive outcome. • The Board determines the amount, if any, of the short-term incentive to be paid to each Executive KMP, seeking recommendations from the PRC and CEO as appropriate. • In exceptional circumstances, individuals may be awarded an STI payment of up to 150% of their target STI based on significant outperformance of financial measures and personal objectives.

3.6 LONG TERM INCENTIVE (LTI) PLAN

The LTI plan involves the annual granting of conditional rights to participants.

Overview	The Long-Term Incentive Plan is an equity incentive plan used to align the Executive KMPs remuneration to the returns generated for NEC shareholders.
Grant Date(s)	The following grants have been issued and remain on foot (or subject to testing against vesting conditions): 1 December 2016 – FY2017 grant 1 December 2017 – FY2018 grant The nature and structure of each grant is identical (in most respects) and discussed collectively, below.
Consideration	Nil
Performance Rights	Performance rights are awarded based on the fixed amount to which the individual is entitled and the VWAP. VWAP is calculated over the period commencing 5 trading days before and ending 4 trading days after the results release immediately following the start of the performance period (i.e. over a total period of 10 trading days). Upon satisfaction of Vesting Conditions, each Performance Right will, at the Company's election, convert to a Share on a one-for-one basis or entitle the Participant to receive cash to the value of a Share. No amount is payable on conversion.
LTI opportunity (at target)	

	% OF FIXED REMUNERATION
CEO	100
Other Executive KMP	50

REMUNERATION REPORT
– AUDITED continued

Performance Period

The Performance Period for each grant is three financial years from the financial year of granting. For the FY18 grant, the performance period is the three year period from 1 July 2017 to 30 June 2020. (**Vesting Date**).

Vesting Dates

Subject to the Vesting Conditions and Employment Conditions described below, Performance Rights held by each Participant will vest on the Vesting Date (with no opportunity to retest).

Vesting Conditions

Performance Rights granted in any one allocation will vest:

- 50% subject to the Company's TSR performance against S&P/ASX 200 Index companies representing Consumer Discretionary, Consumer Staples, Information Technology and Telecommunication Services. TSR was chosen as it provides a relative, external market performance measure.
- 50% subject to the achievement of fully diluted EPSG targets as set by the Board over the Performance Period. EPSG was chosen as it aligns with shareholder dividends over time and provides a clear focus on meeting the earnings expectations delivered to the market.

TOTAL SHAREHOLDER RETURN (TSR)

TSR VESTING SCHEDULE

OUTCOME	VESTING
Ranked at the 75th percentile or higher	50%
Ranked at the 50th percentile (Threshold)	25%
Ranked below the 50th percentile	0%

EARNINGS PER SHARE GROWTH (EPSG)

EPSG VESTING SCHEDULE

OUTCOME	VESTING
The EPSG hurdle assesses cumulative growth in EPS as the sum of the annual EPS growth relative to actual EPS for the year preceding commencement of the plan. This is calculated at the end of each financial year over the performance period.	
Vesting occurs when:	
Cumulative annual growth over the period exceeds the Maximum Vesting Target	50%
Cumulative annual growth over the period exceeds the Threshold	16.5%
Cumulative annual growth over the period of less than the Threshold	0%

The Board may vary the Vesting Conditions for each Plan issue. Vesting is pro-rated if the outcome is between the Threshold and Maximum bands.

EPSG hurdles are determined at the issue of each grant with regards to factors including:

- Internal forecasting estimates taking into account the outlook for the industry including audience viewing, advertising revenues and inflation
- Market expectations, including reference to sell-side equity analyst forecasts
- Recent actual performance
- Market practice and competitor benchmarking

	Due to the nature of these hurdles and the implied outlook for NEC earnings, the PRC and NEC Board has determined to disclose these targets upon vesting of any performance rights. In respect of the FY16 grant, the EPS growth targets were at a Threshold of 1% per annum (being the equivalent of 0.8658c growth pooled over the period) and a Maximum Vesting Target of 4.6% per annum (equivalent to 4.079c growth pooled over the period). The Company achieved 1.957c growth (pooled) over the period, resulting in the partial vesting of the portion of the award determined by Earnings per Share. The resulting vesting was 55.8% of the Maximum Vesting Target for this portion of the grant (which is 27.9% of the maximum available). The Company also exceeded the 75th percentile on the TSR hurdle, resulting in 100% of the performance rights vesting for the portion of the award determined by Total Shareholder Return (50% of the maximum available). The total amount vested on both performance hurdles was 77.9% of the performance rights available.
Cessation of employment **(Employment Conditions)**	If the Participant is not employed by NEC or any NEC Group member on a particular Vesting Date due to the Participant either: • having been summarily dismissed; or • having terminated his/her employment agreement otherwise than in accordance with the terms of that agreement or, for the FY18 grant, by resigning, any unvested Performance Rights held on or after the date of termination will lapse. If the Participant has ceased to be employed by NEC in any other circumstances (e.g. redundancy, retirement, ill health), the Participant will retain a time based, pro-rated number of unvested Performance Rights determined on a tranche by tranche basis (where the time based proportion of each tranche is determined as the length of time from the start of the performance period to the date on which employment ceases divided by the total performance period of a particular tranche). Any unvested Performance Rights that do not lapse in accordance with the above, remain on foot until the relevant Vesting Date. Any vesting at that time will be determined based on Vesting Conditions for those Performance Rights being met.
Disposal restrictions	Where vesting occurs during a trading blackout period under the Company's Securities Trading Policy, any Shares issued or transferred to the Participant upon vesting of any Performance Rights will be subject to restrictions on disposal from the date of issue (or transfer) of the Shares until the commencement of the business day following the end of that blackout period, or such later date that the Board may determine under the Company's Securities Trading Policy. A Participant may not enter into any arrangement for the purpose of hedging, or otherwise affecting their economic exposure to their Performance Rights.
Change of control	The Board has the discretion to accelerate vesting of some or all of a Participant's Performance Rights in the event of certain transactions which may result in a change of control of Nine Entertainment Co. Holdings Ltd. The discretion will be exercised having regard to all relevant circumstances at the time. Unvested Performance Rights will remain in place unless the Board determines to exercise that discretion.
Amendments	To the extent permitted by the ASX Listing Rules, the Board retains the discretion to vary the terms and conditions of the Performance Rights Plan. This includes varying the number of Performance Rights or the number of Shares to which a Participant is entitled upon a reorganisation of capital of NEC.
Capital Initiatives	The Board will endeavour to amend the terms of any Performance Rights on issue to equitably deal with any capital return, share consolidation, share split, such that the value of those rights is not prejudiced. The Board's actions here will be at their sole discretion.

REMUNERATION REPORT
– AUDITED continued

4 LINKING PAY TO PERFORMANCE

4.1 IMPACT OF NEC'S 2018 PERFORMANCE ON REMUNERATION

In 2018, the Group continued to build on momentum and delivered significant EBITDA growth, as well as delivering on strategic opportunities to drive sustainable growth.

During this period, the share price rose from $1.38 to $2.48. Similarly, Net Profit After Tax (pre-specific items) rose 27% during the year. Accordingly, incentive payments for the financial year have increased.

At the outset of FY18, clear performance objectives were set for Executive KMPs that were critical to the delivery of the FY2018 plan and fundamental to the success of the long-term strategy while addressing the ongoing challenges in a dynamic and competitive operating environment. The successful achievement of these objectives has contributed significantly to our Group results in 2018.

Detailed assessments of the Executive KMP performance were prepared by the CEO and discussed with the PRC. The Board and the PRC believe that the performance in FY2018 has been appropriately reflected in the Short-Term Incentive outcomes.

The link between Executive KMP remuneration and Group financial performance is set out below.

	30 JUNE 18 $m	30 JUNE 17 $m	30 JUNE 16 $m
Revenue	**1,403.9**	1,244.9	1,286.4
Group EBITDA	**257.2**	205.6	201.7
Group EBITDA %	**18%**	17%	16%
Net profit before tax and specific items	**218.2**	164.7	164.1
Net profit after tax before specific items	**156.7**	123.6	118.6
Earnings per share — cents	**18.0 cents**	14.0 cents	13.5 cents

	30 JUNE 18 Cents/Share	30 JUNE 17 Cents/Share	30 JUNE 16 Cents/Share
Opening share price	**138**	105	155
Closing share price	**248**	138	105
Dividend	**10**	9.5	12

EXECUTIVE KMP STI PAYMENTS	30 JUNE 18	30 JUNE 17	30 JUNE 16
Earned	**129.2%**	94.2%	19%
Forfeited (at target)	**–**	5.8%	81%

4.2 SHORT TERM INCENTIVES (STI)

In FY2018, the Group financial STI targets were aligned with the delivery of budgeted Group EBITDA. Individual measurable performance objectives were determined on an individual-by-individual basis based on their respective delivery of key operational and strategic objectives of the Group, as determined by the Company's Board.

Each Executive KMP has a target opportunity specified in their contract. The FY18 target for the CEO was 100% of fixed remuneration. For the other Executive KMP it was 50% of fixed remuneration. The maximum award an individual can earn is 150% of their respective target opportunity.

The proportions of target and maximum STI that were earned and forfeited by each Executive KMP in relation to the current financial year are set out below:

		PROPORTION OF TARGET STI (%)		PROPORTION OF MAXIMUM STI (%)	
NAME		EARNED %	FORFEITED %	EARNED %	FORFEITED %
Hugh Marks	**FY18**	**136.1%**	**0.0%**	**90.7%**	**9.3%**
	FY17	95.9%	4.1%	69.7%	30.3%
Greg Barnes	**FY18**	**100.0%**	**0.0%**	**67.7%**	**33.3%**
	FY17	95.9%	4.1%	69.7%	30.3%
Michael Stephenson	**FY18**	**137.0%**	**0.0%**	**91.3%**	**8.7%**
	FY17	83.5%	16.5%	60.7 %	39.3%
FORMER KEY MANAGEMENT PERSONNEL					
Amanda Laing	**FY18**	–	–	–	–
	FY17	95.9%	4.1%	69.7%	30.3 %

In accordance with the share deferral component of the STI plan, 33% of the 2018 financial year STI payments earned by current Executive KMP, at 30 June 2018, will be provided as shares in accordance with that plan, as described in section 3.5. The balance of the STI payable will be paid in cash following the release of the Company's 2018 financial results.

4.3 LONG TERM INCENTIVES (LTI)

GRANT DATE	TEST DATE	PERFORMANCE HURDLES	VESTING OUTCOME (%)
29 January 2016	30 June 2018	• 50% – Total Shareholder Return • 50% – Earnings Per Share Growth	77.9%
1 December 2016	30 June 2019	• 50% – Total Shareholder Return • 50% – Earnings Per Share Growth	NA
1 December 2017	30 June 2020	• 50% – Total Shareholder Return • 50% – Earnings Per Share Growth	NA

REMUNERATION REPORT
– AUDITED continued

The performance period of the FY16 Long Term Incentive Plan commenced on 1 July 2015 and concluded on 30 June 2018. Performance was assessed at the conclusion of the FY18 year, and as a result of performance over the three-year period, the Total Shareholder return achieved the requirements for maximum vesting. The Company's three year Earnings per Share growth resulted in partial vesting of the portion of the award determined by Earnings per share. The resulting vesting was 55.8% of target (which is 27.9% of the maximum available).

GRANT	PERFORMANCE PERIOD	PERFORMANCE MEASURE	WEIGHTING	TARGET	STRETCH	ACTUAL PERFORMANCE	PERFORMANCE ACHIEVED
FY16	1 July 2015 to 30 June 2018	EPS	50%	1% pa (0.8658c growth pooled)	4.6% pa (4.079c growth pooled)	1.957c	55.8%
		TSR	50%	50th percentile	75th percentile	> 75th percentile	100%
		Total	100%	n/a	n/a		77.9%

5 EXECUTIVE AGREEMENTS

Each Executive KMP has a formal employment agreement. Each of these employment agreements, which are of a continuing nature and have no fixed term, provide for the payment of fixed and performance-based remuneration, superannuation and other benefits such as statutory leave entitlements.

There were no changes to the key terms of the Executive KMP contracts in financial year 2018. The key terms of Executive KMP contracts at 30 June 2018 were as follows:

	FIXED REMUNERATION[1]	TARGET STI	NOTICE PERIOD BY EXECUTIVE	NOTICE PERIOD BY COMPANY	RESTRAINT
Hugh Marks[2]	$1,400,000	$1,400,000	12 months	12 months	12 months
Greg Barnes[2]	$850,000	$425,000	12 months	12 months	12 months
Michael Stephenson[2]	$730,000	$365,000	12 months	12 months	12 months

1. Fixed Remuneration comprises base cash remuneration, superannuation and other benefits which can be sacrificed for cash at the employee's election.
2. KMP are entitled to participate in a long-term incentive plan, as discussed separately in this report.

6 REMUNERATION GOVERNANCE

6.1 THE BOARD

The Board approves the remuneration arrangements of the Chief Executive Officer (CEO) and other key executives and awards made under short-term incentive (STI) and long-term incentive (LTI) plans, following recommendations from the PRC. The Board also sets the remuneration levels of Non-Executive Directors (NEDs), subject to the aggregate pool limit approved by shareholders.

6.2 THE PEOPLE AND REMUNERATION COMMITTEE (PRC)

The PRC assists the Board in fulfilling its responsibilities for corporate governance and oversight of NEC's human resources policies and practices and workplace health and safety (WHS) management. The PRC's goal is to ensure that NEC attracts the industry's best talent, appropriately align their interests with those of key stakeholders, comply with WHS obligations and effectively manage WHS risks.

The PRC makes recommendations to the Board on CEO and Non-Executive Director remuneration. The PRC approves the executive reward strategy, and incentive plans and provides oversight of management's implementation of approved arrangements.

Details of the membership, number and attendance at meetings held by the PRC are set out on page 25 of the Directors' Report.

Further information on the PRC's role, responsibilities and membership is included in the committee charter which is available at www.nineentertainmentco.com.au.

6.3 MANAGEMENT

Management prepares recommendations and information for the PRC's consideration and approval. Management also implements the approved remuneration arrangements.

6.4 USE OF REMUNERATION CONSULTANTS

From time to time, the PRC seeks external independent remuneration advice. Remuneration consultants are engaged by, and report directly to, the Committee. In selecting a remuneration consultant, the Committee considers potential conflicts of interest and requires the consultant's independence from management as part of their terms of engagement.

Where the consultant's engagement requires a remuneration recommendation, the recommendation is provided to the Chair of the PRC to ensure management cannot unduly influence the outcome.

The Company has engaged the services of PricewaterhouseCoopers (PwC) as the Company's remuneration advisor during the 2018 financial year. In the current financial year PwC did not provide the PRC with any remuneration recommendations. The PRC was also provided with information on market trends to assist the Committee with policy development and other strategic advice.

6.5 ASSOCIATED POLICIES

The Company has established a number of policies to support reward and governance, including the Code of Conduct, Disclosure Policy and Securities Trading Policy. These policies have been implemented to promote ethical behaviour and responsible decision making. These policies are available on Nine's website www.nineentertainmentco.com.au.

REMUNERATION REPORT
– AUDITED continued

7 DETAILED DISCLOSURE OF EXECUTIVE REMUNERATION

7.1 STATUTORY REMUNERATION DISCLOSURES

Details of the remuneration of the executives for the year ended 30 June 2018 are set out in the following table in accordance with statutory disclosure requirements

KMP REMUNERATION OUTCOMES 2018		SHORT TERM BENEFITS			POST-EMPLOYMENT BENEFITS	LONG TERM BENEFITS		SHARE-BASED PAYMENTS					
		SALARY AND FEES $	CASH BONUS $	PRE-IPO RELATED CASH INCENTIVES $	SUPER-ANNUATION $	ANNUAL LEAVE[1] $	LONG SERVICE LEAVE $	PRE-IPO SHARE RIGHTS $	DEFERRED STI[4] $	LONG TERM INCENTIVES[2] $	SIGN ON AND TERMINATION PAYMENTS $	TOTAL $	PERFORMANCE RELATED %
Executive Director													
Hugh Marks	FY18	1,379,951	1,269,333	–	20,049	10,615	–	–	634,667	1,135,990	–	4,450,605	68
	FY17	1,380,384	895,226	–	19,616	31,855	–	–	447,613	424,640	–	3,199,334	55
Other KMP													
Greg Barnes	FY18	829,874	283,495	–	20,049	(6,384)	–	–	141,747	403,373	–	1,672,154	50
	FY17	823,482	271,765	–	19,616	35,132	–	–	135,883	84,861	983,501	2,354,240	21
Michael Stephenson	FY18	709,643	333,587	–	20,049	10,922	9,859	–	166,793	167,547	–	1,418,400	47
	FY17	710,384	203,068	–	19,616	(9,563)	11,839	2,315	101,534	72,881	–	1,112,074	34
Former Executive KMP													
Amanda Laing[3]	FY18	–	–	–	–	–	–		–	–	–	–	–
	FY17	850,000	416,907	6,816	19,616	(49,038)	14,165	48,519	–	136,995	950,000	2,393,979	23
Total Executive KMP	FY18	2,919,468	1,886,415	–	60,147	15,153	9,859	–	943,207	1,706,910	–	7,541,159	
	FY17	3,764,250	1,786,967	6,816	78,462	8,386	26,004	50,834	685,030	719,376	1,933,501	9,059,627	

Notes

1. Amounts may be negative where the KMP's annual leave taken in the year exceeds that accrued.
2. Details of the Long Term Incentive Plan are outlined in section 3.6.
3. A Laing resigned effective 3 July 2017, with costs reflected in the Statement of Profit or Loss and Other Comprehensive Income in the year ended 30 June 2017.
4. Deferred STI relates to STI awarded in relation to the financial year but deferred in Nine shares. This will be settled in two equal tranches over the next two years, assuming continuity of employment.

7.2 NON-STATUTORY REMUNERATION DISCLOSURES

The actual remuneration earned by current executives in the year ended 30 June 2018 ("FY18") is set out in the table below. This information is considered to be relevant as it provides details of the remuneration actually received by the Company's executives in FY18. It includes the proposed payments relating to the FY18 STI plan, albeit payment will be received in FY19. STI amounts include both the cash and deferred shares elements. Only LTIs which have vested during the year are included. The table differs from the statutory disclosure in section 7.1 principally because the table in section 7.1 includes a value for LTI which may or may not vest in future years.

		SALARY AND FEES $	CASH BONUS[1] $	FIXED SALARY AND CASH BONUS $	OTHER REMUNERATION[2] $	DEFERRED STI[5] $	LONG-TERM INCENTIVES[4] $	PRE-IPO LTI VESTED IN THE YEAR $	SIGN ON PAYMENTS $	REMUNERATION "EARNED" FOR 2018 $
Executive Director										
Hugh Marks	FY18	1,379,951	1,269,333	2,649,284	30,664	634,667	1,708,254	–	–	5,022,869
	FY17	1,380,384	895,226	2,275,610	51,472	447,613	–	–	–	2,774,695
Other Key Management Personnel										
Greg Barnes	FY18	829,874	283,495	1,113,369	13,665	141,747	755,850	–	–	2,024,631
	FY17[3]	823,482	271,765	1,095,247	54,748	135,883	–	–	817,510	2,103,388
Michael Stephenson	FY18	709,643	333,587	1,043,230	40,830	166,793	–	–	–	1,250,853
	FY17	710,384	203,068	913,452	21,891	101,534	–	16,667	–	1,053,544
Total Executive KMP	FY18	2,919,468	1,886,415	4,805,883	85,159	943,207	2,464,104	–	–	8,298,353
	FY17	2,914,250	1,370,059	4,284,309	128,111	685,030	–	16,667	817,510	5,931,627

Notes

1. Cash bonus includes cash benefits such as STI.
2. Other remuneration relates to superannuation and movement in annual leave and long service leave balances. The values may be negative where the KMP's annual leave taken in the year exceeds that accrued.
3. G Barnes sign on payment includes cash and shares. LTI share rights granted are not included.
4. Rights which vested subsequent to 30 June 2018 but which were measured based on performance up to 30 June 2018. The value attributed to these Rights has been calculated based on the share price as at 14 August 2018 as an approximation of the cash value on vesting.
5. Deferred STI relates to STI awarded in relation to the financial year but deferred in Nine shares. This will be settled in two equal tranches over the next two years, assuming continuity of employment.

REMUNERATION REPORT
– AUDITED continued

7.3 PERFORMANCE RIGHTS AND SHARE INTERESTS OF KEY MANAGEMENT PERSONNEL

The number of Performance Rights granted to Executive KMP as remuneration, the number vested during the year and the number outstanding at the end of the year are shown below.

Performance Rights do not carry any voting or dividend rights and can be exercised once the vesting conditions have been met..

	SHARE RIGHTS OUTSTANDING AT START OF YEAR NO.	SHARE RIGHTS GRANTED IN YEAR NO.	AWARD DATE	FAIR VALUE PER SHARE RIGHT AT AWARD DATE $	VESTING DATE	VESTED[1] NO.	CASH SETTLED DURING THE YEAR NO.	LAPSED DURING THE YEAR NO.	SHARE RIGHTS OUTSTANDING AT END OF YEAR NO.
Executive Director									
Hugh Marks	906,149	–	11 Nov 15	1.09	1 Jul 18	705,890	–	200,259	–
	1,372,549	–	1 Dec 16	0.61	1 Jul 19	–	–	–	1,372,549
		958,904	1 Dec 17	1.136	1 Jul 20	–	–	–	958,904
Other Executive KMP									
Greg Barnes	400,943	–	4 Jul 16	1.09	1 Jul 18	312,335	–	88,608	–
	416,667	–	1 Dec 16	0.61	1 Jul 19	–	–	–	416,667
	–	291,096	1 Dec 17	1.136	1 Jul 20	–	–	–	291,096
Michael Stephenson	357,843	–	1 Dec 16	0.61	1 Jul 19	–	–	–	357,843
	–	250,000	1 Dec 17	1.136	1 Jul 20	–	–	–	250,000
Former Key Management Personnel									
Amanda Laing[2]	188,889	–	29 Jan 16	1.09	1 Jul 18			–	188,889
	138,889	–	1 Dec 16	0.61	1 Jul 19			–	138,889

1. Rights which vested subsequent to 30 June 2018 but which were measured based on performance up to 30 June 2018.
2. In accordance with termination agreements, the rights which were held on termination of employment were or will be cash settled, at a price to be determined, based on a volume weighted average price of the shares of the Company in the 5 days immediately preceding vesting, subject to meeting performance targets.

2018 SHAREHOLDING OF KEY MANAGEMENT PERSONNEL

During the year, the Board adopted a policy of encouraging directors to acquire shares to the value of one year's base fees, to be acquired within 5 years of appointment..

	AS AT 1 JULY 2017[1] ORD	GRANTED AS STI ORD	OTHER NET CHANGES ORD	HELD DIRECTLY AS AT 30 JUNE 2018 ORD	HELD NOMINALLY AS AT 30 JUNE 2018 ORD
Non-Executive Directors					
Peter Costello	301,786	–	–	–	301,786
Catherine West	–	–	40,000	–	40,000
David Gyngell	4,988,535	–	–	4,988,048	487
Janette Kendall	–	–	30,500	–	30,500
Samantha Lewis	–	–	40,000	–	40,000
Executive Director					
Hugh Marks	360,313	303,518		436,435	227,396
Other Key Management Personnel					
Greg Barnes	682,556	92,140	–	774,696	–
Michael Stephenson	11,544	68,849	–	80,393	–
Total	**6,344,734**	**464,507**	**110,500**	**6,279,572**	**640,169**

1. A Laing who is a former Key Management Personnel held 286,813 shares at the date of her resignation (3 July 2017).

8 NON-EXECUTIVE DIRECTOR (NED) REMUNERATION ARRANGEMENTS AND DETAILED DISCLOSURES OF NED REMUNERATION

REMUNERATION POLICY

The Board seeks to set aggregate Non-Executive remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, at a cost that is acceptable to shareholders.

The shareholders of NEC approved an aggregate fee pool of $3m at the AGM on 21 October 2013. The Board will not seek any increase to the NED fee pool at the 2018 AGM.

STRUCTURE

The remuneration of NEDs consists of Directors' fees and committee fees. The payment of additional fees for serving on a committee recognises the additional time commitment required by NEDs who serve on committees. The Chairman of the Board does not receive any additional fees in addition to Board fees for being a member of any committee. All Board fees include any superannuation entitlements, as applicable. These arrangements are set out in the written engagement letters with each Director.

Following the reduction in non-executive director fees with effect from 1 February 2017, there have been no further changes in the NED fees.

The NED fees are set out below.

ROLE	FEES
Chairman	$340,000
Directors	$135,000
Audit & Risk Committee chair	$30,000
Audit & Risk Committee member	$20,000
People & Remuneration Committee chair	$25,000
People & Remuneration Committee member	$15,000

REMUNERATION REPORT
– AUDITED continued

NEDs do not receive retirement benefits, nor do they participate in any incentive programs. No Share Rights or other share-based payments were issued to NEDs during the 2018 financial year. This table below includes fees for the period, when they held the position of NEDs.

NED REMUNERATION FOR YEARS ENDED 30 JUNE 2018 AND 2017

	FINANCIAL YEAR	SALARY AND FEES $	SUPER-ANNUATION $	TOTAL $
Non-Executive Directors				
Peter Costello	**2018**	**319,951**	**20,049**	**340,000**
	2017	370,453	19,616	390,068
Catherine West	**2018**	**164,384**	**15,616**	**180,000**
	2017	174,141	16,543	190,685
David Gyngell	**2018**	**123,288**	**11,712**	**135,000**
	2017	149,688	14,220	163,908
Janette Kendall	**2018**	**136,986**	**13,014**	**150,000**
	2017	9,972	947	10,920
Samantha Lewis	**2018**	**164,384**	**15,616**	**180,000**
	2017	43,825	4,163	47,989
Former Non-Executive Directors				
Elizabeth Gaines	**2018**	**–**	**–**	**–**
	2017	106,361	10,104	116,466
Holly Kramer	**2018**	**–**	**–**	**–**
	2017	113,803	10,475	124,279
Total NED	**2018**	**908,993**	**76,007**	**985,000**
	2017	968,244	76,070	1,044,314

9 LOANS TO KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

No loans have been made to KMP or their related parties.

10 OTHER TRANSACTIONS AND BALANCES WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

The following related party arrangements have been entered into by an NEC Group member:

- Leila McKinnon, the wife of David Gyngell, is employed by Nine Network as a journalist and news presenter; and
- Sebastian Costello, the son of Peter Costello, is employed by the Nine Network as a reporter.

These arrangements are on commercial and arm's length terms.

OPERATING AND FINANCIAL REVIEW

REVIEW OF OPERATIONS

	2018 $m	2017 $m	VARIANCE $m	VARIANCE %
Revenue from Continuing Operations (before specific Items)	**1,327.0**	1,244.9	82.1	6.6
Group EBITDA from Continuing Operations (before specific Items)[1]	**257.2**	205.6	51.6	25.1
Finance Costs from Continuing Operations	**(11.1)**	(12.6)	1.5	11.9
Profit after tax before specific items from Continuing Operations	**156.7**	123.6	33.1	26.8
Specific Items from Continuing Operations (before income tax)	**56.7**	(355.6)	412.3	115.9
Profit/(Loss) from Continuing Operations after Income Tax	**209.7**	(203.4)	413.1	203.1
Net Cash Flows generated from/ (used in) operating activities	**161.1**	(4.2)	165.3	3,935.7
Net Debt[2]	**121.3**	224.5	103.2	46.0
Leverage[3]	**0.5X**	1.1X	(0.6X)	–

1. EBITDA plus share of associates.
2. Interest bearing loans and borrowings, less cash at bank.
3. Net Debt/Group EBITDA (before Specific Items).

Revenue from Continuing operations before Specific items increased by 6.6% to $1,327.0 million. Revenue growth was achieved in both the Nine Network and Nine Digital businesses.

Group EBITDA before Specific Items (from Continuing Operations) increased by $51.6 million (25.1%) to $257.2 million. Revenue growth in Television, coupled with continued management of its cost base enabled Nine Network EBITDA to grow 26% to $238.2 million during FY18. In Digital, the growth experienced in 9Now and Pedestrian TV more than offset the previously communicated loss of the Bing relationship, enabling Digital EBITDA to grow 18% to $34.1 million.

In both the current and prior years Specific Items had a significant impact on the bottom line result with a Profit after Income Tax of $209.7 million in the current year compared with a Loss after Income Tax of $203.4 million in the prior year.

Specific Items in FY18 of +$56.7 million (refer to note 1.4) include $76.9 million net profit on sale of assets held for sale. This gain was partially reduced by a net increase in the value of the options for the acquisition of Pedestrian and CarAdvice of $14.7 million and restructuring and termination costs of $5.8 million.

In the prior year, Specific Items of -$355.6 million (refer to note 1.4) included a $260 million non-cash impairment charge against licence, goodwill and investment values on the balance sheet, a $87.5 million inventory and onerous contract provision and restructuring and termination costs of $7.2 million.

Finance Costs decreased from $12.6 million in the prior year to $11.1 million in the current year, reflecting lower average Net Debt throughout the year.

Operating Cash Flow improved year on year largely due to earnings growth and improved working capital. Working capital improvements include the recent local programming (inventory) build nearing its peak. Income tax paid decreased as a result of the receipt of prior year tax receivable. At balance sheet date, Net Debt reduced by 46% from $224.5 million to $121.3 million, due to proceeds received from the sale of Willoughby being used to reduce the net debt and greatly improved operating cash. The Group continues to invest in longer term growth with the acquisition of the remaining 40% of Pedestrian TV and additional funding (by way of loan advances) to Stan amounting to $27.3 million. The Group made dividend payments of $87.1 million or 10 cents per share, to shareholders during the year. Net Leverage at 30 June 2018 was 0.5X, well within bank covenants.

OPERATING AND FINANCIAL REVIEW continued

SEGMENTAL RESULTS

	2018 $m	2017 $m	VARIANCE $m	VARIANCE %
Revenue[1]				
Network	**1,152.4**	1,080.4	72.0	6.7
Digital	**165.8**	154.7	11.1	7.2
Corporate	**–**	2.7	(2.7)	(100.0)
Total Revenue from Continuing Operations[1]	**1,318.2**	1,237.8	80.4	6.5
EBITDA				
Network	**238.2**	188.3	49.9	26.5
Digital	**34.1**	28.9	5.2	18.0
Corporate	**(16.2)**	(11.8)	(4.4)	(37.3)
Share of Associates	**1.2**	0.2	1.0	500.0
Group EBITDA Continuing Operations	**257.2**	205.6	51.7	25.1

1. After the elimination of inter-segment revenue and interest income.

A summary of each division's performance is set out below.

NINE NETWORK

	2018 $m	2017 $m	VARIANCE $m	VARIANCE %
Revenue	**1,152.4**	1,080.4	72.0	6.7
EBITDA	**238.2**	188.3	49.9	26.5
Margin	**20.7%**	17.4%	–	19.0

Nine Network recorded revenue of $1,152.4 million, an increase of $72 million (6.7%) on last year, and an increase in EBITDA of 26.5% to $238.2 million compared to the prior year. This increase reflects the combination of improved revenues (due to higher ratings) and control on costs during the year.

Metro Free-to-Air (FTA) advertising recorded a 2.5% growth for FY18, the first year of growth for this market in four years. This included growth in the six month to June of 3.8%.

For the 12 months to June, Nine's metro FTA revenue share of 38.6% was up 2.9 points on FY17. Nine's commitment to premium local content, and a willingness to trial new formats have resulted in a more consistent and improved performance across the year.

Costs were up 2.5% on prior year. However, included in this number is the annual spectrum charge for the first time as well as an extra week of trading, which together added approximately $16 million to costs. Excluding these impacts, costs were up 1%, which included an incremental $6 million of costs which related directly to Nine's higher revenue base.

NINE DIGITAL

	2018 $m	2017 $m	VARIANCE $m	VARIANCE %
Revenue	165.8	154.7	11.1	7.2
EBITDA	34.1	28.9	5.2	18.0
Margin	20.6%	18.7%	–	10.2

In FY18, Nine Digital recorded an increase in revenue to $11.1 million, and growth of 18.0% in EBITDA to $34.1 million compared to the prior year. Revenue growth was underpinned by long form video, particularly at 9Now and increased contribution from contributions from CarAdvice and Pedestrian TV. This growth more than offset declining revenue in the traditional display category and the absence of contribution from Bing (c$14 million).

EBITDA growth of 18% reflects the revenue growth and changing mix to increasing premium, and high margin revenues. Reported EBITDA was affected both by the absence of Bing (c$14 million) as well as increased investment in the newer businesses of 9Honey and Future Women.

SHARE OF ASSOCIATES PROFIT

Share of Associates profit increased from $0.2 million to $1.2 million.

REVIEW OF FINANCIAL POSITION

At 30 June 2018 the Net Assets of the Group were $1,109 million which is approximately $123.1 million higher than as at 30 June 2017. The key impact during the period was the operating profit, the profit on sale of Willoughby, the reduction in net debt, and the dividends paid.

UNDERLYING DRIVERS OF PERFORMANCE

The Group operates across two key businesses and industries, each of which has their own underlying drivers of performance. These are summarised below:

- Nine Network – size of the advertising market and the share attributed to Free-to-Air television, Nine's share of the Free-to-Air advertising sector, the regulatory environment and the ability to secure key programming contracts.
- Nine Digital – size of the advertising market and the share attributed to online and Nine Digital's share of the online advertising sector.

The impacts of changes in underlying drivers of performance on the current year result are set out in the Review of Operations, as applicable.

BUSINESS STRATEGIES AND FUTURE PROSPECTS

The Group is focusing on the following business growth strategies:

- **Continue strong momentum and consolidate position as a leading FTA TV network**

Nine's stronger ratings performance since the start of 2017 is expected to continue into CY19. With the absence of key events on other Networks, Nine is expecting to grow revenue share from FY18.

Overall Network performance is driven by the combination of the primary Channel Nine, as well as 9GO! 9GEM and 9Life. The Group is also focused on optimising returns through improved broadcast rights deals and affiliate arrangements, growth in premium or integrated revenue and maintaining disciplined cost management.

In programming, the Group recognises the importance of leading news and current affairs, sports content, entertainment and lifestyle, and is focused on continuing to make targeted investments in content to reflect audience preferences.

OPERATING AND FINANCIAL REVIEW continued

- **Continue to grow digital media assets**

The Group intends to build on Nine Digital's position as a leading online network in Australia to grow audience and advertising revenue. The Group plans to expand its audience by increasing its content and the ways customers find and access this content, including via tablets and mobile devices, particularly in online video. Nine Digital's goal is to increase its advertising revenue through growth in audience and inventory, as well as making use of its data assets to improve yields and effectiveness of advertising.

- **Optimise the returns and opportunities associated with the Group's premium free content and audience reach**

Across its broadcast and digital media assets, NEC's strengths lie in the production and distribution of premium content. The Group will continue to identify and pursue opportunities where it can increase its content and rights to use content, particularly across the core pillars of News, Sports, Entertainment and Lifestyle, and broaden the utilisation of this content across its own integrated platform as well as third-party platforms.

The Group remains committed to the achievement of further cost efficiencies through FY19 and beyond.

The Group is confident that the successful execution of these business strategies will enable the Group to grow in the future.

The key risks which may impact the operations or results of the Group are set out below:

Revenue – the major risks which could affect the revenue of the Group are:

- a significant change to advertising market conditions that leads to a decline in the advertising market or an adverse shift in free-to-air (FTA) television's share of the broader advertising market;
- Nine's share of the FTA market itself;
- A change in the way content is viewed by audiences.

A contributor to these risks is a change in audience behaviours and preferences. Peak-time programming performance or loss of key programming rights may also contribute to this risk materialising. In addition, the continued development of alternative forms of media may lead to increased competition for advertising revenue.

Operational – from an operational perspective, the business is subject to operational risks of various kinds, including transmission failure, systems failure, data loss, inaccurate reporting, industrial action (such as at film and television production studios, in sporting competitions broadcast by Nine) and other execution risks. These risks could have a negative effect on Nine's reputation and its ability to conduct its business without disruption or at the budgeted level of cost in various ways.

Legislation – the FTA industry and Nine's television business is subject to certain legislation which may change in the future and this may impact on the business. These risks include changes to: the regulatory environment under which the FTA industry operates; the anti-siphoning legislation; the licence conditions under which Nine operates (including the granting of a fourth licence in the major *markets in which Nine operates); and regulation of content.*

Systems security and data privacy – while Nine has policies and procedures in place to address system security and data risks, there is a risk that these may not be sufficient which could adversely affect Nine's reputation and financial position.

Key management personnel and employees – Nine relies upon its ability to attract and retain experienced and high performing executives and other employees. The failure to achieve this may impact upon Nine's ability to develop and meet its strategies and may lead to a loss in revenue and profitability.

These risks are managed on an ongoing basis. Mitigations and strategies to address them are maintained and regularly reviewed, including via regular reporting to the Board.

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FINANCIAL STATEMENTS

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2018

	NOTE	2018 $'000	2017 $'000
Revenues	1.2	1,403,945	1,244,955
Expenses	1.3	(1,119,001)	(1,423,421)
Finance costs	1.3	(11,121)	(12,600)
Share of profits of associate entities	5.1(c)	1,155	212
Net profit/(loss) from operations before income tax expense		274,978	(190,854)
Income tax expense	4.1	(65,312)	(12,584)
Net profit/(loss) from operations after income tax expense		209,666	(203,438)
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation		(234)	(111)
Items that will not be reclassified subsequently to profit or loss:			
Fair value movement in investment in listed equities (net of tax)	6.1	(1,178)	11,884
Actuarial gain/(loss) on defined benefit plan	6.2	2,733	3,565
Other comprehensive income for the period		1,321	15,338
Total comprehensive income/(loss) attributable to equity holders		210,987	(188,100)
Earnings/(loss) per share			
Basic profit/(loss) attributable to ordinary equity holders of the parent	1.5	$0.24	$(0.23)
Diluted profit/(loss) attributable to ordinary equity holders of the parent	1.5	$0.24	$(0.23)

The above consolidated statement of profit or loss and other comprehensive income should read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2018

	NOTE	2018 $'000	2017 $'000
Current assets			
Cash and cash equivalents	2.1	36,375	66,700
Trade and other receivables	2.2	285,469	261,339
Program rights and inventories	2.3	190,427	190,320
Prepayments		19,657	21,243
Other assets		1,228	4,201
Property, plant and equipment held for sale	2.5	18,528	50,941
Income tax receivable		–	12,647
Total current assets		551,684	607,391
Non-current assets			
Receivables	2.2	134,470	96,275
Program rights and inventories	2.3	69,865	63,356
Investments accounted for using the equity method	5.1	12,479	12,324
Other financial assets	6.1	4,468	5,646
Property, plant and equipment	2.5	106,516	129,289
Intangible assets	2.6	911,984	912,014
Prepayments		36,575	52,250
Defined benefit plan	6.2	25,584	22,851
Other assets		–	165
Total non-current assets		1,301,941	1,294,170
Total assets		1,853,625	1,901,561
Current liabilities			
Trade and other payables	2.4	225,460	248,399
Current income tax liabilities		35,632	–
Provisions	2.7	52,315	49,271
Derivative financial instruments	3.5	26,228	21,197
Total current liabilities		339,635	318,867
Non-current liabilities			
Payables	2.4	34,123	59,642
Interest-bearing loans and borrowings	3.1	157,646	291,175
Deferred tax liabilities	4.2	173,049	182,226*
Provisions	2.7	39,530	34,693
Derivative financial instruments	3.5	603	29,068
Total non-current liabilities		404,951	596,804
Total liabilities		744,586	915,671
Net assets		1,109,039	985,890
Equity			
Contributed equity	3.2	745,027	748,627
Reserves		5,409	1,250
Retained earnings		358,603	236,013*
Total equity attributable to equity holders of the parent		1,109,039	985,890

* See note 4.2 for details of an adjustment made to deferred tax liabilities and opening retained earnings as reflected in the 30 June 2017 financial year.

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	CONTRIBUTED EQUITY $'000	RIGHTS PLAN SHARES $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	NET UNREALISED GAINS RESERVE $'000	SHARE-BASED PAYMENTS RESERVE $'000	OTHER RESERVE $'000	RETAINED EARNINGS $'000	TOTAL EQUITY $'000
At 30 June 2017 (restated)	751,998	(3,371)	(1,390)	(2,319)	1,788	3,171	236,013	985,890
Profit for the period	–	–	–	–	–	–	209,666	209,666
Other comprehensive income/(loss) for the period	–	–	(234)	1,555			–	1,321
Total comprehensive income/(loss) for the period	**–**	**–**	**(234)**	**1,555**	**–**	**–**	**209,666**	**210,987**
Transfers of fair value movement on disposal of listed equities	–	–	–	–	–	–	–	–
Vesting of Rights Plan shares (Note 3.4)	–	1,061	–	–	(1,061)	–	–	–
Purchase of shares	–	(4,661)	–	–	–	–	–	(4,661)
Share-based payment expense	–	–	–	–	3,899	–	–	3,899
Dividends to shareholders	–		–	–	–	–	(87,076)	(87,076)
At 30 June 2018	**751,998**	**(6,971)**	**(1,624)**	**(764)**	**4,626**	**3,171**	**358,603**	**1,109,039**
At 30 June 2016 (as previously reported)	751,998	(5,435)	(1,279)	2,567	1,987	3,171	480,830	1,233,839
Deferred tax re-assessment*	–	–	–	–	–	–	12,190	12,190
At 1 July 2016 (restated)	751,998	(5,435)	(1,279)	2,567	1,987	3,171	493,020	1,246,029
Profit for the period	–	–	–	–	–	–	(203,438)	(203,438)
Other comprehensive income/(loss) for the period	–	–	(111)	15,449	–	–	–	15,338
Total comprehensive income/(loss) for the period	–	–	(111)	15,449	–	–	(203,438)	(188,100)
Transfers of fair value movement on disposal of listed equities	–	–	–	(20,335)	–	–	20,335	–
Vesting of Rights Plan shares (Note 3.4)	–	2,064	–	–	(2,064)	–	–	–
Share-based payment expense	–	–	–	–	1,865	–	–	1,865
Dividends to shareholders	–	–	–	–	–	–	(73,904)	(73,904)
At 30 June 2017 (restated)	751,998	(3,371)	(1,390)	(2,319)	1,788	3,171	236,013	985,890

* See note 4.2 for details of an adjustment made to opening retained earnings which was reflected in the 30 June 2017 financial year.

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2018

	NOTES	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers		1,418,625	1,376,721
Payments to suppliers and employees		(1,226,086)	(1,323,278)
Dividends received – associates	5.1	1,000	1,200
Interest received		1,927	2,424
Interest and other costs of finance paid		(8,185)	(11,684)
Income tax paid		(26,194)	(49,569)
Net cash flows generated from/(used in) operating activities	2.1	161,087	(4,186)
Cash flows from investing activities			
Purchase of property, plant and equipment		(22,666)	(32,871)
Purchase of other intangible assets		(8,981)	(9,077)
Proceeds on disposal of property, plant and equipment		134,544	81
Acquisition of subsidiaries, net of cash acquired	5.3	(40,147)	(17,341)
Proceeds from/(Investment in) listed entities	6.1	–	123,998
Loans to associates		(27,300)	(32,800)
Net cash flows from investing activities		35,450	31,990
Cash flows from financing activities			
Proceeds from borrowings		482,000	307,500
Repayment of borrowings and borrowing costs		(617,125)	(237,560)
Purchase of rights plan shares		(4,661)	–
Dividends paid	3.3	(87,076)	(73,904)
Net cash flows used in financing activities		(226,862)	(3,964)
Net (decrease)/increase in cash and cash equivalents		(30,325)	23,840
Cash and cash equivalents at the beginning of the financial year		66,700	42,860
Cash and cash equivalents at the end of the period	2.1	36,375	66,700

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2018

ABOUT THIS REPORT

The financial report includes the consolidated entity consisting of Nine Entertainment Co. Holdings Limited (the parent entity) and its controlled entities (collectively, the Group) for the year ended 30 June 2018.

Nine Entertainment Co. Holdings Limited is a for-profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group is described in the Directors' Report. Information on the Group's structure is provided in Note 5. Information on other related party relationships is provided in Note 5.6

The consolidated general purpose financial report of the Group for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the directors on 23 August 2018. The Directors have the power to amend and reissue the financial report.

BASIS OF PREPARATION

This financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, except for derivative financial instruments and investments in listed equities which have been measured at fair value and investments in associates which have been accounted for using the equity method.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the instrument applies.

The accounting policies adopted in the preparation of the financial report are consistent with those applied and disclosed in the 2017 annual report. The consolidated financial statements provide comparative information in respect of the previous period, which is reclassified where necessary in order to provide consistency with the current financial year.

STATEMENT OF COMPLIANCE

The financial report complies with Australian Accounting Standards. The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

KEY JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. Judgements and estimates which are material to the financial report are found in the following notes:

Note 2.2 Trade and other receivables

Note 2.3 Program rights and inventories

Note 2.6 Intangible assets

Note 2.7 Provisions

THE NOTES TO THE FINANCIAL STATEMENTS

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature;
- it is important for understanding the results of the Group;
- it helps to explain the impact of significant changes in the Group's business or it relates to an aspect of the Group's operations that is important to its future performance.

The notes are organised into the following sections:

1. *Group performance*: provides a breakdown of individual line items in the statement of profit or loss and other comprehensive income that the directors consider most relevant and summarises the accounting policies, judgements and estimates relevant to understanding these line items;
2. *Operating assets and liabilities*: provides a breakdown of the key assets and liabilities and the accounting policies, judgements and estimates relevant to understanding these line items.
3. *Capital structure and management*: provides information about the capital management practices of the Group, shareholders return and the Group's exposure to various financial risks, how they affect the Group's performance and are managed;
4. *Taxation*: discusses the tax position of the Group;
5. *Group structure*: explains aspects of the Group structure and how changes have affected the financial position and performance of the Group; and
6. *Other*: provides information on it ems which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements. However, these are not considered critical in understanding the historical financial performance or position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

1 GROUP PERFORMANCE

1.1 SEGMENT INFORMATION

	SEGMENT REVENUE		EBITDA BEFORE SPECIFIC ITEMS		DEPRECIATION AND AMORTISATION		EBIT BEFORE SPECIFIC ITEMS	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Television	1,152,944[1]	1,081,455[1]	238,223	188,330	(25,880)	(25,984)	212,343	162,346
Digital	165,768	154,712	34,071	28,945	(10,860)	(9,302)	23,211	19,643
Segment total	**1,318,712**	1,236,167	**272,294**	217,275	**(36,740)**	(35,286)	**235,554**	181,989
Corporate	–	2,688	(16,212)	(11,868)	(2)	(2)	(16,214)	(11,870)
Associates	–	–	1,155	212	–	–	1,155	212
Total Group	**1,318,712**	1,238,855	**257,237**	205,619	**(36,742)**	(35,288)	**220,495**	170,331

1. Includes intersegment revenue of $548,000 (2017: $1,053,000).

RECONCILIATION OF TOTAL GROUP REVENUE TO THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	2018 $'000	2017 $'000
Total Group revenue (per above)	**1,318,712**	1,238,855
Interest income	**8,875**	6,973
Inter-segment eliminations	**(548)**	(1,053)
Net profit on sale of assets held for sale	**76,906**	–
Other	**–**	180
Revenue per the Consolidated Statement of Profit or Loss and Other Comprehensive Income	**1,403,945**	1,244,955

RECONCILIATION OF EBIT BEFORE SPECIFIC ITEMS TO PROFIT AFTER TAX	NOTES	2018 $'000	2017 $'000
EBIT before specific items		220,495	170,331
Interest income		8,875	6,973
Finance costs		(11,121)	(12,600)
Income tax expense	4.1	(61,524)	(41,083)
Profit before specific items		156,725	123,621
Specific items	1.4	56,729	(355,558)
Income tax (expense)/benefit on specific items	4.1	(3,788)	28,499
Net profit/(loss) from operations after income tax expense		209,666	(203,438)

GEOGRAPHIC INFORMATION

A majority of the Group's external revenues arise out of sales to customers within Australia.

MAJOR CUSTOMERS

The Group did not have any customers which accounted for more than 10% of operating revenue for the year (2017: >10%).

ACCOUNTING POLICY

The Chief Operating Decision Makers (determined to be the Board of Directors) review and manage the business based on the following reportable segments:

- Television – includes free to air television activities.
- Digital – includes Nine Digital Pty Limited and other digital activities.

Segment performance is evaluated based on continuing operations segment EBITDA before specific items. Specific items are items that by size and nature or incidence are relevant in explaining the financial performance of the Group.

Group finance costs, interest income and income taxes are managed on a Group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties and are eliminated on consolidation. No operating segments are aggregated to form the reportable operating segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

1 GROUP PERFORMANCE (CONTINUED)

1.2 REVENUE AND OTHER INCOME

	2018 $'000	2017 $'000
Revenues		
Revenue from rendering services	1,318,140	1,235,090
Net profit on sale of assets held for sale	76,906	–
Profit on sale of non-current assets	24	24
Dividend received from investment in listed entity	–	2,688
Interest	8,875	6,973
Other	–	180
Total revenues and other income	1,403,945	1,244,955

ACCOUNTING POLICY

REVENUE

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

TELEVISION AND DIGITAL

Revenue for advertising and media activities is recognised when the advertisement has been broadcast/displayed or the media service has been performed.

DIVIDENDS

Recognised when the right to receive payment has been established.

INTEREST

Revenue is recognised as the interest accrues using the effective interest method (which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

1.3 EXPENSES

	2018 $'000	2017 $'000
Expenses		
Television activities	943,828	999,033
Other activities	175,173	424,388
Total expenses	1,119,001	1,423,421
Included in the expenses above are the following:		
Depreciation and amortisation (excluding program rights)	36,742	35,288
Salary and employee benefit expenses	384,040	358,723
Program rights	466,778	440,236
Total depreciation, salary and program rights	887,560	834,247
Finance Costs		
Interest on debt facilities	7,867	10,902
Amortisation of debt facility and non-cash interest on derivatives	3,254	1,693
Other finance costs	–	5
Total finance costs	11,121	12,600

ACCOUNTING POLICY

BORROWING COSTS

Interest is recognised as an expense when it is incurred. Debt establishment costs are capitalised and expensed over the term of the loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

1 GROUP PERFORMANCE (CONTINUED)

1.4 SPECIFIC ITEMS

The net profit after tax includes the following specific items, which by size and nature or incidence are relevant in explaining the financial performance of the Group:

	2018 $'000	2017 $'000
Net profit on sale of assets held for sale[1]	76,906	–
Goodwill impairment (Note 2.6)	–	(260,000)
Program stock provision write up/(write down)	1,720	(87,469)
Withholding tax[2]	–	10,700
Mark to market of derivatives (Notes 3.5 and 5.3)	(14,653)	(9,545)
Restructuring and termination costs	(5,811)	(7,204)
Other	(1,433)	(2,040)
Net specific items profit/(expense) before tax	56,729	(355,558)
Income tax (expense)/benefit on specific items	(3,788)	28,499
Net specific items profit/(expense) after tax	52,941	(327,059)

1. 2018: includes profit on disposal of sale of Willoughby and Tynte Street, Adelaide properties (2017: Nil).
2. 2017: $10.7 million ATO refund in relation to 2010 Vancouver Winter Olympics and 2012 Summer Olympic Games disputed withholding tax deduction.

1.5 EARNINGS PER SHARE

	2018	2017
Basic and diluted earnings per share before specific items	$0.18	$0.14
Basic and diluted earnings per share after specific items	$0.24	$(0.23)
Profit/(Loss) attributable to the ordinary equity holders of the Group used in calculating the basic and diluted earnings per share ($'000)	209,666	(203,438)
Weighted average number of ordinary shares for basic earnings per share ('000)	870,351	869,507
Effect of dilution:		
Rights Plan shares under the performance rights plan (Note 3.4) ('000)	7,137	521
Weighted average number of ordinary shares adjusted for the effect of dilution ('000)	877,488	870,028

ACCOUNTING POLICY

Basic earnings per share amounts are calculated by dividing the net profit/(loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, as adjusted for shares held in Trust (refer Note 3.4).

Diluted earnings per share amounts are calculated by dividing the net profit/(loss) attributable to ordinary equity holders of the parent by the sum of the weighted average number of ordinary shares outstanding during the year plus the number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares (such as performance rights) into ordinary shares.

2 OPERATING ASSETS AND LIABILITIES

2.1 CASH AND CASH EQUIVALENTS

	2018 $'000	2017 $'000
a. For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 30 June		
Cash balances representing continuing operations:		
– Cash on hand and at bank	36,375	66,700
Total cash and cash equivalents	**36,375**	66,700
b. Reconciliation of profit after tax to net cash flows from operations:		
Profit/(Loss)/after tax from operations	209,666	(203,438)
(Profit) on sale of properties	(76,906)	(15)
Depreciation and amortisation	36,742	35,288
Impairment of assets	–	260,000
Share based expense	3,899	1,864
Investment distributions from associates	1,000	1,200
Mark to market on derivatives	14,653	9,545
Derivative interest unwinding	623	910
Other non-cash items	(522)	533
Changes in assets and liabilities:		
Trade and other receivables	(34,063)	22,967
Program rights and inventories	(6,616)	(34,648)
Prepayments and other assets	18,724	19,769
Trade and other payables	(25,995)	(70,070)
Provision for income tax	48,279	(52,067)
Provision for employee entitlements	2,834	6,156
Other provisions	(21,830)	(16,667)
Deferred income tax liability	(9,177)	14,598
Foreign currency movements in assets and liabilities of overseas controlled entities	(224)	(111)
Net cash flows from operating activities	**161,087**	(4,186)

ACCOUNTING POLICY

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand, and short-term deposits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

2 *OPERATING ASSETS AND LIABILITIES (CONTINUED)*

2.2 TRADE AND OTHER RECEIVABLES

	2018 $'000	2017 $'000
Current		
Trade receivables	**265,589**	234,260
Provision for impairment loss	**(775)**	(1,438)
	264,814	232,822
Related parties receivables (Note 5.6)	**1,634**	2,803
Other receivables	**19,021**	25,714
Total current trade and other receivables	**285,469**	261,339
Non-Current		
Loans to related parties (Note 5.6)	**130,018**	96,275
Other	**4,452**	–
Total non-current trade and other receivables	**134,470**	96,275

A net charge from the provision for impairment loss of $97,000 (2017: $798,000) has been recognised by the Group in the current period.

The ageing analysis of trade receivables not considered impaired is as follows:

			PAST DUE BUT NOT IMPAIRED		
	TOTAL	NOT PAST DUE	<30 DAYS	31-60 DAYS	>61 DAYS
2018	**264,814**	**245,746**	**11,724**	**2,914**	**4,430**
2017	232,822	214,833	9,979	1,972	6,038

ACCOUNTING POLICY

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. They are non-interest bearing and are generally on 30 to 60 day terms.

A provision for impairment loss is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original trade terms. Collectability of trade receivables is reviewed on an ongoing basis at each division. Individual debts that are known to be uncollectible are written off when identified. Factors considered as objective evidence of impairment include ageing and timing of expected receipts and the creditworthiness of counterparties. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows.

KEY JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

LOANS TO RELATED PARTIES

The Group has loan balances outstanding from Stan Entertainment Pty Limited. The Group has determined that the loans are recoverable and they are planned and likely to be repaid. This determination has been based on certain assumptions being made by the Group, including the adoption rate for Subscription Video on Demand ("SVOD"), subscriber numbers, revenue and EBITDA. If the loan repayment is no longer planned and likely, it would be reclassified in the Statement of Financial Position from loan receivable to an investment in associate and the Group's share of cumulative losses of the joint venture recorded in the Statement of Profit or Loss and Other Comprehensive Income.

2.3 PROGRAM RIGHTS AND INVENTORIES

	2018 $'000	2017 $'000
Current		
Program rights – cost less accumulated amortisation and impairment	177,179	171,672
Inventories	13,248	18,648
Total current program rights and inventories	190,427	190,320
Non-current		
Program rights – cost less accumulated amortisation and impairment	69,865	63,356
Total non-current program rights	69,865	63,356

Inventories held are for use in production of television programs.

ACCOUNTING POLICY

PROGRAM RIGHTS

The Group recognises program rights which are available for use. Television programs which are available for use, including those acquired overseas, are recorded at cost less amounts charged to the Statement of Profit or Loss and Other Comprehensive Income based on the useful life of the content and management's assessment of the future years of benefit, which is regularly reviewed with additional write-downs made as considered necessary. Program rights are classified as current or non-current based on the expected realisation of economic benefits flowing from their use.

INVENTORIES

Inventories are carried at lower of cost or net realisable value ("NRV"). The NRV is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

KEY JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The assessment of the appropriate carrying value of program rights and inventories requires estimation by management of the forecast future cash flows which will be derived from that content. This estimate is based on a combination of market conditions and the value generated from the broadcast of comparable programs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

2 OPERATING ASSETS AND LIABILITIES (CONTINUED)

2.4 TRADE AND OTHER PAYABLES

	2018 $'000	2017 $'000
Current – unsecured		
Trade and other payables	121,323	124,333
Program contract payables	96,226	105,641
Deferred income	7,911	18,425
Total current trade and other payables	225,460	248,399
Non-current – unsecured		
Program contract payables	26,668	56,940
Deferred income	7,455	2,702
Total non-current trade and other payables	34,123	59,642

As a result of exiting the Warner Bros agreement, the Group has a final payment of $33.0 million payable to Warner Bros by 30 June 2019. This is reflected in the current program contract payables in the table above.

ACCOUNTING POLICY

Trade and other payables are carried at amortised cost. Liabilities are brought to account for amounts payable in relation to goods received and services rendered, whether or not billed to the Group at reporting date. The Group operates in a number of diverse markets, and accordingly the terms of trade vary by business. Terms of trade in relation to trade payables are, on average, 30 to 60 days from the date of invoice. Program contract payables are settled according to the contract negotiated with the program supplier.

2.5 PROPERTY, PLANT AND EQUIPMENT

	FREEHOLD LAND AND BUILDINGS $'000	LEASEHOLD IMPROVE-MENTS $'000	PLANT AND EQUIPMENT $'000	WORK IN PROGRESS $'000	LEASED PLANT AND EQUIPMENT $'000	TOTAL PROPERTY, PLANT AND EQUIPMENT $'000
Year ended 30 June 2018						
At 1 July 2017, net of accumulated depreciation and impairment	13,569	12,694	87,719	15,307	–	129,289
Additions	9	63	15,525	7,348	–	22,945
Transfer from construction work in progress	–	–	13,053	(13,053)	–	–
Disposals	–	–	(57)	–	–	(57)
Depreciation expense	(514)	–	(24,492)	–	–	(25,006)
Amortisation expense	–	(2,127)	–	–	–	(2,127)
Transfer to assets held for sale[1]	(5,150)	–	(13,378)	–	–	(18,528)
At 30 June 2018, net of accumulated depreciation and impairment	**7,914**	**10,630**	**78,370**	**9,602**	**–**	**106,516**
Year ended 30 June 2017						
At 1 July 2016, net of accumulated depreciation and impairment	14,634	6,505	78,357	23,780	68	123,344
Additions	210	2,826	15,771	15,160	–	33,967
Acquisition of subsidiaries (Note 5.3)	–	111	381	–	–	492
Transfer from construction work in progress	17	5,375	18,241	(23,633)	–	–
Disposals	–	–	(11)	–	(55)	(66)
Depreciation expense	(1,292)	–	(23,742)	–	–	(25,034)
Amortisation expense	–	(2,123)	–	–	(13)	(2,136)
Transfer to assets held for sale[1]	–	–	(1,278)	–	–	(1,278)
At 30 June 2017, net of accumulated depreciation and impairment	13,569	12,694	87,719	15,307	–	129,289
At 30 June 2018						
Cost (gross carrying amount)	14,783	30,107	379,087	9,602	129	433,708
Accumulated depreciation and impairment	(6,869)	(19,477)	(300,717)	–	(129)	(327,192)
Net carrying amount	**7,914**	**10,630**	**78,370**	**9,602**	**–**	**106,516**
At 30 June 2017						
Cost (gross carrying amount)	30,759	23,129	413,505	15,307	129	482,829
Accumulated depreciation and impairment	(17,190)	(10,435)	(325,786)	–	(129)	(353,540)
Net carrying amount	13,569	12,694	87,719	15,307	–	129,289

1. Assets held for sale

Assets held for sale includes $13.9 million in respect of the National Playout Centre. The remaining assets held for sale for the year ended 30 June 2018 relate to assets held in Newcastle and Perth. Contracts for the sale of the National Playout Centre and Newcastle assets had been entered into as at 30 June 2018 with completion post year end. The net proceeds for the National Playout Centre were in line with its carrying value, with a gain on sale expected with the disposal of Newcastle assets.

In 2017 $40.7 million was held for sale in relation to Willoughby, with the remainder in relation to assets held in Adelaide. Both were sold in FY18. Refer Note 1.4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

2 OPERATING ASSETS AND LIABILITIES (CONTINUED)

ACCOUNTING POLICY

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation and amortisation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- freehold buildings – 20 to 40 years;
- leasehold improvements – lease term; and
- plant and equipment – 2 to 15 years.

The assets' residual values, useful lives and amortisation methods are reviewed and adjusted as appropriate each year end.

IMPAIRMENT

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. The recoverable amount is the greater of fair value less costs to sell and value in use. The recoverable amounts are based on the present value of expected future cash flows. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

DISPOSAL

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected to arise from the continued use or disposal of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of Profit or Loss and Other Comprehensive Income in the year the item is derecognised.

ASSETS HELD FOR SALE

The Group classifies non-current assets and disposal groups as held for sale or for distribution to equity holders of the parent if their carrying amounts will be recovered principally through sale or a distribution rather than through continuing use. Such non-current assets and disposal are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. Costs to sell or distribute are the incremental costs directly attributable to the sale or distribution, excluding the finance costs and income tax expense.

The criteria for held for sale or for distribution classification is regarded as met only when the sale or distribution is highly probable and the asset or disposal group is available for immediate sale or distribution in its present condition. Management must be committed to the sale or distribution expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale or distribution.

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2.6 INTANGIBLE ASSETS

	GOODWILL $'000	LICENCES $'000	OTHER[1] $'000	TOTAL $'000
Year ended 30 June 2018				
At 1 July 2017, net of accumulated amortisation and impairment	415,922	477,784	18,308	912,014
Purchases	–	–	8,981	8,981
Acquisition of subsidiaries (Note 5.3)	598	–	–	598
Amortisation expense	–	–	(9,609)	(9,609)
At 30 June 2018, net of accumulated amortisation and impairment	**416,520**	**477,784**	**17,680**	**911,984**
Year ended 30 June 2017				
At 1 July 2016, net of accumulated amortisation and impairment	632,088	477,784	16,342	1,126,214
Purchases	–	–	9,077	9,077
Acquisition of subsidiaries (Note 5.3)	43,834	–	1,007	44,841
Amortisation expense	–	–	(8,118)	(8,118)
Impairment loss	(260,000)	–	–	(260,000)
At 30 June 2017, net of accumulated amortisation and impairment	415,922	477,784	18,308	912,014
At 30 June 2018				
Cost (gross carrying amount)	1,523,681	1,450,353	56,445	3,030,479
Accumulated amortisation and impairment	(1,107,161)	(972,569)	(38,765)	(2,118,495)
Net carrying amount	**416,520**	**477,784**	**17,680**	**911,984**
At 30 June 2017				
Cost (gross carrying amount)	1,523,083	1,450,353	47,463	3,020,899
Accumulated amortisation and impairment	(1,107,161)	(972,569)	(29,155)	(2,108,885)
Net carrying amount	415,922	477,784	18,308	912,014

1. This includes capitalised development costs of software being, in part, an internally generated intangible asset.

2.6(a) ALLOCATION OF NON-AMORTISING INTANGIBLES AND GOODWILL

The Group has allocated goodwill and licences to the following cash generating units ("CGUs"):

	GOODWILL $'000	LICENCES $'000
30 June 2018		
Nine Network	**301,913**	**466,784**
NBN	**3,300**	**11,000**
Digital[1]	**111,307**	**–**
Total licences and goodwill as at 30 June 2018	**416,520**	**477,784**
30 June 2017		
Nine Network	301,913	466,784
NBN	3,300	11,000
Digital[1]	110,709	–
Total licences and goodwill as at 30 June 2017	415,922	477,784

1. Digital goodwill is made up of Nine Digital Pty Ltd $47.6 million (2017: $47.6 million), Pedestrian TV $19.3 million (2017: $19.3 million), CarAdvice $43.8 million (2017: $43.8 million) and Future Women $0.6 million (2017: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

2 OPERATING ASSETS AND LIABILITIES (CONTINUED)

2.6(b) DETERMINATION OF RECOVERABLE AMOUNT

The recoverable amount of the CGUs, which are classified within Level 3 of the fair value hierarchy, is determined based on fair value less cost of disposal calculations using discounted cash flow projections based on financial forecasts covering a five-year period with a terminal growth rate applied thereafter. The Group determined Nine Network, NBN and each of the components of Digital (Nine Digital Pty Ltd, Pedestrian TV, CarAdvice and Future Women) to be CGUs.

The Group performed its annual impairment test in June 2018.

The cash flow projections which are used in determining any impairment require management to make significant estimates and judgements. Key assumptions in preparing the cash flow projections are set out below. Each of the assumptions is subject to significant judgement about future economic conditions and the ongoing structure of the free-to-air television and digital industries. Management has applied their best estimates to each of these variables but cannot warrant their outcome. Management has determined that there is no impairment for Nine Network, Digital and NBN as at 30 June 2018. In determining that no impairment was required at 30 June 2018, Management also took into consideration that the market capitalisation of the Group was above the book value of its equity.

2.6(c) IMPAIRMENT LOSSES RECOGNISED

As a result of the analysis performed, there is headroom in the Group's CGUs and management did not identify an impairment charge for any of the CGUs (2017: $260 million impairment was recognised for Free-to-Air television due to lower than previously expected growth forecast in the metropolitan advertising market).

2.6(d) KEY ASSUMPTIONS

The key assumptions on which management has based its cash flow projections when determining the fair value less cost of disposal calculations for Nine Network are set out below. These assumptions are considered to be consistent with industry market participant expectations.

- The advertising market for metro free-to-air television reflects management's expectation of a relatively flat market in the short to medium term.
- Nine Network's share of the metro free-to-air advertising market in future years is assumed to remain in line with recent historical levels of share which have been achieved.
- Expenditure is assumed to remain broadly flat in nominal terms over the life of the model, reflecting known increases in committed expenditure being largely offset by cost saving initiatives and operational efficiencies.
- Terminal growth rate of 1.0% (30 June 2017: 1.0%).
- The pre-tax discount rate applied to the cash flow projections was 13.9% (30 June 2017: 13.6%) which reflects management's best estimate of the time value of money and the risks specific to the free-to-air television metro market not already reflected in the cash flows.

The key assumptions on which management has based its cash flow projections when determining the fair value less cost of disposal calculations for NBN are set out below. These assumptions are considered to be consistent with industry market participant expectations.

- The advertising market for Regional Free-to-Air television shows single digit declines over the short to medium term followed by a flat market in the medium term.
- The pre-tax discount rate applied to the cash flow projections was 14.2% (30 June 2017: 14.3%) which reflects management's best estimate of the time value of money and the risks specific to the Free-to-Air television market not already reflected in the cash flows.
- Terminal growth rate of 0.0% (30 June 2017: 0.0%).

The key assumptions on which management has based its cash flow projections when determining the fair value less cost of disposal calculations for Digital are as follows:

- The digital industry in terms of digital advertising grows consistent with industry market participant expectations.
- The pre-tax discount rate applied to the cash flow projections was 15.5% (30 June 2017: 15.8%) which reflects management's best estimate of the time value of money and the risks specific to the Digital industry.
- Terminal growth rate of 2.0% (30 June 2017: 2.0%).

For the purpose of impairment testing, intangible assets with indefinite lives, including goodwill, are allocated to the Group's operating divisions which represent the lowest level within the Group at which the assets are monitored for internal management purposes.

2.6(e) SENSITIVITY

The estimated recoverable amounts of the Nine Network and NBN CGUs are in excess of the carrying amounts of intangible and tangible assets of the respective CGUs. The excess is deemed to relate to previously impaired goodwill, which cannot be written up under accounting standards. Any reasonable adverse change in key assumptions would not lead to impairment, however, an indication of key sensitivities is as follows:

- An adverse movement in discount rate of 0.5% will, if occurring in isolation, result in a reduction in the excess of $63.5 million for the Nine Network CGU and $2.1 million for the NBN CGU;
- Decrease in forecast revenue of 1.0% will, if occurring in isolation, result in a reduction in the excess of $133 million for the Nine Network CGU and $3.9 million for the NBN CGU; and
- Decline in terminal growth rate of 0.5% will, if occurring in isolation, result in a reduction in the excess of $43 million for the Nine Network CGU and $2.0 million for the NBN CGU.

The estimated recoverable amount of the Digital CGU is in excess of the carrying amount of intangibles. A minor reduction in revenue will lead to the recoverable amount of CarAdvice equaling its carrying value. Any reasonable adverse change in key assumptions would not lead to impairment of the other Digital CGUs.

ACCOUNTING POLICY

LICENCES

Licences are carried at cost less any accumulated impairment losses. The Directors regularly assess the carrying value of licences to ensure they are not carried at a value greater than their recoverable amount.

No amortisation is provided against these assets as the Directors consider that the licences are indefinite life intangible assets.

GOODWILL

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

2 OPERATING ASSETS AND LIABILITIES (CONTINUED)

ACCOUNTING POLICY

OTHER INTANGIBLE ASSETS

Intangible assets acquired separately are capitalised at cost, and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

Costs incurred to develop software for internal use, and websites are capitalised and amortised over the estimated useful life of the software or website. Costs related to design or maintenance of software for internal use and websites are expensed as incurred.

Intangible assets, excluding development costs, created within the business are expensed in the year in which the expenditure is incurred.

Only intangible assets with a finite life are amortised.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite life intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Statement of Profit or Loss and Other Comprehensive Income when the net asset is derecognised.

KEY JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The Group determines whether goodwill and television licences with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and television licences with indefinite useful lives are allocated. Refer above for key assumptions used.

2.7 PROVISIONS

	EMPLOYEE ENTITLEMENTS $'000	ONEROUS CONTRACTS $'000	OTHER $'000	TOTAL $'000
At 1 July 2017	60,011	3,991	19,962	83,964
Amounts provided/(Utilised) during the period	2,834	14,421	(9,374)	7,881
At 30 June 2018	**62,845**	**18,412**	**10,588**	**91,845**
Represented by:				
Current	37,174	8,645	6,496	52,315
Non-current	25,671	9,767	4,092	39,530
Total at 30 June 2018	**62,845**	**18,412**	**10,588**	**91,845**

ACCOUNTING POLICY

PROVISIONS

Provisions are recognised when the Group has a legal or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other events, it is probable that a future sacrifice of economic benefit will be required and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

EMPLOYEE BENEFITS

Provision is made for employee benefits accumulated as a result of employees rendering services up to balance date including related on-costs. The benefits include wages and salaries, incentives, compensated absences and other benefits, which are charged against profits in their respective expense categories when services are provided or benefits vest with the employee.

The provision for employee benefits is measured at the remuneration rates expected to be paid when the liability is settled. Benefits expected to be settled after 12 months from the reporting date are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and years of service. Expected future payments are discounted using market yields at the reporting date on government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

ONEROUS CONTRACTS

The Group is carrying an onerous provision for the cost of the rent for Willoughby (and other property related costs) which the Group considers to be in excess of a market rent.

OTHER

Other provisions principally relate to the value of services which are to be provided to Nine Live following its disposal. These services are expected to be provided over the next three years. The other provision also includes the value of services required to be provided to Australian Consolidated Press Limited as a requirement of the disposal agreement. These are expected to be incurred over the next year.

KEY JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Onerous contract provisions

The Group has recognised an onerous contract provision in relation to the Willoughby sale and leaseback. The provision is calculated as the excess of the cost of the lease (and other property related costs) over what the Group considers to be market cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

2 OPERATING ASSETS AND LIABILITIES (CONTINUED)

2.8 COMMITMENTS

	<1 YEAR $'000	1-5 YEARS $'000	>5 YEARS $'000	TOTAL $'000
Year ended 30 June 2018				
Capital expenditure	18,430	2,010	–	20,440
Operating lease commitments	33,371	74,576	71,864	179,811
Television program and sporting broadcast rights	220,197	669,520	60,000	949,717
Total Commitments	**271,998**	**746,106**	**131,864**	**1,149,968**

	<1 YEAR $'000	1-5 YEARS $'000	>5 YEARS $'000	TOTAL $'000
Year ended 30 June 2017				
Capital expenditure	11,694	2,781	–	14,475
Operating lease commitments	19,423	49,480	43,311	112,214
Finance lease commitments	63	–	–	63
Television program and sporting broadcast rights	271,074	485,869	39,269	796,212
Total Commitments	302,254	538,130	82,580	922,964

The Group entered into an Agreement for Lease with Winten Property Group to move the Sydney operations to 1 Denison Street, North Sydney. The parties to the current agreement are required to enter a lease agreement once the building construction is finalised and the Group is able to take possession of its areas of the building, which is expected to occur in early 2020. The rent which will be payable is dependent on the floor space which the Group occupies and this is still subject to final determination. Based on the Group's best estimate the annual rent will be approximately $10.8 million per annum (with an annual increase which approximates CPI). The minimum lease term is expected to be 12 years with options for up to a further 10 years should the Group wish to exercise them. The operating lease commitments in the table above do not include the commitments which will arise if the Group enters this lease agreement.

Operating lease commitments include leases for telecommunications rental agreements, motor vehicles, land and buildings and items of plant and equipment. Renewal terms are included in certain contracts, whereby renewal is at the option of the specific entity that holds the lease. On renewal, the terms of the leases are usually renegotiated. There are no restrictions placed upon the lessee by entering into these leases.

ACCOUNTING POLICY

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the lease term.

3 CAPITAL STRUCTURE AND MANAGEMENT

3.1 INTEREST-BEARING LOANS AND BORROWINGS

	2018 $'000	2017 $'000
Non-current		
Bank facilities unsecured[1]	157,646	291,175
Total non-current interest-bearing loans and borrowings	157,646	291,175

1. Bank facilities include unamortised financing costs of $2,354,000 (2017: $1,325,000).

A syndicated bank facility of $450 million (2017: $500 million) is available to the Group with varying maturities from February 2019 to February 2023. At 30 June 2018, $160,000,000 was drawn (2017:$292,500,000). The interest rate for drawings under this facility is the applicable bank bill rate plus a credit margin.

A $15 million bank guarantee is also available to the Group on a rolling annual basis. As at 30 June 2018, $11,725,000 was drawn (2017: $10,828,000).

A $1 million revolving cash advance facility is available to the Group on a rolling annual basis. At 30 June 2018 the facility was not drawn (2017: Nil). The interest rate for drawings under this facility is the applicable bank bill rate plus a credit margin.

Corporate facilities

The corporate facilities are provided by a syndicate of banks and financial institutions.

These facilities are supported by Group guarantees from most of the Company's wholly-owned subsidiaries but are otherwise provided on an unsecured basis. Details of the assets and liabilities that form these Group guarantees are included in the Extended Closed Group disclosures in Note 5.4. These facilities impose various affirmative and negative covenants on the Company and the Group, including restrictions on encumbrances, and customary events of default, including a payment default, breach of covenants, cross-default and insolvency events.

As part of the corporate facilities, the Group is subject to certain customary financial covenants measured on a six-monthly basis. The Group has been in compliance with its financial covenant requirements to date including the year ended 30 June 2018.

ACCOUNTING POLICY

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised costs using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

3 CAPITAL STRUCTURE AND MANAGEMENT (CONTINUED)

3.2 SHARE CAPITAL

	2018 $'000	2017 $'000
Issued share capital		
871,373,191 ordinary shares authorised and fully paid	745,027	748,627
	745,027	748,627
Movements in issued share capital – ordinary shares		
Carrying amount at the beginning of the financial year	748,627	746,563
Purchase of rights plan shares	(4,661)	–
Vesting of Rights Plan shares (Note 3.4)	1,061	2,064
Carrying amount at the end of the financial year	745,027	748,627

At 30 June 2018, a trust controlled by the Company held 2,614,950 (30 June 2017: 1,341,576) ordinary fully paid shares in the Company. During the year, 2,000,000 shares were acquired by the Trust. The shares were purchased for the purpose of allowing the Group to satisfy performance rights to certain senior management of the Group. Refer to Note 3.4 for further details.

Terms and Conditions of Contributed Equity

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up or sale of the Company in proportion to the number of shares held.

ACCOUNTING POLICY

Ordinary shares are classified as equity. Issued capital is recognised at the fair value of the consideration received by the Group, less transaction costs. The Group provides remuneration to senior management in the form of share-based payments, whereby employees render services as consideration for equity instruments. In the Group's financial statements the transactions of these share-based payments are settled through a plan trust and are treated as being executed by the Group (an external third party acts as the Group's agent). Where shares to satisfy the Rights Plans are purchased by the plan trust, the consideration paid is deducted from total shareholders' equity and the shares are treated as treasury shares until they are subsequently vested, sold, reissued or cancelled. Where such shares are vested, sold or reissued, any consideration received is included in shareholders' equity.

3.3 DIVIDENDS PAID AND PROPOSED

3.3(a) DIVIDENDS APPROPRIATED DURING THE FINANCIAL YEAR

During the year Nine Entertainment Co. Holdings Limited ("Nine") paid an interim dividend of 5 cents per share, fully franked (amounting to $43,537,912) in respect of the year ended 30 June 2018 and a final dividend of 5.0 cents per share, fully franked (amounting to $43,537,908) in respect of the year ended 30 June 2017.

3.3(b) PROPOSED DIVIDENDS ON ORDINARY SHARES NOT RECOGNISED AS A LIABILITY

The final cash dividend fully franked, proposed for 2018 of 5.0 cents per share amounts to $43,557,105 (2017: final dividend, fully franked of 5.0 cents per share amounting to $43,537,908.

3.3(c) FRANKING CREDITS AVAILABLE FOR SUBSEQUENT YEARS

The franked dividends declared after 30 June 2018 will be franked out of existing franking credits or out of franking credits arising from the receipt of franked dividends and the payment of tax in the year ending 30 June 2019. The franking credits available for subsequent years as at 30 June 2018 was $38,067,759 (2017: $21,830,300). This balance represents the franking account balance as at 30 June 2018, after adjusting for franking credits which will arise from the payment of the current tax liability.

Nine had an exempting account balance of $41,069,000 for the year ended 30 June 2018 (2017: $41,069,000). Nine became a former exempting entity as a consequence of the IPO in December 2013. As a result, Nine's franking account balance at that time was transferred to an exempting account. Exempting credits will generally only be of benefit to certain foreign resident shareholders by providing an exemption from Australian dividend withholding tax. The exempting credits will generally not give rise to a tax offset for Australian resident shareholders.

ACCOUNTING POLICY

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

3.4 SHARE BASED PAYMENTS

Under the executive long-term incentive plan, performance rights ("Rights") have been granted to executives and other senior management who have an impact on the Group's performance. On satisfaction of any vesting conditions, each Right will convert to a share on a one-for-one basis or entitle the Participant to receive cash to the value of a share. Details of the plan are included in the Remuneration Report on pages 30 to 48.

The total expense recognised for share-based payments during the financial year for the Group was $3,899,000 (2017: $1,865,000).

MOVEMENT DURING THE YEAR

The following table sets out the number of Rights outstanding as at 30 June.

	2018 NUMBER	2017 NUMBER
Outstanding at 1 July	**7,544,012**	3,220,198
Granted during the year	**3,205,820**	4,524,508
Forfeited during the year[1]	**(694,031)**	(200,694)
Vested	**(2,233,182)**[2]	–
Lapsed during the year	**(633,547)**	–
Outstanding at 30 June	**7,189,072**[3]	7,544,012

1. These Rights were forfeited by executives that left during the year.
2. These Rights vested subsequent to 30 June 2018 but were measured based on performance up to 30 June 2018. This includes 360,829 Rights in relation to executives that left in prior years which will be cash settled.
3. This includes 341,095 Rights in relation to executives that left in prior years which will be cash settled if they vest at the end of the testing period.

During the year ended 30 June 2018, the Group granted 726,626 shares to senior management as part payment of their short-term incentives for the year ended 30 June 2017. The total cost of $1,060,874 was expensed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the year ended 30 June 2017.

ACCOUNTING POLICY

The Group provides remuneration to senior management in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost for equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognised in employee benefit expense, together with a corresponding increase in share-based payment reserves, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised at each reporting date, until vesting dates, reflects the extent to which the vesting period has expired. The share-based payments can be settled with either cash or equity at the election of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

3 CAPITAL STRUCTURE AND MANAGEMENT (CONTINUED)

3.5 FINANCIAL INSTRUMENTS

3.5(a) FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments, other than derivatives, comprise cash and short-term deposits and credit facilities (refer to Note 2.1). The main purpose of these financial instruments is to manage liquidity and to raise finance for the Group's operations. The Group has various other financial instruments, such as trade and other receivables and trade and other payables, which arise directly from its operations.

The Group uses derivatives in accordance with Board approved policies to reduce the Group's exposure to adverse fluctuations in interest rates and foreign exchange rates. Derivative instruments that the Group uses to hedge risks such as interest rate, foreign currency and commodity price movements include:

- interest rate swaps; and
- forward foreign currency contracts.

The Group's risk management activities are carried out centrally, under policies as approved by the Board, in cooperation with the Group's operating units so as to maximise the benefits associated with centralised management of Group risk factors.

3.5(b) CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of net debt and total equity balances.

Capital risk management focuses on the maturity profile and stability of debt facilities. The Group's capital structure is reviewed to maintain:

- sufficient finance for the business at a reasonable cost; and
- sufficient funds available to the business to implement its capital expenditure and business acquisition strategies.

3.5(b)(i) Carrying Value and Fair Values of Financial Assets and Financial Liabilities

The carrying value of a financial asset or liability will approximate its fair value where the balances are predominantly short-term in nature; can be traded in highly liquid markets; and incur little or no transaction costs. The carrying values of the following accounts approximate their fair value:

ACCOUNT	NOTES
Cash and cash equivalents	2.1
Trade and other receivables	2.2
Trade and other payables	2.4

The Group uses various methods in estimating the fair value of a financial asset or liability. The different methods have been defined as follows:

Level 1: The fair value is calculated using quoted prices in active markets.

Level 2: The fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, through valuation techniques including forward pricing and swap models and using present value calculations. The models incorporate various inputs including credit quality of counterparties and foreign exchange spot rates, forward rates and listed share prices. Fair values of the Group's interest-bearing borrowings and loans are determined by using a DCF method using a discount rate that reflects the issuer's borrowing rate as at the end of the reporting period.

Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. The fair value of the option over the controlled entity is determined based on a multiple of the controlled entity's EBITDA at a future date. As such, the fair value of the financial liability moves based on the EBITDA of the controlled entity and a significant increase/(decrease) in the EBITDA of the controlled entity would result in higher/(lower) fair value of the financial liability.

Fair values hierarchy has been determined as follows for financial assets and financial liabilities of the Group at 30 June 2018.

Level 1: Investment in listed equities (refer to Note 6.1).

Level 2: Forward foreign exchange contracts, interest rate swaps and Interest bearing borrowings and options over listed equities.

Level 3: Options over unlisted shares and options over controlled entities.

There were no transfers between the Level 1, Level 2 and Level 3 fair value measurements during the year.

The following table lists the carrying values and fair values of the Group's derivative financial assets and financial liabilities at balance date:

		2018		2017	
	NOTE	CARRYING AMOUNT $'000	FAIR VALUE $'000	CARRYING AMOUNT $'000	FAIR VALUE $'000
Derivative financial liabilities					
Option over controlled entity – current*	5.3	26,228	26,228	21,197	21,197
Option over controlled entity – non-current	5.3	603	603	29,068	29,068
Total derivative financial instruments – liabilities		26,831	26,831	50,265	50,265
Loan facilities – non-current					
Syndicated facility unsecured – at amortised cost	3.1	157,646	157,646	291,175	291,175
Total loan facilities		157,646	157,646	291,175	291,175

* The Group has recognised a $3.2 million gain for mark to market movements related to the options exercisable by the Group over the 40.8% shares which it does not currently own in CarAdvice, in accordance with the sale and purchase agreement signed on acquisition of CarAdvice during the financial year ended 30 June 2017. Given these options are exercisable during the next financial year (30 June 2019), the liability associated with the option is now classified as a current liability on the Group's balance sheet. (2017: mark to market movement related to 40% unacquired Pedestrian Group Pty Ltd's shares. The remaining 40% was fully acquired during the year ended 30 June 2018).

3.5(b)(ii) Market risk factors

The key risk factors that arise from the Group's activities, including the Group's policies for managing these risks, are outlined below. Market risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market prices. The market risk factors to which the Group is exposed are discussed in further detail below.

Liquidity risk

Liquidity risk is the risk that the Group cannot meet its financial commitments as and when they fall due. To help reduce this risk, the Group ensures it has readily accessible funding arrangements available.

The contractual maturity of the Group's fixed and floating rate derivatives, other financial assets and other financial liabilities are shown in the following tables. The amounts presented represent the future undiscounted principal and interest cash flows and therefore do not equate to the values shown in the Statement of Financial Position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

3 CAPITAL STRUCTURE AND MANAGEMENT (CONTINUED)

	CONTRACTUAL MATURITY (NOMINAL CASH FLOWS)							
	2018				2017			
	LESS THAN 1 YEAR $'000	1 TO 2 YEAR(S) $'000	2 TO 5 YEARS $'000	OVER 5 YEARS $'000	LESS THAN 1 YEAR $'000	1 TO 2 YEAR(S) $'000	2 TO 5 YEARS $'000	OVER 5 YEARS $'000
Derivatives – outflows[1]								
Option over controlled entity (Note 5.2) – current	26,228				21,197	–	–	–
Option over controlled entity (Note 5.2) – non-current		603			–	14,270	16,170	–
Other financial assets[1]								
Cash assets	36,375	–	–	–	66,700	–	–	–
Trade and other receivables	285,469	4,973	165,800	–	261,339	9,186	114,079	–
Other financial liabilities[1]								
Trade and other payables	225,460	25,460	7,262	1,401	248,399	59,642	–	–
Debt facilities (including interest)[2]	5,300	134,094	35,774	–	8,621	301,121	–	–

1. For floating rate instruments, the amount disclosed is determined by reference to the interest rate at the last repricing date.
2. This assumes the amount drawn down at 30 June 2018 remains drawn until the facilities mature.

INTEREST RATE RISK

Interest rate risk refers to the risks that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates.

Interest rate risk arises from interest-bearing financial assets and liabilities that the Group utilises. Non-derivative interest bearing assets are predominantly cash. The Group's debt facilities are all floating rate liabilities, which gives rise to cash flow interest rate risks.

The Group's risk management policy for interest rate risk seeks to minimise the effects of interest rate movements on its asset and liability portfolio through active management of the exposures.

The Group maintains a mix of long-term and short-term debt to manage these risks as deemed appropriate. The Group designates which of its financial assets and financial liabilities are exposed to a fair value or cash flow interest rate risk, such as financial assets and liabilities with a fixed interest rate or financial assets and liabilities with a floating interest rate that is reset as market rates change.

At balance date, the Group had the following mix of financial assets and financial liabilities exposed to Australian floating interest rate risk that were not designated as cash flow hedges.

	2018				2017			
	AVERAGE INTEREST RATE P.A. %	FLOATING RATE $'000	NON-INTEREST BEARING $'000	TOTAL $'000	AVERAGE INTEREST RATE P.A. %	FLOATING RATE $'000	NON-INTEREST BEARING $'000	TOTAL $'000
Financial assets								
Cash and cash equivalents	2.0	36,375	–	36,375	2.0	66,700	–	66,700
Trade and other receivables	5.86	126,916	293,023	419,939	5.87	92,990	264,624	357,614
Financial liabilities								
Trade and other payables	N/A	N/A	259,583	259,583	N/A	N/A	308,041	308,041
Syndicated facilities – at amortised cost	3.31	157,646	–	157,646	3.07	291,175	–	291,175

Interest rate sensitivity analysis

There will be no material impact on net profit after tax if interest rates were higher or lower by 1% with all other variables held constant. A sensitivity of 1% was selected as it is considered reasonable given the current level of both the short-term and long-term Australian financial market.

3.5(c) CREDIT RISK EXPOSURES

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause the Group to make a financial loss. The Group has exposure to credit risk on all financial assets included in the Group's statement of financial position. To help manage this risk, the Group:

- has a policy for establishing credit limits; and
- manages exposures to individual entities it either transacts with or with which it enters into derivative contracts (through a system of credit limits).

The Group's credit risk is mainly concentrated across a number of customers and financial institutions. The Group does not have any significant credit risk exposure to a single customer or group of customers, or individual institutions, other than to related parties. The Group has a loan balance due from Stan Entertainment Pty Limited of $126.9 million (Refer Note 5.6(a)), the recoverability of which is subject to certain assumptions (Refer Note 2.2). Refer Note 2.2 for details on the Group's policy on impairment, its ageing analysis of trade receivables and the movement in the allowance for doubtful debts.

Trade receivables include the following credit concentration:

	2018 $'000	2017 $'000
Advertising	195,316	175,603
Television stations	13,122	13,589
Other	57,151	45,068
	265,589	234,260

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

3 CAPITAL STRUCTURE AND MANAGEMENT (CONTINUED)

3.5(c)(i) Credit risk

The maximum exposure to credit risk is the carrying amount of current receivables. For those non-current receivables, the maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables. Collateral is not held as security.

3.5(c)(ii) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates related primarily to trade payables and receivables from contractual payments.

The Group manages this foreign currency risk by entering into cross-currency hedges.

ACCOUNTING POLICY

The Group uses derivative financial instruments such as foreign currency contracts to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purposes of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in profit or loss as a finance cost. Any gain or loss attributable to the hedged risk on re-measurement of the hedged item is adjusted against the carrying amount of the hedged item and recognised in profit and loss. Any adjustment tothe carrying amount of a hedged interest-bearing financial instrument is recognised over the remaining term of the hedging relationship using the Effective Interest Rate method.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

4 TAXATION

4.1 TAXES

	2018 $'000	2017 $'000
Current tax expense/(benefit)	74,489	(1,779)
Deferred tax expense relating to the origination and reversal of temporary differences	(9,177)	14,363
Income tax expense	65,312	12,584
Reconciliation of tax expense to prima facie tax payable		
Profit/(loss) from continuing operations	274,978	(190,853)
Prima facie income tax/(benefit)expense at the Australian rate of 30%	82,493	(57,256)
Tax effect of:		
Share of associates' net profits	(347)	(63)
Difference between tax and accounting profit from disposal of properties	(18,243)	(54)
Deferred tax liability movement in investment and tangible assets	(8)	163
Write up of derivative financial instruments and impairment and write down of investments	4,583	81,136
Withholding tax refund not assessable	–	(3,210)
Post, digital and visual effects offset	(2,047)	(1,500)
Research and development tax offset	(2,020)	(4,474)
Other items – net	901	(2,158)
Income tax expense	65,312	12,584

4.2 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax relates to the following:

	CONSOLIDATED STATEMENT OF FINANCIAL POSITION		CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Indefinite life television licence	(143,300)	(143,300)	–	–
TV licence fees accrued	3,382	1,706	1,676	(10,970)
Employee benefits provision	15,109	14,986	123	568
Other provisions and accruals	20,368	19,525	843	(12,803)
Investments in associates	(1,958)	(1,855)	(103)	(163)
Accelerated depreciation for tax purposes	(72,522)	(86,792)*	14,270	19,492*
Other	5,872	13,504	(7,632)	(10,487)
Net deferred income tax liabilities	(173,049)	(182,226)	9,177	(14,363)

* In the current year, the Group noted that the tax base applied to certain assets was understated. This resulted in a $12.2 million overstatement of the Group's deferred tax liability that arose on the 2013 restructure of the Group. Accordingly, the Group has reduced its deferred tax liability by $12.2 million and recognised a commensurate increase in opening retained earnings as of 1 July 2016.

There was no earnings impact to the 2018 or 2017 years as a result of this adjustment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

4 TAXATION (CONTINUED)

ACCOUNTING POLICY

Current tax liabilities are measured at the amount expected to be paid to the taxation authorities based on the current year's taxable income. The tax rules and tax laws used to compute the amount are those that are enacted at the balance date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses, can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit not taxable profit or loss; or
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in other comprehensive income and not in the profit or loss for the year.

TAX CONSOLIDATION

Nine Entertainment Co. Holdings Limited ("Nine") and its 100% owned Australian subsidiaries are part of a tax consolidated group. As a result, members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Nine.

Nine has recognised the current tax liability of the tax consolidated group.

Members of the tax consolidated group are part of a tax funding agreement. The tax funding agreement provides for the allocation of current and deferred taxes to members of the tax consolidated group in accordance with their taxable income for the year. The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiaries' intercompany accounts with the head entity. The Group has applied the group allocation approach to determine the appropriate amount of current and deferred tax to allocate to each member of the tax consolidated group.

OTHER TAXES

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the taxation authority, are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

5 GROUP STRUCTURE

5.1 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

5.1(a) INVESTMENTS AT EQUITY ACCOUNTED AMOUNT:

	2018 $'000	2017 $'000
Associated entities – unlisted shares	**12,479**	12,324

5.1(b) INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Interests in associates are accounted for using the equity method of accounting. Information relating to associates is set out below:

			% INTEREST[1]	
	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION	30 JUNE 2018	30 JUNE 2017
Darwin Digital Television Pty Ltd	Television broadcast	Australia	**50**	50
Intrepica Pty Ltd	Online learning service	Australia	**27**	27
Oztam Pty Ltd	Television audience measurement	Australia	**33**	33
RateCity Pty Ltd	Operator of a financial product comparison service	Australia	**50**	50
Stan Entertainment Pty Ltd	SVOD service	Australia	**50**	50
TX Australia Pty Ltd	Television transmission	Australia	**33**	33

1. The proportion of ownership is equal to the proportion of voting power held.

5.1(c) CARRYING AMOUNT OF INVESTMENTS IN ASSOCIATES

	2018 $'000	2017 $'000
Balance at the beginning of the financial year	**12,324**	19,680
Share of associates' net profit for the year	**1,155**	212
Dividends received or receivable	**(1,000)**	(1,200)
Disposal of Australian News Channel Pty Ltd and other Associates	**–**	(6,368)
Carrying amount of investments in associates at the end of the financial year	**12,479**	12,324

5.1(d) SHARE OF ASSOCIATES AND JOINT VENTURES NET (LOSS)/PROFIT

The following table illustrates the Group's aggregate share of net profit/(loss) after income tax from associates and joint ventures.

	2018 $'000	2017 $'000
Net profit/(loss) after income tax from continuing operations	(30,951)	(36,301)

The Group's current year share of losses of associates and joint ventures not recognised is $32.1 million (2017: $36.7 million). The Group's cumulative share of losses of associates and joint ventures not recognised is $127.3 million (2017: $95.6 million). These losses are not recognised as the carrying value of these investments is nil.

5.1(e) SHARE OF ASSOCIATES AND JOINT VENTURES ASSETS AND LIABILITIES

	2018 $'000	2017 $'000
Current assets	73,459	86,228
Non-current assets	18,738	18,255
Total assets	92,197	104,483
Current liabilities	47,831	42,356
Non-current liabilities	161,536	147,519
Total liabilities	209,367	189,875

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

5 GROUP STRUCTURE (CONTINUED)

5.1(f) IMPAIRMENT

There was no impairment recorded during the current financial year (2017: Nil).

ACCOUNTING POLICY

Associates are entities over which the Group has significant influence and which are not subsidiaries. Significant influence is the power to participate in the financial and operating policy decisions of the entity but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The investments in the associate or joint venture are accounted for using the equity method. They are carried in the consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The consolidated Statement of Consolidated Profit or Loss and Other Comprehensive Income reflects the Group's share of the results of operations of the associates or joint ventures. Dividends received from associates and joint ventures are recognised in the consolidated financial statements as a reduction in the carrying amount of the investment.

When the Group's share of losses in the associate or joint venture equals or exceeds its investment in the associate or joint venture, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

IMPAIRMENT

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group performs an impairment test to determine whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as "Share of profit of an associate" in the Statement of Consolidated Profit or Loss and Other Comprehensive Income.

5.2 INVESTMENT IN CONTROLLED ENTITIES

The consolidated financial statements include the financial statements of Nine Entertainment Co. Holdings Limited and its controlled entities. Significant controlled entities and those included in an ASIC instrument with the parent entity are:

	FOOTNOTE	PLACE OF INCORPORATION	OWNERSHIP INTEREST JUNE 2018 %	OWNERSHIP INTEREST JUNE 2017 %
Nine Entertainment Co. Holdings Ltd	A, B	Australia	Parent Entity	Parent Entity
Channel 9 South Australia Pty Ltd	A, B	Australia	100	100
CarAdvice.com Pty Ltd[1]		Australia	59.2	59.2
ecorp Pty Ltd	A, B	Australia	100	100
General Television Corporation Pty Limited	A, B	Australia	100	100
Mi9 New Zealand Limited		New Zealand	100	100
Micjoy Pty Ltd	A, B	Australia	100	100
NBN Enterprises Pty Limited	A, B	Australia	100	100
NBN Pty Ltd	A, B	Australia	100	100
Nine Films & Television Pty Ltd	A, B	Australia	100	100
Nine Films & Television Distribution Pty Ltd	B	Australia	100	100
Nine Network Australia Pty Ltd	A, B	Australia	100	100
Nine Network Australia Holdings Pty Ltd	A, B	Australia	100	100
Nine Network Marketing Pty Ltd	B	Australia	100	100
Nine Network Productions Pty Limited	A, B	Australia	100	100
Nine Entertainment Group Pty Limited	A, B	Australia	100	100
NEC Mastheads Pty Ltd	A, B	Australia	100	100
Nine Entertainment Co. Pty Ltd	A, B	Australia	100	100
Nine Digital Pty Ltd	A, B	Australia	100	100
Pay TV Holdings Pty Limited	A, B	Australia	100	100
Petelex Pty Limited	A, B	Australia	100	100
Pedestrian Corporation Holdings Pty Limited[2]		Australia	100	60
Pedestrian Group Pty Limited[2]		Australia	100	60
Pink Platypus Pty Ltd	B	Australia	100	100
Queensland Television Holdings Pty Ltd	A, B	Australia	100	100
Queensland Television Pty Ltd	A, B	Australia	100	100
Shertip Pty Ltd	A, B	Australia	100	100
Swan Television & Radio Broadcasters Pty Ltd	A, B	Australia	100	100
TCN Channel Nine Pty Ltd	A, B	Australia	100	100
Television Holdings Darwin Pty Limited	A, B	Australia	100	100
Territory Television Pty Ltd	A, B	Australia	100	100
White Whale Pty Ltd	A, B	Australia	100	100

A. These controlled entities have entered into a deed of cross guarantee with the parent entity under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 – the "Closed Group" (refer to Note 5.4).

B. Members of the "Extended Closed Group" (refer to Note 3.1 and 5.4 for further detail).

1. The Group currently owns 59.2% of the shares CarAdvice, however it is 100% consolidated in accordance with accounting standards.
2. The Group owned 60% of the shares in these entities at the start of the financial year but had consolidated them as 100% in accordance with Accounting Standards. The Group became the 100% owner of these entities on 8 May 2018 (Refer note 5.3)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

5 GROUP STRUCTURE (CONTINUED)

ACCOUNTING POLICY

BASIS OF CONSOLIDATION

The consolidated financial statements comprise of the financial statements of the parent entity and its subsidiaries as at 30 June 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Controlled entities are de-consolidated from the date control ceases.

Subsidiary acquisitions are accounted for using the acquisition method of accounting. The financial statements of subsidiaries are prepared for the same reporting year as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the consolidated profit or loss and other comprehensive income, consolidated statement of changes in equity and balance sheet respectively.

5.3 BUSINESS COMBINATIONS

ACQUISITIONS IN 2018

Acquisition of remaining 40% interest in Pedestrian Group Pty Ltd

In May 2018, the Group acquired the remaining 40% of the shares and voting interests in Pedestrian Group Pty Ltd and Pedestrian Corporation Holdings Pty Ltd ("Pedestrian") for a cash consideration of $39.3 million plus acquisition costs. The option exercise price was determined at the date of the exercise of the option based on EBITDA of Pedestrian at that time. Pedestrian has been 100% consolidated from the date of initial acquisition of its 60% shares, as the Group had obtained effective control and the exercise of the put and call option was considered probable.

During the year ended 30 June 2018, the Group recognised an expense of $17.9 million in specific items for the mark to market movements on the put and call option in relation to Pedestrian prior to it being settled.

Acquisition of 80% interest in Future Women Pty Ltd

In January 2018, the Group acquired 80% of the shares and voting interests in Future Women Pty Ltd ("Future Women") for cash consideration of $2.5 million. There is a put and call option for the remaining 20% not owned by the Group that can be exercised for the years ending 30 June 2020 through to 30 June 2022. The option exercise price is to be determined at the date of the exercise of the option based on the EBITDA of Future Women.

The Group has completed its fair value assessment of the assets and liabilities acquired and as a result has recognised goodwill of $598,000. This has been allocated to the Digital segment.

Future Women has been 100% consolidated as the Group has gained effective control and it is highly probable that the Group will acquire the remaining the 20% due to the put and call options. A derivative liability of $603,000 has been recognised with respect to Future Women issued capital not acquired.

ACQUISITIONS IN 2017

ACQUISITION OF CARADVICE.COM PTY LTD

In September 2016, the Group acquired 59.22% of the shares and voting interests in CarAdvice.com Pty Ltd ("CarAdvice") for cash consideration of $17.3 million plus acquisition costs of $153,150. There is a put and call option for the remaining 40.78% not owned by the Group that can be exercised for the years ending 30 June 2018 and 30 June 2019. The option exercise price is to be determined at the date of the exercise of the option based on EBITDA of CarAdvice adjusted for working capital at that time. CarAdvice has been 100% consolidated from the date of initial acquisition of its 59.22% shares, as the Group had obtained effective control and the exercise of the put and call option was considered probable.

During the year ended 30 June 2018, the Group recognised a gain of $3.2 million in specific items for the reduction in the mark to market value on the put and call option in relation to CarAdvice.

ACCOUNTING POLICY

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the acquisition date. Where equity instruments are issued in a business combination, the fair value of the instruments is their published price at the acquisition date unless, in rare circumstances, it can be demonstrated that the published price at the acquisition date is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any Non-Controlling interest. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the Statement of Comprehensive Income, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the acquisition date. The discount rate used is the Group's incremental borrowing rate, being the rate at which similar borrowing could be obtained from an independent financier under comparable terms and conditions.

5.4 DEED OF CROSS GUARANTEE

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 and various deeds of cross guarantee entered into with the parent entity, certain controlled entities of Nine Entertainment Co. Holdings Limited have been granted relief from the Corporations Act 2001 requirements for preparation, audit and publication of accounts. The Statement of Consolidated Profit or Loss and Other Comprehensive Income of the entities which are members of the "Closed Group" and the "Extended Closed Group" for the year ended 30 June 2018 is as follows:

	CLOSED GROUP[1]		EXTENDED CLOSED GROUP[2]	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Consolidated Statement of Profit or Loss and Other Comprehensive Income				
Profit/(loss) from continuing operations before income tax	268,399	(194,222)	268,399	(194,253)
Income tax expense	(62,159)	(11,066)	(62,159)	(11,066)
Net profit/(loss) after income tax from operations	206,240	(205,288)	206,240	(205,319)
Dividends paid during the period	(81,504)	(73,304)	(81,504)	(73,304)
Transfers from reserves to equity	–	20,335	–	20,335
Accumulated profits at the beginning of the financial year	220,488	478,475[3]	229,073	487,361[3]
Accumulated profits at the end of the financial year	345,224	220,488	353,809	229,073

1. Closed Group are those entities party to the Deed of Cross Guarantee.
2. Refer to Note 5.2.
3. See Note 4.2 for details of an adjustment made to deferred tax liabilities and opening retained earnings as reflected in the 30 June 2017 financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

5 GROUP STRUCTURE (CONTINUED)

The Consolidated Statement of Financial Position of the entities which are members of the "Closed Group" and the "Extended Closed Group" for the year ended 30 June 2018 is as follows:

	CLOSED GROUP		EXTENDED CLOSED GROUP	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current assets				
Cash and cash equivalents	22,394	55,492	22,394	55,492
Trade and other receivables	277,864	254,454	277,864	254,454
Program rights and inventories	166,026	179,828	190,427	190,320
Property, plant and equipment held for sale	18,528	50,941	18,528	50,941
Other assets	27,065	9,497	27,065	9,497
Income tax receivables	–	12,931	–	13,495
Total current assets	511,877	563,143	536,278	574,199
Non-current assets				
Receivables	169,890	137,059	132,180	110,359
Program rights	69,710	63,259	69,865	63,356
Investment in associates accounted for using the equity method	12,479	12,324	12,479	12,324
Investment in group entities	86,438	83,340	86,428	83,330
Investment in listed equities	–	–	4,468	5,646
Property, plant and equipment	104,982	128,010	104,982	128,010
Intangible assets	846,144	847,515	846,144	847,515
Other assets	62,159	75,266	62,159	75,266
Total non-current assets	1,351,802	1,346,773	1,318,705	1,325,806
Total assets	1,863,679	1,909,916	1,854,983	1,900,005
Current liabilities				
Trade and other payables	220,313	246,628	223,647	247,572
Income tax liabilities	33,587	–	33,586	–
Provisions	50,854	47,932	50,854	47,932
Derivative financial instruments	26,228	21,197	26,228	21,197
Total current liabilities	330,982	315,757	334,315	316,701
Non-current liabilities				
Payables	34,123	59,642	34,123	59,642
Interest-bearing loans and borrowings	157,646	291,175	157,646	291,175
Deferred tax liabilities	174,020	183,156*	174,016	183,148*
Derivative financial instruments	603	29,068	603	29,068
Provisions	39,369	34,522	39,369	34,522
Total non-current liabilities	405,761	597,563	405,757	597,555
Total liabilities	736,743	913,320	740,072	914,256
Net assets	1,126,936	996,596	1,114,911	985,749

* See note 4.2 for details of an adjustment made to deferred tax liabilities and opening retained earnings as reflected in the 30 June 2017 financial year.

5.5 PARENT ENTITY DISCLOSURES

	PARENT ENTITY	
	2018 $'000	2017 $'000
a. Financial Position		
Current assets	50,796	31,171
Non-current assets	1,106,728	1,058,928
Total assets	1,157,524	1,090,099
Current liabilities	479	480
Non-current liabilities	269,951	117,810
Total liabilities	270,430	118,290
Net assets	887,094	971,809
Contributed equity	751,998	751,998
Reserves	7,794	4,956
Retained earnings	127,302	214,855
Total equity	887,094	971,809
b. Comprehensive (loss)/income		
Net (loss)/profit for the year	(477)	(186,421)
Total comprehensive (loss)/income for the year	(477)	(186,421)

5.6 RELATED PARTY TRANSACTIONS

5.6(a) TRANSACTIONS WITH RELATED PARTIES

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

	2018 $'000	2017 $'000
Rendering of services to and other revenue from –		
Associates of Nine Entertainment Co.:		
Stan Entertainment Pty Ltd – revenue	10,251	5,185
Stan Entertainment Pty Ltd – interest income	6,626	4,567
Ratecity Pty Ltd	71	82
Dividends received from –		
Listed Equity investments of Nine Entertainment Co.:		
Southern Cross Media	–	2,688
Associates of Nine Entertainment Co.:		
Oztam Pty Ltd	1,000	1,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

5 GROUP STRUCTURE (CONTINUED)

	2018 $'000	2017 $'000
Amounts owed by related parties –		
Stan Entertainment Pty Ltd	1,486	2,643
Ratecity Pty Ltd	148	160
Loans to related parties –		
Stan Entertainment Pty Ltd[1]	126,916	92,990
Darwin Digital Television Pty Ltd[2]	2,910	2,760
Other[2]	192	525

1. The loans granted to the related party are interest bearing on interest rates that prevail on arm's length transactions. The interest is currently being capitalised and is included within the loan balance above.
2. The loans granted to these related parties are non-interest bearing.

Terms and conditions of transactions with related parties

All of the above transactions were conducted under normal commercial terms and conditions. Outstanding balances at the year end in relation to these transactions, disclosed under "amounts owed by related parties", are made on terms equivalent to those that prevail on arm's length transactions, are interest free and settlement occurs in cash.

For the year ended 30 June 2018, the Group has not made any allowance for doubtful debts relating to amounts owed by related parties. An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the Group recognises an allowance for the impairment loss.

5.6(b) PARENT ENTITY

Nine Entertainment Co. Holdings Limited is the ultimate parent entity of the Group incorporated within Australia and is the most senior parent in the Group which produces financial statements available for public use.

5.6(c) CONTROLLED ENTITIES, ASSOCIATES AND JOINT ARRANGEMENTS

Investments in associates and joint arrangements are set out in Note 5.1.

Interests in significant controlled entities are set out in Note 5.2.

5.6(d) KEY MANAGEMENT PERSONNEL

5.6(d)(i) Transactions with key management personnel

All transactions between the Group and its key management personnel and their personally related entities are conducted under normal commercial terms and conditions unless otherwise noted.

5.6(d)(ii) Compensation of key management personnel

REMUNERATION BY CATEGORY	2018 $	2017 $
Short-term employee benefits	5,714,876	6,526,278
Post-employment benefits	136,154	154,532
Long-term benefits	25,012	34,390
Termination benefits	–	1,933,501
Share-based payments	2,650,117	1,455,240
Total remuneration of key management personnel	8,526,159	10,103,941

Detailed remuneration disclosures are provided in the Remuneration Report on pages 30 to 48.

6 OTHER

6.1 OTHER FINANCIAL ASSETS

	2018 $'000	2017 $'000
Non-Current		
Investments in listed entities[1]	4,468	5,646
Closing balance at 30 June	4,468	5,646

1. Investment in Yellow Brick Road (ASX:YBR). In 2017, the Group disposed of shares in Southern Cross Media Group Ltd (ASX:SXL) for net proceeds of $117,497,556, resulting in a gain on disposal of $20,335,000.

ACCOUNTING POLICY

The investment in listed equities is classified as a Level 1 instrument as described in Note 3.5(b). Fair value was determined with reference to a quoted market price with a mark to market loss of $1,178,000 (2017:$19,217,000 gain) adjusted against the investment for the year ended 30 June 2018.

Certain of the Group's investments are categorised as investments in listed equities under AASB9 — *Financial Instruments.*

When financial assets are recognised initially, they are measured at fair value plus, in the case of assets not recorded at fair value through profit or loss, directly attributable transaction costs.

RECOGNITION AND DERECOGNITION

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the assets.

SUBSEQUENT MEASUREMENT

Investments in listed equities are non-derivative financial assets, principally equity securities, which meet the definition of equity instruments. Upon initial recognition under AASB 9, the Group made an irrevocable election, on an instrument by instrument basis, to present subsequent changes in the fair value of its investments in listed equities in a separate component of equity. Dividends from investments in listed equities are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis; and option pricing models, making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

6 OTHER (CONTINUED)

6.2 DEFINED BENEFITS PLAN

PLAN INFORMATION

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. The defined benefit section of the Plan is closed to new members. All new members receive accumulation only benefits.

REGULATORY FRAMEWORK

The Superannuation Industry (Supervision) (SIS) legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions.

RESPONSIBILITIES FOR THE GOVERNANCE OF THE PLAN

The Plan's Trustee is responsible for the governance of the Plan. The Trustee has a legal obligation to act solely in the best interests of Plan beneficiaries. The Trustee has the following roles:

- administration of the Plan and payment to the beneficiaries from Plan assets when required in accordance with Plan rules;
- management and investment of the Plan assets; and
- compliance with superannuation law and other applicable regulations.

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licenses and supervises regulated superannuation plans.

RISKS

There are a number of risks to which the Plan exposes the Company. The more significant risks relating to the defined benefits are:

- Investment risk – the risk that investment returns will be lower than assumed and the Company will need to increase contributions to offset this shortfall;
- Salary growth risk – the risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions; and
- Legislative risk – the risk that legislative changes could be made which could increase the cost of providing the defined benefits.

The defined benefit assets are invested in the AMP Future Directions Balanced investment option. The assets have a 55% weighting to equities and therefore the Plan has a significant concentration of equity market risk. However, within the equity investments, the allocation both globally and across the sectors is diversified. The assets held to support accumulated benefits, including the accumulation accounts in respect of defined benefit members, are held in the investment options selected by the member.

SIGNIFICANT EVENTS

There were no plan amendments affecting the defined benefits payable, curtailments or settlements during the year.

VALUATION

The actuarial valuation of the defined benefits fund for the year ended 30 June 2018 was performed by Mercer Investment Nominees Limited for the purpose of satisfying accounting requirements.

RECONCILIATION OF THE NET DEFINED BENEFIT ASSET

FINANCIAL YEAR ENDED	30 JUNE 2018 $'000	30 JUNE 2017 $'000
Net defined benefit asset at start of year	22,851	19,286
Current service cost	(667)	(598)
Net interest	708	516
Actual return on Plan assets less interest income	2,484	3,789
Actuarial losses/(gains) arising from changes in financial assumptions	(459)	1,254
Actuarial gains arising from liability experience	647	(1,420)
Employer contributions	20	24
Net defined benefit asset at end of year	**25,584**	22,851

RECONCILIATION OF THE FAIR VALUE OF PLAN ASSETS

FINANCIAL YEAR ENDED	30 JUNE 2018 $'000	30 JUNE 2017 $'000
Fair value of Plan assets at beginning of the year	55,320	54,979
Interest income	1,903	1,667
Actual return on Plan assets less Interest income	2,484	3,789
Employer contributions	20	24
Contributions by Plan participants	741	704
Benefits paid	(1,878)	(5,759)
Taxes, premiums and expenses paid	(107)	(84)
Fair value of planned assets obligations at 30 June	**58,483**	55,320

RECONCILIATION OF THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION

FINANCIAL YEAR ENDED	30 JUNE 2018 $'000	30 JUNE 2017 $'000
Present value of defined benefit obligations at beginning of year	32,469	35,693
Current service cost	667	598
Interest cost	1,196	1,151
Contributions by Plan participants	741	704
Actuarial losses/(gains) arising from changes in financial assumptions	459	(1,254)
Actuarial (gain)/losses arising from liability experience	(647)	1,420
Benefits paid	(1,878)	(5,759)
Taxes, premiums and expenses paid	(107)	(84)
Present value of defined benefit obligations at 30 June	**32,900**	32,469

The defined benefit obligation consists entirely of amounts from Plans that are wholly or partly funded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

6 OTHER (CONTINUED)

FAIR VALUE OF PLAN ASSETS

As at 30 June 2018, total Plan assets of $58,483,000 are held in AMP Future Directions Balanced investment option.

The percentage invested in each asset class at the reporting date is:

AS AT	30 JUNE 2018[1]	30 JUNE 2017[1]
Australian Equity	**21%**	24%
International Equity	**33%**	28%
Fixed Income	**12%**	14%
Property	**6%**	7%
Alternatives/Other	**20%**	18%
Cash	**8%**	9%

1. Asset allocation as at 31 March 2018 (2017: 31 March 2017).

The fair value of Plan assets includes no amounts relating to:

- any of the Company's own financial instruments; or
- any property occupied by, or other assets used by, the Company.

SIGNIFICANT ACTUARIAL ASSUMPTIONS

AS AT	30 JUNE 2018	30 JUNE 2017
Assumptions to Determine Benefit Cost		
Discount rate	**3.6% pa**	3.1% pa
Expected salary increase rate	**2.0% pa**	2.0% pa
Assumptions to Determine Benefit Obligation		
Discount rate	**3.4% pa**	3.6% pa
Expected salary increase rate	**2.0% pa**	2.0% pa

SENSITIVITY ANALYSIS

The defined benefit obligation as at 30 June 2018 under several scenarios is presented below.

Scenarios A and B relate to discount rate sensitivity. Scenarios C and D relate to salary increase rate sensitivity.

- Scenario A: 0.5% pa lower discount rate assumption.
- Scenario B: 0.5% pa higher discount rate assumption.
- Scenario C: 0.5% pa lower salary increase rate assumption.
- Scenario D: 0.5% pa higher salary increase rate assumption.

% P.A.	BASE CASE	SCENARIO A −0.5% PA DISCOUNT RATE	SCENARIO B +0.5% PA DISCOUNT RATE	SCENARIO C −0.5% PA SALARY INCREASE RATE	SCENARIO D +0.5% PA SALARY INCREASE RATE
Discount rate	3.4% pa	2.9% pa	3.9% pa	3.4% pa	3.4% pa
Salary increase rate	2.0% pa	2.0% pa	2.0% pa	1.5% pa	2.5% pa
Defined benefit obligation ($'000s)[1]	**32,899**	**34,084**	**31,768**	**31,948**	**33,884**

1. Includes defined benefit contributions tax provision.

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

ASSET-LIABILITY MATCHING STRATEGIES

No asset and liability matching strategies have been adopted by the Plan.

FUNDING ARRANGEMENTS

The financing objective adopted at the 1 July 2015 actuarial investigation of the Plan, in a report dated 25 February 2016, is to maintain the value of the Plan's assets at least equal to:

- 100% of accumulation account balances (including additional accumulation accounts of defined benefit members); plus
- 110% of defined benefit Leaving Service Benefits.

In that valuation, it was recommended that the Company contributes to the Plan as follows:

Defined Benefit members:

CATEGORY	EMPLOYER CONTRIBUTIONS RATE (% OF SALARIES)
A	nil
A1	nil

Plus any compulsory or voluntary member pre-tax (salary sacrifice) contributions.

For A1 members, the employer should also make the relevant Superannuation Guarantee contributions to members' chosen funds.

Accumulations members:

- the Superannuation Guarantee rate of Ordinary Time Earnings (or such lesser amount as required to meet the Employer's obligations under Superannuation Guarantee legislation or employment agreements); plus
- any additional employer contributions agreed between the Employer and a member (e.g. additional salary sacrifice contributions).

EXPECTED CONTRIBUTIONS

FINANCIAL YEAR ENDING	30 JUNE 2019 $'000
Expected employer contributions	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

6 OTHER (CONTINUED)

MATURITY PROFILE OF DEFINED BENEFIT OBLIGATION

The weighted average duration of the defined benefit obligation as at 30 June 2018 is six years (30 June 2017: seven years).

EXPECTED BENEFIT PAYMENTS FOR THE FINANCIAL YEAR ENDING ON:	$'000
30 June 2019	**3,031**
30 June 2020	**4,807**
30 June 2021	**2,914**
30 June 2022	**4,597**
30 June 2023	**4,179**
Following five years	**20,973**

ACCOUNTING POLICY

The Group contributes to a defined benefit superannuation fund which requires contributions to be made to a separately administered fund.

The cost of providing benefits under the defined benefit plan is determined separately for each plan using the projected unit credit actuarial valuation method.

Re-measurements, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognised immediately in the statement of financial position with a corresponding debit or credit to a separate component of equity in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in the Statement of Comprehensive Income on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "expenses" in the Statement of Comprehensive Income (by function):

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- net interest expense or income.

6.3 AUDITOR'S REMUNERATION

	2018	2017
Amounts paid or payable for services by the auditor of the parent entity, Ernst & Young Australia, for:		
Audit and review of the financial report of the consolidated entity	**561,365**	535,357
Taxation services	**411,877**	592,641
Assurance related services	**23,600**	51,061
Other non-audit services[1]	**–**	175,972
Total auditors' remuneration	**996,842**	1,355,031

1. The directors are satisfied that these were provided in compliance with general standard of independence for auditors imposed by the Corporations Act 2001.

6.4 CONTINGENT LIABILITIES AND RELATED MATTERS

The consolidated entity has made certain guarantees regarding contractual leases, performance and other commitments of $11,725,000 (2017:$10,828,000). All contingent liabilities are unsecured. The probability of having to meet these commitments is remote and there are uncertainties relating to the amount and the timing of any outflows.

The parent entity was a party to the Deed of Cross Guarantee entered into with various Group companies. Refer to Note 5.4 for further details. Refer to Note 2.8 for disclosure of the Group's commitments. The operation of the Deed of Cross Guarantee has the effect of joining the parent entity as a guarantor to the Group's commitments and contingencies.

6.5 EVENTS AFTER THE BALANCE SHEET DATE

NATIONAL PLAYOUT CENTRE

On 1 July 2018, Nine completed the transfer of assets relating to the National Playout Centre, and employment of a number of employees, to NPC Media Pty Ltd, a joint venture company owned 50% by each of Nine and Seven Network (Operations) Limited. The purchase price payable by NPC Media Pty Ltd reflected the written down value of the transferred assets, subject to adjustment for leave liabilities assumed by NPC Media Pty Ltd for transferring employees. NPC Media Pty Ltd now provides playout services to Nine.

MERGER WITH FAIRFAX MEDIA

On 26 July 2018, Nine and Fairfax Media (ASX: FXJ) announced that they had entered into a Scheme Implementation Agreement ("the Scheme") under which the companies will merge. The proposed transaction will, subject to required approvals, be implemented by Nine acquiring all Fairfax shares under a Scheme of Arrangement. Under the Scheme of Arrangement, Nine will acquire all of the outstanding shares in Fairfax, in return for the issue of 0.3627 shares in Nine and 2.5 cents cash, per Fairfax Share. This will result in Nine shareholders holding approximately 51.1% of the expanded capital and Fairfax shareholders holding 48.9%. Further details will be announced with the Scheme documentation, expected to be released in October 2018. Nine currently expects that the transaction will be completed by December 2018.

Other than noted above, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future years.

6.6 OTHER SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING POLICY

6.6(a) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

A number of new accounting standards have been issued or amended which were not yet effective and may impact the Group's future financial statements. To the extent noted below, the Group has assessed the impact of these recently issued or amended standards on the Group's financial statements. The standards which may impact the Group's financial report are as follows:

- ***AASB 15 Revenue from Contracts with Customers***
  AASB 15 will be effective for the Group from 1 July 2018. It establishes a five-step framework for determining whether, how much and when revenue is recognised. It replaces all existing revenue recognition standards including AASB 118 Revenue.

  Rendering of services

  The Group's key business activity is the provision of advertising on television and digital platforms. The Group's revenue recognition policy will change due to it adopting AASB 15, in particular due to performance obligation criteria in AASB15.

  For Television, revenue is currently recognised when the planned advertisement has been broadcast. Under the existing revenue recognition policy, the broadcast of an advertisement has been considered to be when revenue and costs can be measured reliably and it is probable that the economic benefits will flow to the Group. Digital recognises revenue when the media services have been performed.

  Under AASB 15, revenue for Television will be recognised by reference to when an advertisement has been broadcast and specific viewer metrics contained in the agreement with the customer have been met. Revenue for Digital will be recognised when the media services contained in the agreement with the customer have been met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 30 June 2018

ACCOUNTING POLICY

Transition

The Group plans to adopt AASB 15 on the required effective date using the modified retrospective method. Thus, the Group will not apply AASB 15 requirements to the comparative period presented.

Estimated impact of adoption

The Group has performed and completed a detailed impact analysis for adoption of AASB 15. The adjustment to the retained profits was determined by first ascertaining when an advertising contract is considered fulfilled. The Group analysed sales data to determine the time it took to fulfil its obligations within the advertising contracts to customers. All performance obligations that were met after the end of a campaign were considered deferred revenue, with an impact to opening retained profits as at 1 July 2018 of a reduction of $2.3 million.

- **AASB 9 Financial Instruments** (effective date 1 January 2018) – AASB 9 was issued in phases, with the phased approach reflecting a number of versions of the standard being issued. The Company early adopted the version of AASB 9 (issued in June 2014) on 1 July 2014, which provided guidance on the classification and measurement of financial assets. On the adoption of AASB 9 (2014), those financial assets classified as either amortised cost, fair value through other comprehensive income or fair value through profit and loss were measured as such under AASB 9. The Company's accounting policies under AASB 9 are disclosed in note 3.5. The final complete standard, AASB 9 (2014), is effective for the Company commencing 1 July 2018. The new impairment model requires a 12-month expected credit loss provision to be recognised when financial instruments are first recognised and subsequently, if there is a significant increase in credit risk, then a lifetime expected credit loss provision needs to be recognised. The key AASB 9 (2014) requirements that have not yet been adopted include the impairment of financial assets. The Group has performed a preliminary assessment of the impact of the full implementation of this standard on the Group's financial statements and the impact is expected to be immaterial.
- **AASB 16 Leases** (effective date 1 January 2019) – The AASB issued a new standard which, amongst other things, will have the impact of requiring the Group to account for material operating leases in a similar manner to which it already accounts for finance leases. The Group has not yet assessed the impact of this standard on the Group's financial statements. Refer note 2.8 for the Group's lease commitments.
- **IFRIC interpretation 23 Uncertainty over income tax treatments** (effective date 1 January 2019) – This interpretation addresses accounting for income taxes when tax treatments involve uncertainty and specifically addresses whether an entity considers uncertain tax treatments individually or collectively, whether the entity assumes the taxation authorities have full knowledge of all information and how the entity measures uncertainty. The Group is still assessing the impact of this standard on results in the financial statements.

The Group has not included disclosures of new and amended standards and interpretations that do not have any material impact on the financial statements.

6.6(c) OTHER SIGNIFICANT ACCOUNTING POLICIES

6.6(c)(i) Foreign currency translation

Both the functional and presentation currency of Nine Entertainment Co. Holdings Limited and its Australian subsidiaries is Australian dollars ($). Each foreign entity in the Group determines its own functional currency and items included in the financial statements of each foreign entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the reporting date. All exchange differences in the consolidated financial report are taken to the Statement of Profit or Loss and Other Comprehensive Income, with the exception of those items that are designated as hedges which are recognised in Other Comprehensive Income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

DIRECTORS' DECLARATION

The Directors of Nine Entertainment Co. Holdings Limited have declared that:

1. the Directors have received the declarations required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer and the Chief Financial Officer for the year ended 30 June 2018;
2. in the opinion of the Directors, the consolidated financial statements and notes that are set out on pages 53 to 104 and the Remuneration Report in pages 30 to 48 in the Director's Report, are in accordance with the *Corporations Act 2001*, including:
   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*
3. in the opinion of the Directors, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
4. a statement of compliance with International Financial Reporting Standards has been included on page 58 of the financial statements; and
5. in the opinion of the Directors, at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 5.4 will be able to meet any obligations or liabilities which they are or may become subject to, by virtue of the Deed of Cross Guarantee.

The Directors' Declaration is made in accordance with a resolution of the Board of Nine Entertainment Co. Holdings Limited.

P Costello

Peter Costello
Chairman

Hugh Marks
Chief Executive Officer and Director

Sydney, 23 August 2018

INDEPENDENT AUDITOR'S REPORT

to the Members of Nine Entertainment Co. Holdings Limited

Building a better working world

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Independent Auditor's Report to the Members of Nine Entertainment Co. Holdings Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Nine Entertainment Co. Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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Building a better working world

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Carrying value of intangible assets

Why significant	How our audit addressed the key audit matter
As 30 June 2018, the Group's consolidated statement of financial position included \$416.5m of goodwill, \$477.8m of television licences and \$17.7m of other intangible assets, collectively representing 49% of total assets. As disclosed in Note 2.6 to the financial statements, the Directors have assessed goodwill, television licences and other identifiable intangible assets for impairment or the reversal of prior year impairment. This assessment involved critical accounting estimates and assumptions, specifically relating to future discounted cash flows. These estimates and assumptions, are summarised in Note 2.6. We considered this to be a key audit matter given the value of these assets relative to total assets and the significant judgements and assumptions involved in the impairment tests.	Our audit procedures included the following: ▸ Assessed whether the valuation models ("the models") used by the Directors met the requirements of Australian Accounting Standards. ▸ Evaluated the determination of each Cash Generating Unit ("CGU") with respect to the independence of cash inflows generated by each CGU. ▸ Tested the mathematical accuracy of the models. ▸ Considered the underlying assumptions regarding future cash flows used in the models by comparing these to the Board approved five-year business plan and long term capital and content investment plans. ▸ Considered the historical accuracy of the Group's forecasting ability. ▸ Assessed the discount rates, growth rates and the terminal growth rates used in the models, with involvement from our valuation specialists and with reference to external data such as broker forecasts and valuations. ▸ Considered the sensitivity analysis performed by the Group focusing on the areas in the models where a reasonably possible change in assumptions could cause the carrying amount to differ from its recoverable amount and therefore indicate impairment or a reversal of prior year impairment. ▸ Considered the adequacy of the disclosures relating to intangible assets in the financial statements, including those made with respect to judgements and estimates.

INDEPENDENT AUDITOR'S REPORT continued

to the Members of Nine Entertainment Co. Holdings Limited

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2. Valuation of program rights

Why significant	How our audit addressed the key audit matter
At 30 June 2018, the program rights balance of \$247.1m included \$177.2m of current and \$69.9m of non-current program rights. As disclosed in Note 2.3 to the financial statements, the Directors' assessment of the valuation of program rights involves judgement, relating to forecasting the quantum of future revenue to be derived from the usage of those program rights. We considered this a key audit matter due to the magnitude of the program rights asset and the inherent subjectivity that is involved in forecasting future revenue.	Our audit procedures included the following: ▸ Assessed whether the recognition, valuation and amortisation methodology applied by the Group met the requirements of Australian Accounting Standards. ▸ Compared forecast revenue for material program rights to the carrying value of the respective program rights. ▸ Assessed the forecast revenue to be derived from the usage of program rights by assessing the assumptions applied in the Group's calculation with reference to recent historical performance of program rights and actual revenue earned subsequent to year end. ▸ Evaluated the adequacy of the disclosures in the financial report relating to the valuation of program rights, including those made with respect to judgements and estimates.

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3. Recoverability and classification of Stan loan

Why significant	How our audit addressed the key audit matter

At 30 June 2018, a non-current loan receivable from the Stan joint venture ("Stan") of $126.9m is recorded in the consolidated statement of financial position.
 	
As disclosed in the notes to the financial statements, the Directors' have exercised judgement in assessing the recoverability of the receivable at 30 June 2018.
 	
In assessing future cash flows and, as consequence, loan recoverability, the Directors considered matters such as:
▸ Stan's performance compared with forecast in respect of subscriber numbers, revenue and earnings and
▸ whether future repayment of the loan remain planned and likely.
 	
We considered this to be a key audit matter due to the judgements involved in considering recoverability and because the likelihood of repayment impacts the Group's classification of this balance as a loan.
 	
Should repayment of the loan no longer be planned and likely, it would result in the loan being reclassified in the statement of financial position from loan receivable to an investment in associate and the Group's share of any cumulative losses of the joint venture being immediately recorded in the statement of financial performance.
	Our audit procedures included the following:
	▸ Assessed whether the requirements of Australian Accounting Standards were satisfied to support classification as a loan receivable.
	▸ Evaluated the Directors' assessment of the recoverability of the loan and their determination that repayments continue to be planned and likely. These procedures included:
	    ▸ comparison of forecast performance of Stan against actual results in respect of subscribers, revenue and earnings to 30 June 2018;
	    ▸ an assessment of the discount rate, earnings growth rates and the terminal growth rate used in the recoverability assessment; and
	    ▸ reference to external data such as broker forecasts and valuations.
	▸ Evaluated the adequacy of the disclosures in the financial report relating to this matter.

INDEPENDENT AUDITOR'S REPORT continued

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Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report that is to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT continued

to the Members of Nine Entertainment Co. Holdings Limited

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Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 30 to 48 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Nine Entertainment Co. Holdings Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst + Young

Ernst & Young

John Robinson
Partner
Sydney
23 August 2018

SHAREHOLDER INFORMATION

TWENTY LARGEST SHAREHOLDERS AS AT 29 AUGUST 2018

RANK	NAME	29 AUG 2018	%IC
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	271,842,673	31.20
2	BIRKETU PTY LTD	129,677,718	14.88
3	J P MORGAN NOMINEES AUSTRALIA LIMITED	109,625,450	12.58
4	CITICORP NOMINEES PTY LIMITED	99,239,958	11.39
5	NATIONAL NOMINEES LIMITED	64,814,038	7.44
6	CS THIRD NOMINEES PTY LIMITED	22,638,686	2.60
7	NATIONAL NOMINEES LIMITED	18,643,000	2.14
8	BNP PARIBAS NOMINEES PTY LTD	14,549,000	1.67
9	BAINPRO NOMINEES PTY LIMITED	14,454,766	1.66
10	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	12,443,281	1.43
11	BNP PARIBAS NOMINEES PTY LTD	11,260,472	1.29
12	NATIONAL NOMINEES LIMITED	10,779,754	1.24
13	BNP PARIBAS NOMS PTY LTD	10,274,846	1.18
14	WARBONT NOMINEES PTY LTD	7,388,847	0.85
15	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	7,169,149	0.82
16	WOODROSS NOMINEES PTY LTD	5,195,921	0.60
17	DAVID GYNGELL	4,878,048	0.56
18	PACIFIC CUSTODIANS PTY LIMITED	4,140,038	0.48
19	BRISPOT NOMINEES PTY LTD	3,748,224	0.43
20	CITICORP NOMINEES PTY LIMITED	3,730,598	0.43

OPTIONS

There were no options exercisable at the end of the financial year.

ESCROWED SHARES

There were no shares in escrow at the end of the financial year.

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders as shown in substantial shareholding notices received by the Company as at 29 August are:

NAME	TOTAL SHARES	%
Bruce Gordon/Birketu	130,477,718	14.97%
Deutsche Bank AG	92,116,890	10.57%
Pendal Group	76,749,736	8.81%
National Australia Bank	46,127,119	5.30%
Legg Mason Asset Management	45,956,947	5.27%
UBS Group AG	45,911,261	5.27%
Vinva Investment Management	43,735,942	5.02%

SHAREHOLDER INFORMATION continued

RANGE	NO. OF HOLDERS	%
1 to 1,000	852	28.49
1,001 to 5,000	1,133	37.89
5,001 to 10,000	447	14.95
10,001 to 100,000	500	16.72
100,001 and Over	58	1.94
Total	**2,990**	**100.00**
Unmarketable Parcels	**100**	**3.34**

VOTING RIGHTS

On a show of hands, every member present, in person or by proxy shall have one vote and upon a poll, each share shall have one vote.

BUY-BACK

There is no current on-market buy-back.

CORPORATE DIRECTORY

ABN 60 122 203 892

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 11.00am AEST on Wednesday, 14 November 2018 at the offices of Ashurst Australia, 5 Martin Place, Sydney 2000.

FINANCIAL CALENDAR 2019

Interim Result	February 2019
Preliminary Final Result	August 2019
Annual General Meeting	November 2019

COMPANY SECRETARY

Rachel Launders

REGISTERED OFFICE

Nine Entertainment Co. Holdings Limited
24 Artarmon Road
Willoughby NSW 2068

Ph: +61 2 9906 9999

SHARE REGISTRY

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

Ph: 1300 888 062 (toll free within Australia)
Ph: +61 2 8280 7670
Fax: +61 2 9287 0303

Email: registrars@linkmarketservices.com.au
Website: www.linkmarketservices.com.au

SECURITIES EXCHANGE LISTING

The Company's ordinary shares are listed on the Australian Securities Exchange as NEC.

AUDITORS

Ernst & Young
200 George Street
Sydney NSW 2000