



**NINE ENTERTAINMENT CO. HOLDINGS  
PTY LIMITED**

ACN 122 203 892

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**FINANCIAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2012**

**DIRECTORS' STATUTORY REPORT**

The Directors present the financial report for the year ended 30 June 2012. The financial report includes the results of Nine Entertainment Co. Holdings Pty Limited (the "Company") and the entities that it controlled during the year (the "Group"). The Directors of Nine Entertainment Co. Holdings Pty Ltd in office during the financial year and until the date of this Report and their appointment dates are:

| Name                       | Date Appointed    | Date Resigned     |
|----------------------------|-------------------|-------------------|
| David Liam Gyngell         | 25 November, 2010 |                   |
| Adrian Gordon MacKenzie    | 7 February, 2007  | 10 October, 2012  |
| Andrew Cummins             | 27 October, 2008  |                   |
| Peter Bush                 | 1 April, 2011     |                   |
| Patrick Redmond O'Sullivan | 16 October, 2006  | 6 February, 2012  |
| Timothy Charles Parker     | 21 January, 2008  | 24 December, 2011 |

**Principal Activities**

The principal activities of the entities within the consolidated entity during the year were:

- Television broadcasting and program production
- Magazine publishing and distribution
- Ticketing
- Investments in the internet, subscription television, and other media and entertainment sectors

**Trading Results**

The consolidated net loss of the Group for the financial year after income tax was \$971,705,000 (2011: loss \$427,793,000).

**Dividends**

The Directors do not recommend payment of a dividend for the year ended 30 June 2012. No dividends have been declared or paid during the year ended 30 June 2012 (2011: nil).

**Corporate Information**

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

The registered office address of Nine Entertainment Co. Holdings Pty Limited is Level 9, 54 Park Street, Sydney, NSW, 2000.

**Operating and Financial Review**

For the year to 30 June 2012, the Group reported a consolidated net loss after income tax of \$971,705,000 (2011: loss \$427,793,000).

The Group's Revenues from continuing operations for the year to 30 June 2012 were \$1,196,934,000 (2011: \$1,241,669,000).

The Group's Earnings before interest, tax, depreciation and amortisation (EBITDA) and before specific items (Note 2(iv)) from continuing operations for the year ended 30 June 2012 was a profit of \$237,974,000 (2011: a profit of \$277,997,000).

The Group's cash flows used in operations for the year to 30 June 2012 were \$17,150,000 (2011: cash flows from operations of \$44,947,000).

**Significant Changes in the State of Affairs**

There have been no significant changes in the Group's state of affairs in the year ended 30 June 2012.

**DIRECTORS' STATUTORY REPORT (continued)**

**Significant Events After the Balance Date**

On 30 September 2012, the Group disposed of its wholly owned subsidiary Australian Consolidated Press Limited and certain intangible assets to subsidiaries of Heinrich Bauer Verlag KG, a company incorporated in Germany for gross sale proceeds of \$525m.

As described in Note 1c), on 17 October 2012, the Group reached in principle an agreement ("Agreement") with representatives of its senior and mezzanine lenders for a restructuring of its Facilities which the Group intends to implement through a scheme of arrangement prior to the maturity of the Senior Debt on 7 February 2013. Funds managed by the Group's two largest senior lenders (who have advised they have the support of 75% of the outstanding senior debt), as well as Goldman Sachs Mezzanine Partners (representing 80% of the mezzanine debt), have confirmed that they support the in principle terms of this restructure.

As soon as the restructure is effected, it is expected that all the existing senior and mezzanine debt will be converted to equity and / or refinanced.

**Likely Developments and Expected Results**

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

**Share Plans and Options**

During the year ended 30 June 2012, the Group did not have any share plans and had not issued any share options (2011: none), however certain management of the Group participate in the Management Equity Plan (described in Note 19 (b)).

**Indemnification and Insurance of Directors and Officers**

During or since the financial year, Nine Entertainment Co. Holdings Pty 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 Pty Limited. The insurance contract specifically prohibits disclosure of the nature of the insurance cover, the limit of the aggregate liability and the premiums paid.

**Directors' and Senior Executive Officers' Remuneration**

Details of directors' and key management personnel remuneration is included in Note 28.

**Auditor's Independence Declaration**

The Directors have received the Auditor's Independence Declaration, a copy of which is included on page 4.

**Non-audit services**

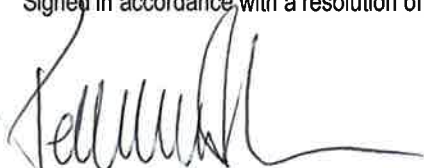
Details of amounts paid or payable to the auditor for non-audit services provided, during the year, by the auditor are outlined in Note 27.

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.

**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 Class Order 98/0100. Nine Entertainment Co. Holdings Pty Limited is an entity to which the Class Order applies.

Signed in accordance with a resolution of the Directors.



**P. Bush**  
Director  
Sydney, 31<sup>st</sup> day of October, 2012




**D.L. Gyngell**  
Director

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

In relation to our audit of the financial report of Nine Entertainment Co. Holdings Pty Limited for the financial year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

  
Ernst & Young

  
Douglas Bain  
Partner  
31 October 2012

## Independent auditor's report to the members of Nine Entertainment Co. Holdings Pty Limited

### Report on the financial report

We have audited the accompanying financial report of Nine Entertainment Co. Holdings Pty Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

## Opinion

In our opinion:


- a. the financial report of Nine Entertainment Co. Holdings Pty Limited is 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 2012 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(b).

## Emphasis of Matter

Without qualification to the opinion expressed above, attention is drawn to Note 1(c): "Going Concern". In the event that the Agreement, as defined in Note 1 (c), is not implemented and the consolidated entity is otherwise unable to refinance, convert to equity or otherwise have its Senior Debt facilities forgiven prior to their maturity, there is uncertainty as to whether the consolidated entity will continue as a going concern, and therefore whether it is able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification or recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

A handwritten version of the Ernst & Young logo in blue ink.

Ernst & Young

A large, stylized handwritten signature in blue ink, appearing to read 'Douglas Bain'.

Douglas Bain

Partner

Sydney

31 October 2012

**DIRECTORS' DECLARATION**

In accordance with a resolution of the Directors of Nine Entertainment Co. Holdings Pty Limited, we state that:

1. In the opinion of the Directors:
  - (a) the financial statements and notes set out on pages 8 to 61 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 2012 and of their performance for the financial year ended on that date; and
    - ii) complying with Australian Accounting Standards and *Corporations Regulations 2001*; and
    - iii) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1 (b); and
  - (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable. Factors relevant to repayment of the Group's financing facilities are set out in Note 1(c).
2. 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 31 will be able to meet any obligations or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee. Factors relevant to repayment of the Group's financing facilities are set out in Note 1(c).

On behalf of the Board



**P. Bush**  
Director



**D. L. Gyngell**  
Director

Sydney, 31<sup>st</sup> day of October, 2012

**NINE ENTERTAINMENT CO. HOLDINGS PTY LIMITED**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2012**

|  | Note | 2012<br>\$'000     | 2011<br>\$'000   |
|--|------|--------------------|------------------|
| <b>Continuing Operations</b>   |      |                    |                  |
| Revenues   | 2    | 1,196,934          | 1,241,669        |
| Expenses   | 2    | (1,069,614)        | (988,073)        |
| Finance costs  | 2    | (394,322)          | (400,409)        |
| Impairment of assets   | 2    | (783,589)          | (730,957)        |
| Share of profits of associate and joint venture entities   | 11   | 25,222             | 17,568           |
| <b>Loss from continuing operations before income tax</b>   |      | <b>(1,025,369)</b> | <b>(860,202)</b> |
| Income tax benefit   | 4    | 26,792             | 58,660           |
| <b>Loss from continuing operations after income tax</b>  |      | <b>(998,577)</b>   | <b>(801,542)</b> |
| <b>Discontinued Operations</b>   |      |                    |                  |
| Profit from discontinued operations after income tax – Australian Consolidated Press Limited Group | 5    | 26,872             | 33,581           |
| Profit from discontinued operations after income tax – Carsales.com                                | 6    | -                  | 340,168          |
| <b>Net Loss for the period</b>   |      | <b>(971,705)</b>   | <b>(427,793)</b> |
| <b>Other Comprehensive Income</b>  |      |                    |                  |
| Foreign currency translation   |      | (2,046)            | (3,372)          |
| Actuarial gain/(loss) on defined benefit plan  |      | (2,162)            | 854              |
| Fair value movement in cash flow hedges  |      | (6,077)            | 33,455           |
| <b>Other comprehensive income for the period</b>   |      | <b>(10,285)</b>    | <b>30,937</b>    |
| <b>Total comprehensive income for the period</b>   |      | <b>(981,990)</b>   | <b>(396,856)</b> |
| <b>Profit/(loss) for the period is attributable to:</b>  |      |                    |                  |
| Equity holders of the parent   |      | (973,633)          | (451,163)        |
| Non-controlling interest – third party   |      | 1,928              | 23,370           |
|  |      | <b>(971,705)</b>   | <b>(427,793)</b> |
| <b>Total comprehensive income for the period is attributable to:</b>                               |      |                    |                  |
| Equity holders of the parent   |      | (983,918)          | (420,226)        |
| Non-controlling interest – third party   |      | 1,928              | 23,370           |
|  |      | <b>(981,990)</b>   | <b>(396,856)</b> |



**NINE ENTERTAINMENT CO. HOLDINGS PTY LIMITED**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2012**

|   | Note | 2012<br>\$'000     | 2011<br>\$'000   |
|---|------|--------------------|------------------|
| <b>Current assets</b>   |      |                    |                  |
| Cash and cash equivalents                                       | 23   | 237,604            | 290,705          |
| Trade and other receivables                                     | 7    | 249,845            | 308,037          |
| Inventories   | 8    | 799                | 19,149           |
| Program rights  | 9    | 151,566            | 161,877          |
| Other assets  | 10   | 13,066             | 9,955            |
| Assets of discontinued operations                               | 5    | 688,781            | -                |
| <b>Total current assets</b>                                     |      | <b>1,341,661</b>   | <b>789,723</b>   |
| <b>Non-current assets</b>                                       |      |                    |                  |
| Receivables   | 7    | 2,732              | 3,301            |
| Program rights  | 9    | 68,423             | 52,791           |
| Investments in associates accounted for using the equity method | 11   | 245,516            | 278,184          |
| Available for sale financial assets                             | 12   | 8,060              | 2,069            |
| Property, plant and equipment                                   | 13   | 169,238            | 198,145          |
| Licences and mastheads  | 14   | 344,669            | 1,533,229        |
| Other intangible assets   | 15   | 1,221,242          | 1,347,087        |
| Other assets  | 10   | 12,905             | 8,531            |
| <b>Total non-current assets</b>                                 |      | <b>2,072,785</b>   | <b>3,423,337</b> |
| <b>Total assets</b>   |      | <b>3,414,446</b>   | <b>4,213,060</b> |
| <b>Current liabilities</b>                                      |      |                    |                  |
| Trade and other payables  | 16   | 380,710            | 520,172          |
| Interest-bearing loans and borrowings                           | 17   | 3,800,010          | 108              |
| Current income tax liabilities                                  |      | 106                | 8                |
| Provisions  | 18   | 70,558             | 77,598           |
| Derivative financial instruments                                | 32   | 94,540             | 54,205           |
| Liabilities of discontinued operations                          | 5    | 197,446            | -                |
| <b>Total current liabilities</b>                                |      | <b>4,543,370</b>   | <b>652,091</b>   |
| <b>Non-current liabilities</b>                                  |      |                    |                  |
| Payables  | 16   | 76,512             | 77,993           |
| Interest-bearing loans and borrowings                           | 17   | 220                | 3,662,551        |
| Deferred tax liabilities  | 4    | 21,027             | 9,818            |
| Provisions  | 18   | 24,873             | 34,867           |
| Derivative financial instruments                                | 32   | -                  | 40,124           |
| <b>Total non-current liabilities</b>                            |      | <b>122,632</b>     | <b>3,825,353</b> |
| <b>Total liabilities</b>  |      | <b>4,666,002</b>   | <b>4,477,444</b> |
| <b>Net assets/(liabilities)</b>                                 |      | <b>(1,251,556)</b> | <b>(264,384)</b> |
| <b>Equity</b>   |      |                    |                  |
| Attributable to equity holders of the parent                    |      |                    |                  |
| Contributed equity  | 19   | 1,329,981          | 1,331,381        |
| Reserves  | 20   | (82,225)           | (71,453)         |
| Accumulated losses  | 20   | (2,500,086)        | (1,526,453)      |
| <b>Parent interests</b>   |      | <b>(1,252,330)</b> | <b>(266,525)</b> |
| Non-controlling interest – third party                          | 21   | 774                | 2,141            |
| <b>Total equity / (deficiency)</b>                              |      | <b>(1,251,556)</b> | <b>(264,384)</b> |

**NINE ENTERTAINMENT CO. HOLDINGS PTY LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOW  
FOR THE YEAR ENDED 30 JUNE 2012**

|   | Note   | 2012<br>\$'000  | 2011<br>\$'000 |
|---|--------|-----------------|----------------|
| <b>Cash flows from operating activities</b>                       |        |                 |                |
| Receipts from customers   |        | 2,026,531       | 2,292,502      |
| Payments to suppliers and employees                               |        | (1,813,374)     | (1,955,324)    |
| Dividends received – associates                                   |        | 24,896          | 16,940         |
| Interest received   |        | 12,195          | 10,861         |
| Interest and other costs of finance paid                          |        | (267,693)       | (299,827)      |
| Income tax (paid) / refunded                                      |        | 295             | (20,205)       |
| <b>Net cash flows from / (used in) operating activities</b>       | 23 (b) | <b>(17,150)</b> | 44,947         |
| <b>Cash flows from investing activities</b>                       |        |                 |                |
| Purchase of property, plant and equipment                         |        | (33,681)        | (65,002)       |
| Proceeds on disposal of property, plant and equipment             |        | 119             | 49,647         |
| Proceeds on disposal of subsidiary                                |        | 43,388          | 531,916        |
| Purchase of magazine mastheads and licences                       |        | -               | (1,451)        |
| Purchase of venue ticketing rights                                |        | (10,592)        | (8,524)        |
| Purchase of available for-sale financial assets                   |        | (7,690)         | (2,000)        |
| Purchase of other intangible assets                               |        | (1,872)         | (2,769)        |
| <b>Net cash flows from/(used in) investing activities</b>         |        | <b>(10,328)</b> | 501,817        |
| <b>Cash flows from financing activities</b>                       |        |                 |                |
| Issue of shares by controlled entity                              |        | -               | 2,201          |
| Buy back of shares  |        | (1,400)         | (4,530)        |
| Proceeds from borrowings  |        | 66,000          | 1,850          |
| Repayment of borrowings   |        | (53,599)        | (586,025)      |
| Distributions to Non-controlling interests                        |        | (2,120)         | (14,522)       |
| <b>Net cash flows from/(used in) financing activities</b>         |        | <b>8,881</b>    | (601,026)      |
| <b>Net increase/(decrease) in cash and cash equivalents</b>       |        | <b>(18,597)</b> | (54,262)       |
| Cash and cash equivalents at the beginning of the financial year  |        | 290,705         | 344,967        |
| <b>Cash and cash equivalents at the end of the financial year</b> | 23(a)  | <b>272,108</b>  | 290,705        |

**NINE ENTERTAINMENT CO. HOLDINGS PTY LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2012**

|  | Equity           | Foreign<br>Currency<br>Translation<br>Reserve | Net<br>Unrealised<br>Gains<br>Reserve | Cash Flow<br>Hedge<br>Reserve | Share<br>based<br>payments<br>Reserve | Retained<br>Earnings | Owners of<br>the Parent<br>- Total | Non-<br>controlling<br>Interest –<br>3 <sup>rd</sup> Party | TOTAL              |
|--|------------------|---|---------------------------------------|-------------------------------|---------------------------------------|----------------------|------------------------------------|--|--------------------|
|  | \$000            | \$000   | \$000                                 | \$000                         | \$000                                 | \$000                | \$000                              | \$000  | \$000              |
| At 1 July 2011   | 1,331,381        | (23,531)                                      | 3,994                                 | (56,368)                      | 4,452                                 | (1,526,453)          | (266,525)                          | 2,141  | (264,384)          |
| Profit/(loss) for the year                                   | -                | -   | -                                     | -                             | -                                     | (973,633)            | (973,633)                          | 1,928  | (971,705)          |
| Other Comprehensive<br>Income for the year                   | -                | (2,046)                                       | (2,162)                               | (6,077)                       | -                                     | -                    | (10,285)                           | -  | (10,285)           |
| <b>Total Comprehensive<br/>Income for the year</b>           | -                | (2,046)                                       | (2,162)                               | (6,077)                       | -                                     | (973,633)            | (983,918)                          | 1,928  | (981,990)          |
| <b>Transactions with owners in their capacity as owners:</b> |                  |   |                                       |                               |                                       |                      |                                    |  |                    |
| Share buy-back   | (1,400)          | -   | -                                     | -                             | -                                     | -                    | (1,400)                            | -  | (1,400)            |
| Dividends paid   | -                | -   | -                                     | -                             | -                                     | -                    | -                                  | (2,120)  | (2,120)            |
| Share based payment  | -                | -   | -                                     | -                             | (487)                                 | -                    | (487)                              | -  | (487)              |
| Transfer to parent   | -                | -   | -                                     | -                             | -                                     | -                    | -                                  | (1,175)  | (1,175)            |
| <b>At 30 June 2012</b>                                       | <b>1,329,981</b> | <b>(25,577)</b>                               | <b>1,832</b>                          | <b>(62,445)</b>               | <b>3,965</b>                          | <b>(2,500,086)</b>   | <b>(1,252,330)</b>                 | <b>774</b>   | <b>(1,251,556)</b> |

|  | Equity           | Foreign<br>Currency<br>Translation<br>Reserve | Net<br>Unrealised<br>Gains<br>Reserve | Cash Flow<br>Hedge<br>Reserve | Share<br>based<br>payments<br>Reserve | Retained<br>Earnings | Owners of<br>the Parent -<br>Total | Non-<br>controlling<br>Interest –<br>3 <sup>rd</sup> Party | TOTAL            |
|--|------------------|---|---------------------------------------|-------------------------------|---------------------------------------|----------------------|------------------------------------|--|------------------|
|  | \$000            | \$000   | \$000                                 | \$000                         | \$000                                 | \$000                | \$000                              | \$000  | \$000            |
| At 1 July 2010   | 1,335,911        | (20,159)                                      | 3,140                                 | (83,894)                      | 4,963                                 | (1,073,553)          | 166,408                            | 46,081   | 212,489          |
| Profit/(loss) for the year                                   | -                | -   | -                                     | -                             | -                                     | (451,163)            | (451,163)                          | 23,370   | (427,793)        |
| Other Comprehensive<br>Income for the year                   | -                | (3,372)                                       | 854                                   | 33,455                        | -                                     | -                    | 30,937                             | -  | 30,937           |
| <b>Total Comprehensive<br/>Income for the year</b>           | -                | (3,372)                                       | 854                                   | 33,455                        | -                                     | (451,163)            | (420,226)                          | 23,370   | (396,856)        |
| <b>Transactions with owners in their capacity as owners:</b> |                  |   |                                       |                               |                                       |                      |                                    |  |                  |
| Share buy-back   | (4,530)          | -   | -                                     | -                             | -                                     | -                    | (4,530)                            | -  | (4,530)          |
| Acquisition of Non-<br>controlling interest                  | -                | -   | -                                     | -                             | -                                     | -                    | -                                  | (54,525)   | (54,525)         |
| Dividends paid   | -                | -   | -                                     | -                             | -                                     | -                    | -                                  | (14,522)   | (14,522)         |
| Transfer to parent   | -                | -   | -                                     | -                             | -                                     | (1,737)              | (1,737)                            | 1,737  | -                |
| Share based payment  | -                | -   | -                                     | -                             | (511)                                 | -                    | (511)                              | -  | (511)            |
| Transfer to profit for the<br>year                           | -                | -   | -                                     | (5,929)                       | -                                     | -                    | (5,929)                            | -  | (5,929)          |
| <b>At 30 June 2011</b>                                       | <b>1,331,381</b> | <b>(23,531)</b>                               | <b>3,994</b>                          | <b>(56,368)</b>               | <b>4,452</b>                          | <b>(1,526,453)</b>   | <b>(266,525)</b>                   | <b>2,141</b>   | <b>(264,384)</b> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) 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. The financial report has been prepared on a historical cost basis, except for derivative financial instruments 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 Class Order 98/100. The Company is an entity to which the class order applies.

The financial report of Nine Entertainment Co. Holdings Pty Limited and its controlled entities for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 31 October 2012.

**b) Statement of compliance**

The financial report complies with Australian Accounting Standards. The consolidated financial report also complies with International Financial Reporting Standards (IFRS).

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of AASB 124 Related Party Disclosures, which came into effect for year ended 30 June 2012. There is no material impact on the Group's financial position or performance arising from the adoption of this accounting policy.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting year ended 30 June 2012.

In September 2011, a Revised AASB 119 *Employee Benefits* was issued and will be effective for the Group for the financial year ending 30 June 2014. Management have reviewed the impact from adoption of this standard. The main change will be that the "corridor approach" will no longer be applicable and the "equity approach" be adopted. The effect of this is that the current unbooked loss of \$13.2m (refer to note 25), would be recognised on the balance sheet with the corresponding entry to reserves. It is not expected that there will be an impact on income.

All other standards are not expected to have a material impact on the Group's financial position or performance in subsequent reporting years.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**c) Going Concern**

The financial report has been prepared on a going concern basis.

In the year ended 30 June 2012 the Group's EBITDA from continuing operations was a profit of \$238.0m (2011: a profit of \$278.0m).

The Group has debt facilities including Senior Debt facilities of \$2,740m and Mezzanine Note facilities of \$1,078m ("Facilities") as disclosed in Note 32 to these accounts. There are no refinancing events due for the Senior Debt until 7 February 2013 and until 7 April 2014 for the Mezzanine Notes. There is no amortisation of the Facilities that would require any repayments to the lenders other than normal interest payments.

As part of its Facilities, the Group is subject to certain customary financial covenants measured on a quarterly basis as described in note 32 to these accounts. The Group has been in compliance with all of its financial covenant requirements for the full financial year ended 30 June 2012. However, in the absence of an appropriate remedy, it is anticipated that the Group will be in breach of certain financial covenants under the Facilities as of 14 November 2012, at which time it is required to deliver a Compliance Certificate for the quarter ended 30 September 2012 to the Facility financiers.

The Group's financial projections indicate that it will have sufficient free cash flow and available overdraft and other bank debt facilities to pay all creditors in the normal course through to the maturity of its Senior Debt facilities on 7 February 2013.

On 17 October 2012, the Group reached in principle an agreement ("Agreement") with representatives of its senior and mezzanine lenders for a restructuring of its Facilities which the Group intends to implement through a scheme of arrangement prior to the maturity of the Senior Debt. Funds managed by the Group's two largest senior lenders (who have advised they have the support of 75% of the outstanding senior debt), as well as Goldman Sachs Mezzanine Partners (representing 80% of the mezzanine debt), have confirmed that they support the in principle terms of this restructure.

As soon as the restructure is effected, it is expected that all the existing senior and mezzanine debt will be converted to equity and / or refinanced.

In light of this Agreement, the directors expect the Group will continue to operate as a going concern.

In the event that the Agreement is not implemented and the Group is otherwise unable to refinance, convert to equity or otherwise have its Senior Debt facilities forgiven prior to their maturity on 7 February 2013 (or such earlier date that Senior Lenders, by the agreement of two thirds of those lenders by value, elect to accelerate their debt in the event the Group is in breach of its financial covenants under the Facilities on 14 November 2012, or the date on which Mezzanine Lenders accelerate their debt should they become entitled to), the assets of the Group may not be realised and liabilities may not be discharged in the normal course of business and at the amounts stated in these accounts.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****d) Basis of consolidation**

The consolidated financial statements are those of the consolidated entity, comprising Nine Entertainment Co. Holdings Pty Limited (the parent entity) and all entities that Nine Entertainment Co. Holdings Pty Limited controlled from time to time during the year and at reporting date.

Information from the financial statements of subsidiaries is included from the date the parent entity obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the parent entity has control.

Subsidiary acquisitions are accounted for using the purchase 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.

**e) Significant accounting estimates, judgements and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates, judgements and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting year are:

*Impairment of goodwill, television licences and magazine mastheads with indefinite useful lives.*

The Group determines whether goodwill, television licences and magazine mastheads 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, television licences and magazine mastheads with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill, television licences and magazine mastheads with indefinite useful lives are discussed in Note 15.

*Onerous Contract Provisions*

The Group has recognised an onerous contract provision in relation to its television program purchase commitments. Refer to Note 18 for disclosure of the assumptions included in the calculation of the provision.

**f) Income tax**

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 complete 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****f) Income tax (continued)**

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 nor 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.

**g) 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 Flow on a gross basis and the GST component of cash flows arising from investing and financing activities, which is 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.

**h) Foreign currency translation**

Both the functional and presentation currency of Nine Entertainment Co. Holdings Pty Ltd and its Australian subsidiaries is Australian dollars (A\$). 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 retranslated at the rate of exchange ruling at the reporting date.

All exchange differences in the consolidated financial report are taken to the statement of 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.

As at the reporting date the assets and liabilities of overseas subsidiaries are translated into the presentation currency of Nine Entertainment Co. Holdings Pty Ltd at the rate of exchange ruling at the reporting date and the statements of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on translation are taken directly to a separate component of equity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**h) Foreign currency translation (continued)**

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the Statement of Comprehensive Income.

**i) Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand, and short-term deposits.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**j) Trade and other receivables**

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

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. An impairment provision 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. 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.

**k) Inventories**

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials, Work in progress and Finished Goods for magazine inventory include the cost of direct editorial and production costs and a portion of overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**l) Program rights**

Television programs which are available for use, including those acquired overseas, are recorded at cost less amounts charged to the statement of comprehensive income based on management's assessment of the future year of benefit, which is regularly reviewed with additional write downs made as considered necessary.

**m) Investments and Other Financial Assets**

Certain of the Group's investments are categorised as available-for-sale financial assets under AASB139 – Financial Instruments: Recognition and Measurement.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not 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 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.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****m) Investments and Other Financial Assets (continued)***Subsequent Measurement*

Available-for-sale financial assets are those non-derivative financial assets principally equity securities, that are designated as available-for-sale or are not classified as any of the other categories under AASB139. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

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.

**n) Investments in associates**

The Group's investments in its associates are accounted for under the equity method of accounting in the consolidated financial statements. These are entities in which the Group has significant influence and which are neither subsidiaries or joint ventures.

The financial statements of the associates are used by the Group to apply the equity method.

The investment in the associates is 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 in value. The consolidated Statement of Comprehensive Income reflects the Group's share of the results of operations of the associates.

Where there has been a change recognised directly in the associates' equity, the Group recognises its share of any movements directly in equity.

**o) Property, plant and equipment**

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

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. 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.

The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**o) Property, plant and equipment (continued)**

*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 de-recognition 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 Comprehensive Income in the year the item is derecognised.

**p) 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.

**q) Intangible assets**

**Licences and mastheads**

Licences and mastheads are carried at cost less any accumulated impairment losses.

Television licences are renewable every five years under the provisions of the Broadcasting Services Act 1992. Whilst certain of the television licences continue to be subject to Government legislation and regulation by the Australian Communications and Media Authority, the directors have no reason to believe the licences will not be renewed.

The directors regularly assess the carrying value of licences and mastheads so as 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 life of the licences and mastheads 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.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****q) Intangible assets (continued)****Other intangible assets**

*Acquired both separately and from a business combination*

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.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Venue ticketing rights are amortised over their contractual period. Where amortisation is charged on assets with finite lives, this expense is taken to the Statement of Comprehensive Income.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite lived 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 comprehensive income when the net asset is derecognised.

**r) Recoverable amount of assets**

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

**s) Trade and other payables**

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.

**t) Interest-bearing loans and borrowings**

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.

**u) 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****u) Provisions (continued)**

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.

**v) Pensions and other post employment benefits**

The Group contributes to a defined benefit superannuation fund which requires contributions to be made to a separately administered fund. Actuarial gains and losses on the defined benefits fund are recognised as a separate component of equity.

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

**w) 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 twelve 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 national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

**x) Leases**

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.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or equipment or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the leased liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

**y) Derecognition of financial instruments**

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****z) Derivative financial instruments**

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps 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. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

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 (interest rate swaps) which meet the conditions for special hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in profit or loss for the year.

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 or loss for the year. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised the profit or loss for the year such that it is fully amortised by maturity.

In relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the profit or loss for the year. When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to profit or loss in the same year in which the hedged firm commitment affects net profit or loss, for example when the future sale actually occurs.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged item's fair values or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair values or cash flows.

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.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the year.

**aa) Impairment of financial assets**

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

***Financial assets carried at amortised cost***

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets original effective interest rate (ie: the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss for the year.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**aa) Impairment of financial assets (continued)**

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss for the year, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

**ab) Contributed equity**

Ordinary shares are classified as equity. Issued capital is recognised at the fair value of the consideration received by the Company, less transaction costs.

**ac) 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:

*Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

*Rendering of services*

Control of the right to be compensated for the services can be reliably measured.

*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.

**ad) Non-Controlling Interests**

Non-Controlling Interests not held by the Group are allocated their share of net profit after tax in the Statement of Comprehensive Income and are presented within equity in the Statement of Financial Position.

Amounts described as Non-Controlling Interest - Third parties represent the economic interests in controlled entities not owned by shareholders of the company.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****ae) Business combinations**

The purchase 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 date of exchange. Where equity instruments are issued in a business combination, the fair value of the instruments is their published price at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuations 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 required.

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 date of exchange. 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.

**af) Share-based payments**

The Group provides benefits to senior executives in the form of share-based payments, whereby executives render services in exchange for shares or rights over shares (equity-settled transactions). The plan in place to provide these benefits is the Management Equity Plan (MEP).

The cost of these equity-settled transactions with executives is measured by reference to the fair value of the equity instruments at the date which they are granted. The fair value is determined by an external valuer using the Black-Scholes model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant executives become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting dates reflects:

- (i) the extent to which the vesting period has expired and
- (ii) the Group's best estimate of the number of equity instruments that will ultimately vest.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

|   | 2012<br>\$'000   | 2011<br>\$'000   |
|---|------------------|------------------|
| <b>2. REVENUE AND EXPENSES</b>  |                  |                  |
| Profit before income tax expense includes the following revenues and expenses:              |                  |                  |
| <b>(i) Revenues from continuing operations</b>  |                  |                  |
| Revenue from rendering services   | 1,185,564        | 1,202,001        |
| Profit on sale of non current assets  | 168              | 28,112           |
| Interest  | 11,202           | 11,556           |
|   | <b>1,196,934</b> | <b>1,241,669</b> |
| <b>(ii) Expenses from continuing operations</b>   |                  |                  |
| Television activities   | 924,483          | 835,012          |
| Other activities  | 145,131          | 153,061          |
|   | <b>1,069,614</b> | <b>988,073</b>   |
| <b>(iii) Other Expense Disclosures</b>  |                  |                  |
| <i>Depreciation of non-current assets (included in total comprehensive income)</i>          |                  |                  |
| Buildings   | 1,786            | 1,204            |
| Plant and equipment   | 21,341           | 17,746           |
|   | <b>23,127</b>    | <b>18,950</b>    |
| <i>Amortisation of non-current assets (included in total comprehensive income)</i>          |                  |                  |
| Plant and equipment under finance lease   | 92               | 69               |
| Leasehold property  | 1,168            | 614              |
| Ticketing rights  | 15,287           | 13,050           |
| Other assets  | 1,454            | 2,447            |
|   | <b>18,001</b>    | <b>16,180</b>    |
| Total depreciation and amortisation expense <i>(included in total comprehensive income)</i> | <b>41,128</b>    | <b>35,130</b>    |
| Salary and employee benefit expense <i>(included in expenses above)</i>                     | <b>272,835</b>   | <b>269,672</b>   |
| Program rights <i>(included in expenses above)</i>  | <b>379,730</b>   | <b>362,976</b>   |
| <b>(iv) Specific items</b>  |                  |                  |
| <i>From continuing operations:</i>  |                  |                  |
| Net (profit) on sale of assets  | -                | (28,112)         |
| Restructuring costs   | 6,041            | 16,733           |
| Writedown of other assets   | 30,655           | -                |
| Provision for onerous contracts   | 32,482           | 9,588            |
| Project related costs   | 11,550           | 2,618            |
| Specific items included in expenses above   | <b>80,728</b>    | <b>827</b>       |
| Impairment of assets  | <b>783,589</b>   | <b>730,957</b>   |
| <b>Net Loss on specific items from continuing operations</b>                                | <b>864,317</b>   | <b>731,784</b>   |
| <b>(v) Finance Costs from continuing operations</b>   |                  |                  |
| Finance costs expensed:   |                  |                  |
| Interest on Debt facilities   | 372,706          | 378,801          |
| Amortisation of Debt Facility establishment costs   | 21,588           | 21,588           |
| Finance leases  | 28               | 20               |
|   | <b>394,322</b>   | <b>400,409</b>   |



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**3. DIVIDENDS PAID AND PROPOSED**

**(a) Dividends appropriated during the financial year**

Nine Entertainment Co. Holdings Pty Ltd did not declare or pay any dividends during the reporting year and has not declared any dividend subsequent to 30 June 2012.

**(b) Franking credits**

Nine Entertainment Co. Holdings Pty Ltd had a franking account balance as at the end of the financial year of \$64,405,262 (2011: \$54,169,547).

|   | 2012<br>\$'000 | 2011<br>\$'000 |
|---|----------------|----------------|
| <b>4. INCOME TAX</b>  |                |                |
| <b>(a) Income tax expense</b>   |                |                |
| The prima facie tax expense, using tax rates applicable in the country of operation, on profit differs from income tax provided in the financial statements as follows: |                |                |
| Loss from continuing operations   | (1,025,369)    | (860,202)      |
| Profit from discontinued operations – Australian Consolidated Press Limited   | 55,182         | 65,981         |
| Profit from discontinued operations – Carsales.com Limited  | -              | 441,992        |
| Loss before income tax  | (970,187)      | (352,229)      |
| Prima facie income tax expense on profit at the Australian rate of 30%  | (291,056)      | (105,669)      |
| Tax effect of:  |                |                |
| Share of associates' net profits  | (7,638)        | (5,284)        |
| Impairment  | 247,077        | 232,731        |
| Gain on disposal of investments and assets  | 2,502          | (39,206)       |
| Debt deduction denied from deduction under thin capitalisation regime   | 41,592         | -              |
| Tax losses brought to account   | (864)          | (13,669)       |
| Current tax losses not recognised as DTA  | 5,260          | -              |
| Other items – net   | 4,645          | 6,661          |
| Income tax expense  | 1,518          | 75,564         |
| Current tax expense   | 5,439          | 59,129         |
| Deferred tax expense/(benefit) relating to the origination and reversal of temporary differences  | (3,921)        | 16,435         |
|   | 1,518          | 75,564         |
| Aggregate income tax expense / (benefit) is attributable to:  |                |                |
| Continuing operations   | (26,792)       | (58,660)       |
| Discontinued operations   | 28,310         | 134,224        |
|   | 1,518          | 75,564         |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

|  | 2012<br>\$'000 | 2011<br>\$'000 |
|--|----------------|----------------|
| <b>4. INCOME TAX</b>                         |                |                |
| <b>(b) Deferred income taxes</b>             |                |                |
| Deferred income tax assets                   | 97,335         | 97,728         |
| Deferred income tax liabilities              | (103,169)      | (107,546)      |
| Net deferred income tax assets/(liabilities) | (5,834)        | (9,818)        |

|  | 2012<br>\$'000 | 2011<br>\$'000 | P&L Expense<br>Movement<br>\$'000 |
|--|----------------|----------------|-----------------------------------|
| <b>(c) Deferred income tax assets and liabilities at the end of the financial year</b> |                |                |                                   |
| TV licence fees accrued  | 13,202         | 16,064         | 2,862                             |
| Employee benefits provision  | 14,944         | 14,320         | (624)                             |
| Other provisions and accruals  | 34,224         | 32,527         | (1,698)                           |
| Investments in associates  | (498)          | (2,385)        | (1,887)                           |
| Accelerated depreciation for tax purposes  | (94,120)       | (94,978)       | (857)                             |
| Derivative instruments   | 28,362         | 28,299         | -                                 |
| Other  | (1,948)        | (3,665)        | (1,717)                           |
| Net deferred income tax assets/(liabilities)   | (5,834)        | (9,818)        | (3,921)                           |

|  | 2012<br>\$'000 | 2011<br>\$'000 |
|--|----------------|----------------|
| <b>(d) Deferred income tax assets not brought to account</b> |                |                |
| Income tax losses  | 99,163         | 81,623         |

The income tax benefit includes deferred income tax credited of \$63,000 (2011: \$14,338,000 charged) directly to equity in relation to the fair value movement on cash flow hedges.

**(e) Tax consolidation**

Effective 6 June 2007, for the purposes of income taxation, Nine Entertainment Co. Holdings Pty Ltd and its 100% owned Australian subsidiaries formed a tax consolidated group. 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 Entertainment Co. Holdings Pty Ltd.

The parent entity has recognised the current tax liability of the tax consolidated group.

Members of the tax consolidated group have entered into 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, Nine Entertainment Co. Holdings Pty Limited. 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.

**NINE ENTERTAINMENT CO. HOLDINGS PTY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

|   | 2012<br>\$'000 | 2011<br>\$'000 |
|---|----------------|----------------|
| <b>5. DISCONTINUED OPERATIONS - Australian Consolidated Press Limited Group</b>   |                |                |
| On 30 September 2012 the Group sold its 100% shareholding in its subsidiary Australian Consolidated Press Limited Group.                            |                |                |
| <b>(a) Financial performance of the operations disposed:</b><br><i>The results of the discontinued operations for the year are presented below:</i> |                |                |
| Revenue   | 661,916        | 718,023        |
| Expenses  | (606,787)      | (651,886)      |
| Finance Costs   | (186)          | (201)          |
| Share of associated entity profit / (loss)  | 239            | 45             |
| Profit before tax   | 55,182         | 65,981         |
| Income tax expense  | (28,310)       | (32,400)       |
| Profit for the year from discontinued operations  | 26,872         | 33,581         |

|   | 2012<br>\$'000 | 2011<br>\$'000 |
|---|----------------|----------------|
| <b>(b) Assets and liabilities and cashflow information of disposed entity</b><br><i>The major classes of assets and liabilities of Australian Consolidated Press Limited Group at the date of disposal were as follows:</i> |                |                |
| <b>Assets</b>   |                |                |
| Intangibles   | 487,418        | -              |
| Investments in associates   | 12,112         | -              |
| Deferred tax assets   | 15,194         | -              |
| Property plant and equipment  | 29,372         | -              |
| Trade and other receivables   | 85,337         | -              |
| Cash and cash equivalents   | 34,504         | -              |
| Inventory   | 20,634         | -              |
| Other assets  | 4,210          | -              |
|   | <b>688,781</b> | -              |
| <b>Liabilities</b>  |                |                |
| Trade and other payables  | 165,848        | -              |
| Provisions  | 31,598         | -              |
|   | <b>197,446</b> | -              |
| Net assets attributable to discontinued operations  | 491,335        | -              |
| Net assets attributable to equity holders of the Parent   | 490,561        | -              |
| Net assets attributable to third party shareholder  | 774            | -              |
|   | <b>491,335</b> | -              |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

| <b>5. DISCONTINUED OPERATIONS (CONTINUED) - Australian Consolidated Press Limited</b>        | <b>2012</b>      | <b>2011</b> |
|--|------------------|-------------|
|  | \$'000           | \$'000      |
| <i>(c) The net cash flows of Australian Consolidated Press Limited Group are as follows:</i> |                  |             |
| Operating activities   | <b>93,432</b>    | 126,770     |
| Investing activities   | <b>29,988</b>    | 520,146     |
| Financing activities   | <b>(113,909)</b> | (673,541)   |
| Net cash inflow  | <b>9,511</b>     | (26,625)    |

|  | <b>2012</b> | <b>2011</b> |
|--|-------------|-------------|
|  | \$'000      | \$'000      |
| <b>6. DISCONTINUED OPERATIONS - Carsales.com Limited</b>   |             |             |
| On 7 March 2011 the Group sold its 49.1% shareholding in Carsales.com Limited.   |             |             |
| <b>(a) Financial performance of the operations disposed:</b><br><i>The results of the discontinued operations for the year until disposal are presented below:</i> |             |             |
| Revenue  | -           | 98,691      |
| Expenses   | -           | (45,091)    |
| Gain on disposal   | -           | 388,394     |
| Finance Costs  | -           | (2)         |
| Profit before tax  | -           | 441,992     |
| Income tax expense   | -           | (101,824)   |
| Profit for the year from discontinued operations   | -           | 340,168     |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| 6. DISCONTINUED OPERATIONS (CONTINUED) -<br>Carsales.com Limited  | 2012   | 2011      |
|---|--------|-----------|
|   | \$'000 | \$'000    |
| <b>(b) Assets and liabilities and cashflow information of disposed entity</b>   |        |           |
| <i>Details of the disposal of Carsales.com Limited are as follows:<br/>The major classes of assets and liabilities of Carsales.com Limited at the date of disposal were as follows:</i> |        |           |
| <b>Assets</b>   |        |           |
| Intangibles   | -      | 80,565    |
| Property plant and equipment  | -      | 2,097     |
| Trade and other receivables   | -      | 18,018    |
| Cash and cash equivalents   | -      | 31,226    |
|   | -      | 131,906   |
| <b>Liabilities</b>  |        |           |
| Trade and other payables  | -      | (19,768)  |
| Net assets attributable to discontinued operations  | -      | 112,138   |
| Net assets attributable to equity holders of the Parent   | -      | 55,026    |
| Net assets attributable to third party shareholder  | -      | 57,112    |
|   | -      | 112,138   |
| <b>(c) The net cashflows of Carsales.com Limited are as follows:</b>  |        |           |
| Operating activities  | -      | 35,413    |
| Investing activities  | -      | (2,231)   |
| Financing activities  | -      | (15,560)  |
| Net cash inflow   | -      | 17,622    |
| <i>Consideration received or receivable:</i>  |        |           |
| Cash (net of expenses) attributable to the sale   | -      | 563,142   |
| Less net assets disposed of   | -      | (55,026)  |
| Less goodwill on consolidation  | -      | (119,722) |
| Gain on disposal before income tax  | -      | 388,394   |
| Income tax expense  | -      | (85,745)  |
| Gain on disposal after income tax   | -      | 302,649   |
| <i>Net Cash inflow on disposal</i>  |        |           |
| Cash consideration  | -      | 563,142   |
| Less cash and cash equivalents balance disposed of  | -      | (31,226)  |
| Reflected in the consolidated statement of cash flows   | -      | 531,916   |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

|   | 2012<br>\$'000 | 2011<br>\$'000 |
|---|----------------|----------------|
| <b>7. TRADE AND OTHER RECEIVABLES</b>     |                |                |
| <b>Current</b>                            |                |                |
| Trade receivables <sup>1</sup>            | 235,848        | 290,788        |
| Provision for doubtful debts              | (1,152)        | (4,914)        |
|   | <b>234,696</b> | <b>285,874</b> |
| Loans to associated entities <sup>2</sup> | 802            | 1,812          |
| Other receivables                         | 14,347         | 20,351         |
|   | <b>15,149</b>  | <b>22,163</b>  |
|   | <b>249,845</b> | <b>308,037</b> |
| <b>Non Current</b>                        |                |                |
| Loans to associated entities <sup>3</sup> | 2,660          | 3,210          |
| Other receivables                         | 72             | 91             |
|   | <b>2,732</b>   | <b>3,301</b>   |

<sup>1</sup> Trade receivables are non-interest bearing and are generally on 30-60 day terms.

<sup>2</sup> Current loans to associated entities are non-interest bearing and are repayable at call.

<sup>3</sup> Non-current loans to associated entities are non-interest bearing and are repayable at call.

**(a) Allowance for impairment loss**

A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. A gain on reversal of impairment of \$144,000 (2011: loss \$742,000) has been recognised by the Group in the current period.

Operating divisions each have follow up procedures including contact with debtors to discuss collection of outstanding debts. Impairment provisions are recorded for those debtors where the likelihood of collection is unlikely.

Related Party and Other receivables do not contain impaired assets and are not past due. It is expected that these balances will be received when due.

Movements in the provision for impairment loss were as follows:

|  | 2012<br>\$000  | 2011<br>\$000  |
|--|----------------|----------------|
| Balance at the beginning of the year     | (4,914)        | (6,802)        |
| Credit / (charge) for the year           | (144)          | 742            |
| Discontinued operations                  | 2,031          | 1,016          |
| Amounts written off to bad debts expense | 1,875          | 130            |
| Balance at the end of the year           | <b>(1,152)</b> | <b>(4,914)</b> |

At 30 June 2012, the ageing analysis of trade receivables is as follows:

|                   | Total   | Current | Current<br>CI* | 0-30<br>Days<br>PDNI* | 0-30<br>Days<br>CI* | 31-60<br>Days<br>PDNI* | 31-60<br>Days<br>CI* | 61+<br>Days<br>PDNI* | 61+<br>Days<br>CI* |
|-------------------|---------|---------|----------------|-----------------------|---------------------|------------------------|----------------------|----------------------|--------------------|
| 2012 Consolidated | 235,848 | 119,604 | -              | 105,871               | -                   | 2,340                  | -                    | 6,881                | 1,152              |
| 2011 Consolidated | 290,788 | 181,583 | 271            | 93,798                | 114                 | 6,998                  | 130                  | 3,495                | 4,399              |

\* Past due but not impaired ('PDNI') or Considered impaired ('CI')

The trade receivables which are past due but not impaired are considered to be recoverable in full.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**(b) 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, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

|   | <b>2012</b><br>\$'000 | <b>2011</b><br>\$'000 |
|---|-----------------------|-----------------------|
| <b>8. INVENTORIES</b>                           |                       |                       |
| <b>Current</b>                                  |                       |                       |
| Raw materials (at cost)                         | 799                   | 12,816                |
| Finished goods (at cost)                        | -                     | 5,775                 |
| Prov. for diminution in value of Finished Goods | -                     | (244)                 |
| Work in progress (at cost)                      | -                     | 802                   |
|   | <b>799</b>            | <b>19,149</b>         |
| <b>9. PROGRAM RIGHTS</b>                        |                       |                       |
| <b>Current</b>                                  |                       |                       |
| Program rights                                  | 151,566               | 161,877               |
| <b>Non Current</b>                              |                       |                       |
| Program rights                                  | 68,423                | 52,791                |
| <b>10. OTHER ASSETS</b>                         |                       |                       |
| <b>Current</b>                                  |                       |                       |
| Prepayments                                     | 7,208                 | 4,875                 |
| Other   | 5,858                 | 5,080                 |
|   | <b>13,066</b>         | <b>9,955</b>          |
| <b>Non Current</b>                              |                       |                       |
| Defined Benefit Fund Asset                      | 6,288                 | 8,450                 |
| Other   | 6,617                 | 81                    |
|   | <b>12,905</b>         | <b>8,531</b>          |

**NINE ENTERTAINMENT CO. HOLDINGS PTY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

|  | 2012<br>\$'000 | 2011<br>\$'000 |
|--|----------------|----------------|
| <b>11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD</b> |                |                |
| <b>a) Non Current</b>  |                |                |
| <i>Investments at equity accounted amount:</i>               |                |                |
| Associated entities – unlisted shares                        | 245,516        | 278,184        |
| Total investments in associates                              | 245,516        | 278,184        |

| b) Investments in Associates              | Reporting Date | Principal Activity                      | Country of Incorporation or Residence | % Interest' |      |
|---|----------------|---|---------------------------------------|-------------|------|
|   |                |   |                                       | 2012        | 2011 |
| ninemsn Pty Ltd                           | 30 June        | Provider of online content and services | Australia                             | 50          | 50   |
| Australian News Channel Pty Ltd           | 30 June        | Pay TV news service                     | Australia                             | 33          | 33   |
| Northern & Shell Pacific Ltd <sup>2</sup> | 30 June        | Magazine Publishing                     | Australia                             | 50          | 50   |
| Hi-5 Operations Pty Ltd                   | 30 June        | Television production & merchandising   | Australia                             | 50          | 50   |
| TX Australia Pty Ltd                      | 30 June        | Television transmission                 | Australia                             | 33          | 33   |
| XChangelT Software Pty Limited            | 30 June        | Electronic Data Transfer Services       | Australia                             | 33          | 33   |
| Post ACP Company Limited <sup>2</sup>     | 30 June        | Magazine Publishing                     | Thailand                              | 49          | 49   |

<sup>1</sup> The proportion of ownership interest is equal to the proportion of voting power held.

<sup>2</sup> Beneficial interest held at 30 June 2012. On 30 September 2012, the Group disposed of subsidiary Australian Consolidated Press Limited Group. Therefore subsequent to this date no interest is held in Northern & Shell Pacific Ltd and Post ACP Company Limited.

|   | 2012<br>\$'000 | 2011<br>\$'000 |
|---|----------------|----------------|
| <b>c) Share of associates' revenue and profits<sup>1</sup></b>              |                |                |
| Share of associates':   |                |                |
| Revenue   | 119,140        | 130,732        |
| Operating profit before income tax  | 34,993         | 25,389         |
| Income tax expense  | (9,771)        | (7,821)        |
| Share of associates' net profit after income tax from continuing operations | 25,222         | 17,568         |

<sup>1</sup>Included within discontinued operations (note 5) is a share of associates profit of \$239,000 (2011: profit of \$45,000).



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

|   | 2012<br>\$'000 | 2011<br>\$'000 |
|---|----------------|----------------|
| <b>11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)</b>                              |                |                |
| <b>d) Carrying amount of investments in associates</b>  |                |                |
| Balance at the beginning of the financial year  | 278,184        | 283,010        |
| Share of associates' net profit for the year  | 25,461         | 17,613         |
| Dividends received or receivable  | (24,896)       | (16,940)       |
| Impairment and write down of investments  | (22,000)       | (11,062)       |
| Reclassification to amounts due from associates   | 838            | 5,673          |
| Other movements   | 41             | (110)          |
| Discontinued operations (Note 5)  | (12,112)       | -              |
| Carrying amount of investments in associates at the end of the financial year                         | 245,516        | 278,184        |
| Represented by:   |                |                |
| Investments at equity accounted amount:   |                |                |
| ninemsn Pty Ltd   | 211,204        | 232,656        |
| Australian News Channel Pty Ltd   | 30,019         | 29,803         |
| Northern & Shell Pacific Ltd (OK!)  | -              | 10,500         |
| Other   | 4,293          | 5,225          |
|   | 245,516        | 278,184        |
| <b>e) The consolidated entity's share of the assets and liabilities of associates in aggregate</b>    |                |                |
| Current assets  | 32,823         | 38,609         |
| Non-current assets  | 53,034         | 43,390         |
| Current liabilities   | (22,259)       | (24,293)       |
| Non-current liabilities   | (10,773)       | (8,548)        |
| Net assets  | 52,825         | 49,158         |
| <b>f) Retained profits/(Accumulated losses) of the consolidated entity attributable to associates</b> |                |                |
| Balance at the beginning of the financial year  | (36,912)       | (43,463)       |
| Share of associates' net profits  | 25,461         | 17,613         |
| Writedown of investment in associate  | (22,000)       | (11,062)       |
| Balance at the end of the financial year  | (33,451)       | (36,912)       |

**g) Impairment**

*Australian News Channel Pty Ltd (Sky News) / ninemsn Pty Ltd*

The key assumptions on which management has based its cash flow projections when determining the value-in-use calculations for Australian News Channel and ninemsn are:

- cashflow projections as approved by the board;
- a post-tax discount rate applied to the cash flow projections of 11.2% (2011: 11.2%) for ninemsn, 11.2% (2011: 11.2%) for Australian News Channel which reflects management's best estimate of the time value of money and the risks specific to the internet services market not already reflected in the cash flows; and
- terminal value using EBITDA multiples that are based upon recent market transactions and directors' assessments.

**NINE ENTERTAINMENT CO. HOLDINGS PTY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

|  | 2012<br>\$'000 | 2011<br>\$'000 |
|--|----------------|----------------|
| <b>12. AVAILABLE FOR SALE FINANCIAL ASSETS</b> |                |                |
| Opening balance at 1 July                      | 2,069          | -              |
| Purchase of Australian shares                  | 15,580         | 2,069          |
| Impairment                                     | (9,589)        | -              |
| <b>Closing balance at 30 June</b>              | <b>8,060</b>   | <b>2,069</b>   |

During the year, an impairment charge was recognised against available for sale financial assets. The write-down is deemed significant and recorded through the income statement.

The financial asset is classified as a level 1 instrument as described in note 32(a). Fair value was determined with reference to a quoted market price.

|  | Freehold<br>land and<br>buildings<br>\$'000 | Leasehold<br>improvements<br>\$'000 | Plant &<br>equipment<br>\$'000 | Construction<br>work in<br>progress<br>\$'000 | Leased plant<br>& equipment<br>\$'000 | Total property,<br>plant and<br>equipment<br>\$'000 |
|--|---|-------------------------------------|--------------------------------|---|---------------------------------------|---|
| <b>13. PROPERTY, PLANT AND EQUIPMENT</b>                               |   |                                     |                                |   |                                       |   |
| <b>Year ended 30 June 2012</b>   |   |                                     |                                |   |                                       |   |
| At 30 June 2011, net of accumulated depreciation and impairment        | 46,158                                      | 13,408                              | 92,282                         | 46,077  | 220                                   | 198,145   |
| Additions  | 1,907                                       | 2,697                               | 11,320                         | 16,908  | 196                                   | 33,028  |
| Transfer from construction work in progress                            | 8,281                                       | -                                   | 25,674                         | (33,948)                                      | (7)                                   | -   |
| Disposals  | -   | (27)                                | (750)                          | -   | -                                     | (777)   |
| Depreciation expense   | (1,786)                                     | -                                   | (28,118)                       | -   | -                                     | (29,904)  |
| Amortisation expense   | -   | (1,790)                             | -                              | -   | (92)                                  | (1,882)   |
| Discontinued operations (Note 5)                                       | -   | (2,910)                             | (13,666)                       | (12,796)                                      | -                                     | (29,372)  |
| <b>At 30 June 2012, net of accumulated depreciation and impairment</b> | <b>54,560</b>                               | <b>11,378</b>                       | <b>86,742</b>                  | <b>16,241</b>                                 | <b>317</b>                            | <b>169,238</b>                                      |
| <b>Year ended 30 June 2011</b>   |   |                                     |                                |   |                                       |   |
| At 30 June 2010, net of accumulated depreciation and impairment        | 46,715                                      | 5,076                               | 95,205                         | 18,259  | 234                                   | 165,489   |
| Additions  | 644   | 11,205                              | 18,779                         | 34,893  | 115                                   | 65,636  |
| Transfer from construction work in progress                            | 3   | -                                   | 6,788                          | (6,791)                                       | -                                     | -   |
| Disposals  | -   | (1,311)                             | (3,468)                        | (284)   | (60)                                  | (5,123)   |
| Depreciation expense   | (1,204)                                     | -                                   | (25,022)                       | -   | -                                     | (26,226)  |
| Amortisation expense   | -   | (1,562)                             | -                              | -   | (69)                                  | (1,631)   |
| <b>At 30 June 2011, net of accumulated depreciation and impairment</b> | <b>46,158</b>                               | <b>13,408</b>                       | <b>92,282</b>                  | <b>46,077</b>                                 | <b>220</b>                            | <b>198,145</b>                                      |
| <b>At 30 June 2012</b>   |   |                                     |                                |   |                                       |   |
| Cost (gross carrying amount)   | 68,032                                      | 14,523                              | 360,068                        | 16,241  | 549                                   | 459,413   |
| Accumulated depreciation and impairment                                | (13,472)                                    | (3,145)                             | (273,326)                      | -   | (232)                                 | (290,175)   |
| <b>Net carrying amount</b>   | <b>54,560</b>                               | <b>11,378</b>                       | <b>86,742</b>                  | <b>16,241</b>                                 | <b>317</b>                            | <b>169,238</b>                                      |
| <b>At 30 June 2011</b>   |   |                                     |                                |   |                                       |   |
| Cost (gross carrying amount)   | 57,991                                      | 25,225                              | 367,189                        | 46,077  | 381                                   | 496,863   |
| Accumulated depreciation and impairment                                | (11,833)                                    | (11,817)                            | (274,907)                      | -   | (161)                                 | (298,718)   |
| <b>Net carrying amount</b>   | <b>46,158</b>                               | <b>13,408</b>                       | <b>92,282</b>                  | <b>46,077</b>                                 | <b>220</b>                            | <b>198,145</b>                                      |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

|  | Television<br>licences<br>\$'000 | Magazine<br>mastheads<br>\$'000 | Magazine<br>licences<br>\$'000 | Total<br>\$'000  |
|--|----------------------------------|---------------------------------|--------------------------------|------------------|
| <b>14. LICENCES AND MASTHEADS</b>                                      |                                  |                                 |                                |                  |
| <b>Year ended 30 June 2012</b>   |                                  |                                 |                                |                  |
| At 30 June 2011, net of accumulated depreciation and impairment        | 1,063,669                        | 459,581                         | 9,979                          | 1,533,229        |
| Net purchases/(disposals)  | -                                | (12,676)                        | -                              | (12,676)         |
| Impairment   | (719,000)                        | (40,000)                        | -                              | (759,000)        |
| Amortisation expense   | -                                | -                               | (1,324)                        | (1,324)          |
| Discontinued operations (Note 5)                                       | -                                | (406,905)                       | (8,655)                        | (415,560)        |
| <b>At 30 June 2012, net of accumulated amortisation and impairment</b> | <b>344,669</b>                   | <b>-</b>                        | <b>-</b>                       | <b>344,669</b>   |
| <b>Year ended 30 June 2011</b>   |                                  |                                 |                                |                  |
| At 30 June 2010, net of accumulated depreciation and impairment        | 1,104,669                        | 498,130                         | 11,362                         | 1,614,161        |
| Net purchases/(disposals)  | -                                | 1,451                           | -                              | 1,451            |
| Impairment   | (41,000)                         | (40,000)                        | -                              | (81,000)         |
| Amortisation expense   | -                                | -                               | (1,383)                        | (1,383)          |
| <b>At 30 June 2011, net of accumulated amortisation and impairment</b> | <b>1,063,669</b>                 | <b>459,581</b>                  | <b>9,979</b>                   | <b>1,533,229</b> |
| <b>At 30 June 2012</b>   |                                  |                                 |                                |                  |
| Cost (gross carrying amount)   | 1,201,669                        | 2,044,581                       | 25,303                         | 3,271,553        |
| Accumulated depreciation and impairment                                | (857,000)                        | (1,637,676)                     | (16,648)                       | (2,511,324)      |
| Discontinued operations (Note 5)                                       | -                                | (406,905)                       | (8,655)                        | (415,560)        |
| <b>Net carrying amount</b>   | <b>344,669</b>                   | <b>-</b>                        | <b>-</b>                       | <b>344,669</b>   |
| <b>At 30 June 2011</b>   |                                  |                                 |                                |                  |
| Cost (gross carrying amount)   | 1,201,669                        | 2,044,581                       | 25,303                         | 3,271,553        |
| Accumulated depreciation and impairment                                | (138,000)                        | (1,585,000)                     | (15,324)                       | (1,738,324)      |
| <b>Net carrying amount</b>   | <b>1,063,669</b>                 | <b>459,581</b>                  | <b>9,979</b>                   | <b>1,533,229</b> |

|  | Goodwill<br>\$'000 | Venue<br>Ticketing<br>Rights<br>\$'000 | Other <sup>(1)</sup><br>\$'000 | Total<br>\$'000    |
|--|--------------------|--|--------------------------------|--------------------|
| <b>15. OTHER INTANGIBLE ASSETS</b>                                     |                    |  |                                |                    |
| <b>Year ended 30 June 2012</b>   |                    |  |                                |                    |
| At 30 June 2011, net of accumulated depreciation and impairment        | 1,311,179          | 31,739                                 | 4,169                          | 1,347,087          |
| Net purchases/(disposals)  | (20,226)           | 14,107                                 | 1,872                          | (4,247)            |
| Impairment   | (33,000)           | -                                      | -                              | (33,000)           |
| Amortisation expense   | -                  | (15,287)                               | (1,453)                        | (16,740)           |
| Discontinued operations (Note 5)                                       | (71,858)           | -                                      | -                              | (71,858)           |
| <b>At 30 June 2012, net of accumulated amortisation and impairment</b> | <b>1,186,095</b>   | <b>30,559</b>                          | <b>4,588</b>                   | <b>(1,221,242)</b> |

**NINE ENTERTAINMENT CO. HOLDINGS PTY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

|  | <b>Goodwill</b>    | <b>Venue Ticketing Rights</b> | <b>Other<sup>1</sup></b> | <b>Total</b>       |
|--|--------------------|-------------------------------|--------------------------|--------------------|
|  | \$'000             | \$'000                        | \$'000                   | \$'000             |
| <b>15. OTHER INTANGIBLE ASSETS (continued)</b>                         |                    |                               |                          |                    |
| <b>Year ended 30 June 2011</b>   |                    |                               |                          |                    |
| At 30 June 2010, net of accumulated depreciation and impairment        | 2,191,233          | 37,566                        | 7,720                    | 2,236,519          |
| Net purchase / (disposals)   | (197,054)          | 7,223                         | (1,387)                  | (191,218)          |
| Transfer from property, plant and equipment                            | -                  | -                             | -                        | -                  |
| Impairment   | (683,000)          | -                             | -                        | (683,000)          |
| Amortisation expense   | -                  | (13,050)                      | (2,164)                  | (15,214)           |
| <b>At 30 June 2011, net of accumulated amortisation and impairment</b> | <b>1,311,179</b>   | <b>31,739</b>                 | <b>4,169</b>             | <b>1,347,087</b>   |
| <b>At 30 June 2012</b>   |                    |                               |                          |                    |
| Cost (gross carrying amount)   | <b>2,201,095</b>   | <b>96,845</b>                 | <b>12,150</b>            | <b>2,310,090</b>   |
| Accumulated depreciation and impairment                                | <b>(1,015,000)</b> | <b>(66,286)</b>               | <b>(7,562)</b>           | <b>(1,088,848)</b> |
| <b>Net carrying amount</b>   | <b>1,186,095</b>   | <b>30,559</b>                 | <b>4,588</b>             | <b>1,221,242</b>   |
| <b>At 30 June 2011</b>   |                    |                               |                          |                    |
| Cost (gross carrying amount)   | 2,293,179          | 82,738                        | 10,278                   | 2,386,195          |
| Accumulated depreciation and impairment                                | (982,000)          | (50,999)                      | (6,109)                  | (1,039,108)        |
| <b>Net carrying amount</b>   | <b>1,311,179</b>   | <b>31,739</b>                 | <b>4,169</b>             | <b>1,347,087</b>   |

(1) This includes capitalised development costs being an internally generated intangible asset.

(a) *Allocation of non-amortising intangibles and goodwill*

The consolidated entity has allocated goodwill, licences and mastheads to the following cash generating units ("CGU"):

|                                     | <b>2012</b>    | <b>2011</b>      |
|-------------------------------------|----------------|------------------|
|                                     | \$'000         | \$'000           |
| Nine Network                        | <b>344,669</b> | 1,063,669        |
| ACP Magazines                       | -              | 459,581          |
| <b>Total licences and mastheads</b> | <b>344,669</b> | <b>1,523,250</b> |

|                       | <b>2012</b>      | <b>2011</b>      |
|-----------------------|------------------|------------------|
|                       | \$'000           | \$'000           |
| Nine Network          | <b>984,167</b>   | 984,167          |
| ACP Magazines         | -                | 92,086           |
| NBN                   | <b>31,545</b>    | 64,543           |
| Ticketek              | <b>168,353</b>   | 168,353          |
| Allphones Arena       | <b>2,030</b>     | 2,030            |
| <b>Total Goodwill</b> | <b>1,186,095</b> | <b>1,311,179</b> |

(b) *Determination of recoverable amount*

The recoverable amount of the following CGUs is determined based on value-in-use calculations using cash flow projections based on financial budgets approved by the Directors covering a five-year period and with a terminal value:

- Nine Network
- NBN
- Ticketek
- Allphones Arena

Management has estimated terminal value using EBITDA multiples that are based upon recent market transactions and directors' assessments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**15. OTHER INTANGIBLE ASSETS (continued)**

*(c) Impairment losses recognised*

An impairment loss of \$719m on TV licences was recognised in the specific items within expenses in the year ended 30 June 2012 (2011: \$41m).

An impairment loss of \$40m on magazine mastheads was recognised in the profit from discontinued operations (note 5) in the year ended 30 June 2012 (2011: \$40m). The impairment arose from the write-down of the discontinued operation to the net realisable value of \$491m.

An impairment loss of \$33m on goodwill was recognised in the specific items within expenses in the year ended 30 June 2012 (2011: \$683m). The impaired goodwill related to NBN (2011: ACP Magazines and NINE Network).

*(d) Key assumptions used for value-in-use calculations*

The key assumptions on which management has based its cash flow projections when determining the value-in-use calculations for the Nine Network are as follows:

- The East Coast Free-To-Air advertising market is anticipated to show growth of CPI for 2012/13 financial year followed by a period of growth at a rate which is consistent with CPI which does not exceed the long term industry growth rate.
- The Nine Network's share of the East Coast Free-To-Air advertising market for calendar year 2013 is expected to be consistent with the ratings share achieved by the Nine Network in calendar year 2012. In future years management expects the Nine Network's share of the market to remain stable over the forecast period.
- The post-tax discount rate applied to the cash flow projections was 11.2% (2011: 11.2%) 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.

The key assumptions on which management has based its cash flow projections when determining the value-in-use calculations for NBN are as follows:

- Management expects the advertising market to show growth which is consistent with industry expectations.
- The post-tax discount rate applied to the cash flow projections was 11.2% (2011: 11.2%) 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.

The key assumptions on which management has based its cash flow projections when determining the value-in-use calculations for Ticketek and Allphones Arena are as follows:

- Management expects the events industry to show growth which is consistent with industry expectations.
- The post-tax discount rate applied to the cash flow projections was 11% which affects management's best estimate of the time value of money and the risks specific to the Ticketing and Events industries. In the prior year the recoverable amounts of goodwill relating to Ticketek and Acer Arena were based on fair value less cost to sell using independent valuations.

*(e) Sensitivity*

No reasonable change in key assumptions would result in impairment of the CGUs which have not been impaired. Any reasonable adverse change in key assumptions would result in further impairment of the CGUs where the assets have already been impaired.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

|  | 2012<br>\$'000 | 2011<br>\$'000 |
|--|----------------|----------------|
| <b>16. TRADE AND OTHER PAYABLES</b>    |                |                |
| <b>Current – unsecured</b>             |                |                |
| Trade and other payables <sup>1</sup>  | 274,078        | 436,891        |
| Program contract payables <sup>2</sup> | 70,872         | 43,754         |
| Deferred income                        | 35,760         | 39,527         |
|  | <b>380,710</b> | 520,172        |
| <b>Non Current – unsecured</b>         |                |                |
| Program contract payables <sup>2</sup> | 67,822         | 69,141         |
| Other                                  | 8,690          | 8,852          |
|  | <b>76,512</b>  | 77,993         |

<sup>1</sup> Terms of trade in relation to trade payables are, on average, 30 to 60 days from the date of invoice. The Group operates in a number of diverse markets and accordingly, the terms of trade vary by country and business.

<sup>2</sup> Program contract creditors are settled according to the contract negotiated with the program supplier.

|  | 2012<br>\$'000   | 2011<br>\$'000 |
|--|------------------|----------------|
| <b>17. INTEREST-BEARING LOANS AND BORROWINGS</b> |                  |                |
| <b>Current – secured</b>                         |                  |                |
| Lease liabilities <sup>1</sup> - Note 22         | 56               | 108            |
| Bank facilities – Note 23 (c)                    | 3,799,954        | -              |
|  | <b>3,800,010</b> | 108            |
| <b>Non Current</b>                               |                  |                |
| Bank facilities secured – Note 23 (c)            | -                | 3,662,449      |
| Lease liabilities secured <sup>1</sup> - Note 22 | 220              | 102            |
|  | <b>220</b>       | 3,662,551      |

<sup>1</sup>The lease and hire purchase liabilities are secured by a charge over the assets.

<sup>2</sup> The bank facility includes unamortised financing costs of \$18,453,000 (2011: \$40,040,000).

There are no refinancing events due for the Senior Debt until 7th February 2013 and until 7th April 2014 for the Mezzanine Notes, which is more than 12 months from balance date. However, as disclosed in note 1 (c), the Group has agreed, in principle, to enter into a scheme of arrangement where all the financing facilities will be converted to equity or otherwise refinanced. Management expect settlement of all bank debt within 12 months of the balance date and as such have disclosed the debt as current.

As part of its financing facilities, the Group is subject to certain customary financial covenants measured on a quarterly basis. The Group has been in compliance with its financial covenant requirements to date including the quarter ended 30 June 2012.

Throughout the year the Group was subject to four covenants being a Debt Service Cover Ratio, an Interest Cover Ratio, a Senior Leverage Ratio and a Mezzanine Note Interest Suspension Covenant.

Further details in relation to the Group's financing is included in Note 1.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**17. INTEREST-BEARING LOANS AND BORROWINGS (continued)**

**Assets pledged as security**

In addition to assets pledged as security over unsecured bank facilities (Note 23 (c)), the carrying amounts of assets pledged as security for interest bearing liabilities are:

|   | 2012<br>\$'000 | 2011<br>\$'000 |
|---|----------------|----------------|
| <b>Finance lease</b>                    |                |                |
| Plant and equipment - Note 13           | 317            | 220            |
| <b>Total assets pledged as security</b> | <b>317</b>     | <b>220</b>     |

|                                      | Employee<br>entitlements<br>\$'000 | Onerous<br>contracts<br>\$'000 | Other<br>\$'000 | Total<br>\$'000 |
|--------------------------------------|------------------------------------|--------------------------------|-----------------|-----------------|
| <b>18. PROVISIONS</b>                |                                    |                                |                 |                 |
| At 30 June 2011                      | 58,250                             | 31,832                         | 22,383          | 112,465         |
| (Utilised)/arising during the period | (6,132)                            | 15,863                         | 4,833           | 14,564          |
| Discontinued operations (Note 5)     | (15,052)                           | -                              | (16,546)        | (31,598)        |
| <b>At 30 June 2012</b>               | <b>37,066</b>                      | <b>47,695</b>                  | <b>10,670</b>   | <b>95,431</b>   |
| At 30 June 2010                      | 56,385                             | 21,512                         | 23,843          | 101,740         |
| (Utilised)/arising during the period | 1,865                              | 10,320                         | (1,460)         | 10,725          |
| <b>At 30 June 2011</b>               | <b>58,250</b>                      | <b>31,832</b>                  | <b>22,383</b>   | <b>112,465</b>  |
| Current 2012                         | 18,462                             | 42,597                         | 9,499           | 70,558          |
| Non-current 2012                     | 18,604                             | 5,098                          | 1,171           | 24,873          |
|                                      | <b>37,066</b>                      | <b>47,695</b>                  | <b>10,670</b>   | <b>95,431</b>   |
| Current 2011                         | 35,277                             | 24,860                         | 17,461          | 77,598          |
| Non-current 2011                     | 22,973                             | 6,972                          | 4,922           | 34,867          |
|                                      | 58,250                             | 31,832                         | 22,383          | 112,465         |

**Employee Entitlements**

Refer to Note 1 (w) for a description of the nature and expected timing of provision for employee entitlements.

**Onerous contracts**

The provision for onerous contracts represents contracts, that due to changes in market conditions the income is lower than cost for which the Group is currently obligated under the contract. The net obligation under the contracts has been provided for. The provision is calculated as the net of estimated revenue and the estimate of committed program purchase commitments discounted to present values

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

|  | 2012<br>\$'000   | 2011<br>\$'000 |
|--|------------------|----------------|
| <b>19. CONTRIBUTED EQUITY</b>                                  |                  |                |
| <b>Issued share capital</b>                                    |                  |                |
| Ordinary shares fully paid                                     | 1,325,183        | 1,325,183      |
| B Class shares fully paid                                      | 4,798            | 6,198          |
|  | <b>1,329,981</b> | 1,331,381      |
| <b>Movements in issued share capital</b>                       |                  |                |
| <b>Ordinary Shares</b>   |                  |                |
| Carrying amount at the beginning and end of the financial year | 1,325,183        | 1,325,183      |
| <b>B Class Shares</b>  |                  |                |
| Carrying amount at the beginning of the financial year         | 6,198            | 10,728         |
| Buy back of shares   | (1,400)          | (4,530)        |
| Carrying amount at the end of the financial year               | <b>4,798</b>     | 6,198          |

|  | 2012<br>No.            | 2011<br>No.     |
|--|------------------------|-----------------|
| <b>Issued share capital</b>                    |                        |                 |
| Ordinary shares fully paid                     | 381,653,647,017        | 381,653,647,017 |
| B class shares fully paid                      | 35,352,853             | 45,183,747      |
| <b>Movements in issued share capital</b>       |                        |                 |
| <b>Ordinary Shares</b>                         |                        |                 |
| Balance at the beginning of the financial year | 381,653,647,017        | 381,653,647,017 |
| Issue of shares                                | -                      | -               |
| Balance at the end of the financial year       | <b>381,653,647,017</b> | 381,653,647,017 |
| <b>B Class Shares</b>                          |                        |                 |
| Balance at the beginning of the financial year | 45,183,747             | 77,343,716      |
| Share buyback                                  | (9,830,894)            | (32,159,969)    |
| Balance at the end of the financial year       | <b>35,352,853</b>      | 45,183,747      |

**a) Terms and Conditions of Contributed Equity**

Ordinary and B class 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. The allocation of dividends or proceeds between Ordinary and B class shares is as follows:

- First, the B class shares paid in amount is returned pro-rata with the first \$335 million returned to the ordinary class shareholders;
- Then, an amount equivalent to twice the B class shares paid in amount is returned pro-rata with the next \$1,526.9 million returned to the ordinary class shareholders;
- Then, an amount equivalent to twice the B class shares paid in amount is returned;
- Then, any remaining proceeds are split 95% ordinary shares and 5% B class shares.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**19. CONTRIBUTED EQUITY (continued)**

**b) Management Equity Plan**

The B class shares described above were issued under the Management Equity Plan (MEP).

Under the MEP executives are invited to acquire B class shares. Generally executives are required to contribute 50% of the value of the share, with the remaining 50% being supported by an interest free loan that is repayable only in the event of dividends or proceeds being received sufficient to recoup the ordinary share capital contributions and the cash contributed by the executives. These limited recourse loans represent an equity settled share based payment.

At 30 June 2012, \$5,035,000 of a possible \$15,000,000 of shares were on issue under the MEP. The fair value at the grant date of the limited recourse loan component of the MEP was calculated using a Black-Scholes model at \$3,965,605.

The key assumption used in the valuation was a realisation of the shares 4 years after the grant date.

The amount credited to the Statement of Comprehensive Income during the year was \$487,000 (2011: \$511,000). The credit in the year arose as a result of the reversal of charges from prior years for employees who left the MEP during the year.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

|  | 2012<br>\$'000     | 2011<br>\$'000     |
|--|--------------------|--------------------|
| <b>20. RESERVES AND ACCUMULATED LOSSES</b>   |                    |                    |
| Foreign currency translation reserve   | (25,577)           | (23,531)           |
| Net unrealised gains reserve   | 1,832              | 3,994              |
| Cash flow hedge reserve  | (62,445)           | (56,368)           |
| Share based payment reserve  | 3,965              | 4,452              |
|  | <b>(82,225)</b>    | <b>(71,453)</b>    |
| Accumulated losses   | <b>(2,500,086)</b> | <b>(1,526,453)</b> |
| <b>FOREIGN CURRENCY TRANSLATION RESERVE</b>  |                    |                    |
| The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.              |                    |                    |
| Balance at the beginning of the financial year   | (23,531)           | (20,159)           |
| Net exchange difference on translation of overseas controlled entities   | (2,046)            | (3,372)            |
| Balance at the end of the financial year   | <b>(25,577)</b>    | <b>(23,531)</b>    |
| <b>NET UNREALISED GAINS RESERVE</b>  |                    |                    |
| The net unrealised gains reserve records the actuarial gains and losses relating to the net surplus/(deficit) in the employer sponsored defined benefit superannuation fund. |                    |                    |
| Balance at the beginning of the financial year   | 3,994              | 3,140              |
| Movement in defined benefit superannuation fund  | (2,162)            | 854                |
| Balance at the end of the financial year   | <b>1,832</b>       | <b>3,994</b>       |
| <b>CASH FLOW HEDGE RESERVE</b>   |                    |                    |
| The cash flow hedge reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.                |                    |                    |
| Balance at the beginning of the financial year   | (56,368)           | (83,894)           |
| Revaluation of cash flow hedges to fair value  | (6,077)            | 27,526             |
| Balance at the end of the financial year   | <b>(62,445)</b>    | <b>(56,368)</b>    |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

|   | <b>2012</b><br>\$'000 | <b>2011</b><br>\$'000 |
|---|-----------------------|-----------------------|
| <b>20. RESERVES AND ACCUMULATED LOSSES (continued)</b>  |                       |                       |
| <b>SHARE BASED PAYMENT RESERVE</b>  |                       |                       |
| The share based payment reserve is used to record share based remuneration to executives in relation to B class shares. |                       |                       |
| Balance at the beginning of the financial year  | <b>4,452</b>          | 4,963                 |
| Share based payment (credit)/expense for the year   | <b>(487)</b>          | (511)                 |
| Balance at the end of the financial year  | <b>3,965</b>          | 4,452                 |
| <b>ACCUMULATED LOSSES</b>   |                       |                       |
| Balance at the beginning of the financial year  | <b>(1,526,453)</b>    | (1,073,553)           |
| Net profit/(loss) for the period  | <b>(973,633)</b>      | (451,163)             |
| Transfer from Non-controlling interests   | -                     | (1,737)               |
| Balance at the end of the financial year  | <b>(2,500,086)</b>    | (1,526,453)           |

|   | <b>Total</b><br><b>2012</b><br>\$'000 | <b>Total</b><br><b>2011</b><br>\$'000 |
|---|---------------------------------------|---------------------------------------|
| <b>21. NON-CONTROLLING INTERESTS</b>              |                                       |                                       |
| Reconciliation of non-controlling interests:      |                                       |                                       |
| Balance at the beginning of the financial period  | <b>2,141</b>                          | 46,081                                |
| Non-controlling interests acquired by Third Party | -                                     | (54,525)                              |
| Share of operating profit/(loss)                  | <b>1,928</b>                          | 23,370                                |
| Less dividends/distributions                      | <b>(2,120)</b>                        | (14,522)                              |
| Transfer of (profit) / losses to Parent           | <b>(1,175)</b>                        | 1,737                                 |
| Balance at the end of the financial year          | <b>774</b>                            | 2,141                                 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

|  | 2012<br>\$'000 | 2011<br>\$'000 |
|--|----------------|----------------|
| <b>22. EXPENDITURE COMMITMENTS</b>   |                |                |
| <b>(a) Capital expenditure commitments</b>   |                |                |
| (i) Estimated capital expenditure contracted for at balance date, but not provided for, payable: |                |                |
| • within one year  | 5,520          | 6,868          |
| (ii) Program rights contracted for at balance date, but not provided for, payable:               |                |                |
| • within one year  | 81,229         | 43,305         |
| • after one year but not more than five years  | 21,835         | 72,224         |
| • later than five years  | -              | 4,551          |
|  | <b>103,064</b> | <b>120,080</b> |

**(b) Lease expenditure commitments**

| <b>(i) Finance lease commitments:</b>  | 2012<br>\$'000                | 2012<br>\$'000                         | 2011<br>\$'000                | 2011<br>\$'000                         |
|--|-------------------------------|--|-------------------------------|--|
| Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows: | <b>Minimum lease payments</b> | <b>Present value of lease payments</b> | <b>Minimum lease payments</b> | <b>Present value of lease payments</b> |
| Consolidated   |                               |  |                               |  |
| • within one year  | 80                            | 56                                     | 122                           | 108                                    |
| • after one year but not more than five years  | 236                           | 220                                    | 77                            | 71                                     |
| • more than five years   | -                             | -                                      | 37                            | 31                                     |
| Total minimum lease payments   | <b>316</b>                    | <b>276</b>                             | 236                           | 210                                    |
| Less amounts representing finance charges  | <b>(40)</b>                   | -                                      | (26)                          | -                                      |
| Present value of minimum lease payments  | <b>276</b>                    | <b>276</b>                             | 210                           | 210                                    |

At 30 June 2012, the Group has finance leases principally relating to various items of equipment and motor vehicles.

These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

| <b>(ii) Non-cancellable operating lease commitments:</b> | 2012<br>\$'000 | 2011<br>\$'000 |
|--|----------------|----------------|
| Payable within one year                                  | 38,824         | 37,630         |
| Payable after one year but not more than five years      | 130,002        | 139,508        |
| Payable more than five years                             | 45,994         | 58,698         |
|  | <b>214,820</b> | <b>235,836</b> |

The Group has entered into non-cancellable operating leases. The leases vary in contract year depending on the asset involved but generally have an average lease term of approximately 5 years. Operating leases include telecommunications rental agreements and leases on assets including 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.

Subsequent to year end as part of the disposal of Australian Consolidated Press Limited, several operating leases with a non-cancellable commitment of \$57.9m were transferred to Australian Consolidated Press Limited.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

|   | 2012<br>\$'000  | 2011<br>\$'000 |
|---|-----------------|----------------|
| <b>23. RECONCILIATION OF THE STATEMENT OF CASH FLOWS</b>  |                 |                |
| For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 30 June |                 |                |
| (a) Cash balance represents:  |                 |                |
| Cash on hand and at bank  | 20,381          | 73,496         |
| Deposits at call  | 151,279         | 166,687        |
| Cash held on Trust  | 65,944          | 50,522         |
|   | <b>237,604</b>  | 290,705        |
| Cash on hand and at bank attributable to discontinued operations (Note 5)                                   | 34,504          | -              |
|   | <b>272,108</b>  | 290,705        |
| (b) Reconciliation of profit after tax to net cash flows from operations:                                   |                 |                |
| Profit/(loss) after tax   | (971,705)       | (427,793)      |
| Depreciation and amortisation   |                 |                |
| • Property, plant and equipment   | 31,786          | 27,857         |
| • Amortisation of ticketing rights  | 15,287          | 13,050         |
| • Amortisation of other assets  | 2,777           | 3,547          |
| • Amortisation of financing costs   | 21,588          | 21,588         |
| Share of associates' net (profit)   | (25,461)        | (17,613)       |
| Impairment of assets  | 823,589         | 775,769        |
| Provision for doubtful debts  | (1,731)         | (1,888)        |
| Profit on sale of discontinued operations   | (7,890)         | (388,394)      |
| Profit on sale of property, plant and equipment   | (44)            | (27,925)       |
| Management and employee share accounting expense  | (487)           | (449)          |
| Investment distributions from associates  | 24,896          | 16,940         |
| Non-cash interest expense   | 97,586          | 87,009         |
| <i>Changes in assets and liabilities:</i>   |                 |                |
| Trade and other receivables   | (29,302)        | 26,412         |
| Inventories   | (3,256)         | (2,762)        |
| Program rights  | (5,321)         | (24,295)       |
| Prepayments   | (4,167)         | (1,645)        |
| Other assets  | (10,104)        | 5,683          |
| Deferred income tax asset   | 396             | 52,674         |
| Payables relating to cash held on Trust   | 15,722          | (53,701)       |
| Other Payables  | 8,193           | (48,773)       |
| Provision for income tax  | 108             | (4,193)        |
| Provision for employee entitlements   | 3,137           | 3,692          |
| Other provisions  | 3,965           | 9,845          |
| Deferred income tax liability   | (4,376)         | 3,366          |
| Foreign currency movements in assets and liabilities of overseas controlled entities                        | (2,336)         | (3,504)        |
| <b>Net cash flows from / (used in ) operating activities</b>  | <b>(17,150)</b> | 44,947         |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

| <b>23. RECONCILIATION OF STATEMENT OF CASH FLOWS (continued)</b> |   |                 |                                  |                                       |
|--|---|-----------------|----------------------------------|---------------------------------------|
| <b>(c) Credit facilities</b>                                     | <b>Facility Type</b>  | <b>Maturity</b> | <b>Committed Facility Amount</b> | <b>Facility drawn at 30 June 2012</b> |
|  |   |                 | <b>\$ million</b>                | <b>\$ million</b>                     |
| <b>Senior Bank Facilities</b>                                    |   |                 |                                  |                                       |
| Senior Secured Syndicated Facility A                             | Cash advance  | 7 Feb 2013      | -                                | -                                     |
| Senior Secured Syndicated Facility B                             | Cash advance  | 7 Feb 2013      | 2,214                            | 2,214                                 |
| Senior Secured Syndicated Facility C                             | Cash advance  | 7 Feb 2013      | 67                               | 66                                    |
| Senior Secured Syndicated Facility D                             | Cash advance  | 7 Feb 2013      | 460                              | 460                                   |
| Working Capital Facility Bilateral Facility                      | Cash Advance and other Transactional banking facilities including bank guarantees | 7 Feb 2013      | 33                               | 16                                    |
| <b>Subordinated Debt</b>   |   |                 |                                  |                                       |
| Secured Mezzanine Note Facility                                  | Senior guaranteed notes   | 7 April 2014    | 1,078                            | 1,078                                 |
| <b>Other Bank Guarantees</b>                                     | Bank Guarantees   | Various         | 16                               | 16                                    |
| <b>Total Debt</b>  |   |                 | <b>3,868</b>                     | <b>3,850 *</b>                        |

The senior secured syndicated facility is provided by a syndicate of banks and financial institutions led by UBS as Deed agents.

The senior working capital facility is provided on a bilateral basis by ANZ.

The subordinated guaranteed notes are provided by Goldman Sachs and other financial institutions.

All tranches of debt are supported by security over the Group's assets and cash flows and group guarantees from the majority of the Company's wholly owned subsidiaries. Details of the assets and liabilities that form this security are included in the External Closed Group disclosures in Note 31. These facilities impose various affirmative covenants on the Company and the Group, including compliance with certain ratios and covenants, various negative covenants, including restrictions on encumbrances, and customary events of default, including a payment default, breach of covenants, cross-default and insolvency events.

**\* Reconciliation to Statement of Financial Position**

|   | <b>\$ million</b> |
|---|-------------------|
| Total debt drawn (above)                        | 3,850             |
| Unamortised balance of establishment costs      | (18)              |
| Bank guarantees                                 | (32)              |
| <b>Debt per Statement of Financial Position</b> | <b>3,800</b>      |

**24. EVENTS AFTER THE BALANCE SHEET DATE**

On 30 September 2012, the Group disposed of its wholly owned subsidiary Australian Consolidated Press Limited and certain intangible assets to subsidiaries of Heinrich Bauer Verlag KG, a company incorporated in Germany for gross sale proceeds of \$525m.

As described in Note 1c), on 17 October 2012, the Group reached agreement in principle ("Agreement") with representatives of its senior and mezzanine lenders for a restructuring of its Facilities which the Group intends to implement through a scheme of arrangement prior to the maturity of the Senior Debt. Funds managed by the Group's two largest senior lenders (who have advised they have the support of 75% of the outstanding senior debt), as well as Goldman Sachs Mezzanine Partners (representing 80% of the mezzanine debt), have confirmed that they support the in principle terms of this restructure.

As soon as the restructure is effected, it is expected that all the existing senior and mezzanine debt will be converted to equity and / or refinanced.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**25. SUPERANNUATION COMMITMENTS**

*Accounting Policy*

A portion of actuarial gains or losses are recognised in profit and loss using the corridor approach. The portion recognised is the excess of the unrecognised gain/loss at the start of the year over the greater of 10% of the value of Plan assets and 10% of the Defined Benefit Obligation at the start of the year, divided by the expected future service of defined benefit members.

*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.

*Valuation*

The actuarial valuation of the defined benefits fund for the year ended 30 June 2012 was performed by Darren Wickham FIAA of Mercer Investment Nominees Limited for the purpose of satisfying accounting requirements

**Reconciliation of the Present Value of the Defined Benefit Obligation**

| Financial year ended  | 30 June 2012 | 30 June 2011 |
|---|--------------|--------------|
|   | \$'000       | \$'000       |
| Present value of defined benefit obligations at beginning of year | 47,953       | 51,671       |
| (+) Current service cost  | 1,195        | 1,420        |
| (+) Interest cost   | 2,423        | 2,549        |
| (+) Contributions by Plan participants                            | 734          | 823          |
| (+) Actuarial (gains)/losses                                      | 7,447        | (3,400)      |
| (-) Benefits paid/settlements                                     | (10,918)     | (4,655)      |
| (-) Taxes, premiums & expenses paid                               | (183)        | (455)        |
| Present value of defined benefit obligations at 30 June           | 48,651       | 47,953       |

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

**Reconciliation of the Fair Value of Plan Assets**

| Financial year ended                                | 30 June 2012 | 30 June 2011 |
|---|--------------|--------------|
|   | \$'000       | \$'000       |
| Fair value of Plan assets at beginning of the year  | 50,735       | 48,750       |
| (+) Expected return on Plan assets                  | 3,538        | 3,480        |
| (+) Actuarial gains/(losses)                        | (3,118)      | 363          |
| (+) Employer contributions                          | 997          | 2,429        |
| (+) Contributions by Plan participants              | 734          | 823          |
| (-) Benefits paid                                   | -            | -            |
| (-) Taxes, premiums & expenses paid                 | (183)        | (455)        |
| (+) Settlements                                     | (10,918)     | (4,655)      |
| Fair value of planned assets obligations at 30 June | 41,785       | 50,735       |

**Reconciliation of the Assets and Liabilities Recognised in the statement of financial position**

| As at                                   | 30 June 2012   | 30 June 2011   |
|---|----------------|----------------|
|   | \$'000         | \$'000         |
| Defined benefit obligation <sup>^</sup> | 48,651         | 47,953         |
| (-) Fair value of Plan assets           | (41,785)       | (50,735)       |
| Deficit/(surplus)                       | 6,866          | (2,782)        |
| (-) Unrecognised net loss               | 13,154         | 5,668          |
| <b>Net benefit liability/(asset)</b>    | <b>(6,288)</b> | <b>(8,450)</b> |

<sup>^</sup> Includes contributions tax provision

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**25. SUPERANNUATION COMMITMENTS (continued)**

**Expense Recognised in Statement of Comprehensive Income**

| Financial year ended  | 30 June 2012 | 30 June 2011 |
|---|--------------|--------------|
|   | \$'000       | \$'000       |
| Service cost  | 1,195        | 1,420        |
| Interest cost   | 2,423        | 2,549        |
| Expected return on assets   | (3,538)      | (3,480)      |
| Actuarial loss/(gain)   | 63           | 540          |
| Effect of curtailments/settlements  | 3,016        | 546          |
| <b>Superannuation expense included in salary and employee benefit expense</b> | <b>3,159</b> | <b>1,575</b> |

**Amounts Recognised in the Statement of Comprehensive Income**

| Financial year ended     | 30 June 2012 | 30 June 2011 |
|--------------------------|--------------|--------------|
|                          | \$'000       | \$'000       |
| Actuarial (gains)/losses | 2,162        | (854)        |

**Cumulative Amount Recognised in the Statement of Comprehensive Income**

| Financial year ended                          | 30 June 2012 | 30 June 2011 |
|---|--------------|--------------|
|   | \$'000       | \$'000       |
| Cumulative amount of actuarial (gains)/losses | (1,832)      | (3,994)      |

**Plan Assets**

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

| As at                | 30 June 2012 | 30 June 2011 |
|----------------------|--------------|--------------|
| Australian Equity    | 29%          | 29%          |
| International Equity | 27%          | 25%          |
| Fixed Income         | 16%          | 18%          |
| Property             | 6%           | 6%           |
| Alternatives/Other   | 17%          | 19%          |
| Cash                 | 5%           | 3%           |

**Fair Value of Plan Assets**

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

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

**Expected Rate of Return on Plan Assets**

The expected return on assets assumption is determined by weighting the expected long-term return for each class by the target allocation of assets to each class and allowing for the correlations of the investment returns between asset classes. The returns used for each class are net of investment tax and investment fees.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**25. SUPERANNUATION COMMITMENTS (continued)**

**Actual Return on Plan Assets**

| Financial year ended         | 30 June 2012 | 30 June 2011 |
|------------------------------|--------------|--------------|
|                              | \$'000       | \$'000       |
| Actual return on Plan assets | 420          | 3,843        |

**Principal Actuarial Assumptions at the Reporting Date**

| Financial year ended                   | 30 June 2012 | 30 June 2011 |
|--|--------------|--------------|
| Discount rate                          | 2.9%         | 5.2%         |
| Expected rate of return on Plan assets | 7.1%         | 7.1%         |
| Expected salary increase rate          | 4.0%         | 4.0%         |

**Historical Information**

| Financial year ended                                  | 30 June 2012 | 30 June 2011 | 30 June 2010 | 30 June 2009 | 30 June 2008 |
|---|--------------|--------------|--------------|--------------|--------------|
|   | \$'000       | \$'000       | \$'000       | \$'000       | \$'000       |
| Present value of defined benefit obligation           | 48,651       | 47,953       | 51,671       | 49,243       | 51,025       |
| Fair value of Plan assets                             | 41,785       | 50,735       | 48,750       | 41,572       | 57,750       |
| (Surplus)/deficit in Plan                             | 6,866        | (2,782)      | 2,921        | 7,671        | (6,725)      |
| Experience adjustments (gain)/loss – Plan assets      | 3,118        | (363)        | (3,122)      | 13,068       | 9,737        |
| Experience adjustments (gain)/loss – Plan liabilities | (1,908)      | (2,985)      | 283          | 1,548        | 2,306        |

**Expected Contributions**

| Financial year ending           | 30 June 2013 |
|---------------------------------|--------------|
|                                 | \$'000       |
| Expected employer contributions | 798          |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

|   | Consolidated   |                |
|---|----------------|----------------|
|   | 2012<br>\$'000 | 2011<br>\$'000 |
| <b>26. CONTINGENT LIABILITIES AND RELATED MATTERS</b>   |                |                |
| Contingent liabilities are unsecured and related primarily to the following:<br><u>Controlled Entities</u>                    |                |                |
| (i) The consolidated entity has made certain guarantees regarding contractual, performance and other commitments <sup>1</sup> | <b>19,538</b>  | <b>19,272</b>  |

The probability of having to meet these contingent liabilities is remote, and therefore it is not practicable to disclose an indication of the uncertainties relating to each amount or the timing of any outflows.

<sup>1</sup>Subsequent to year end, as part of the disposal of Australian Consolidated Press Limited, \$3.5m (2011: \$3.5m) of guarantees are no longer the commitment of the group.

|  | 2012<br>\$       | 2011<br>\$ |
|--|------------------|------------|
| <b>27. AUDITORS' REMUNERATION</b>  |                  |            |
| Amounts received, or due and receivable, by the auditor of the parent entity for:                      |                  |            |
| Audit and review of the financial report of the entity   | <b>649,270</b>   | 658,500    |
| Taxation services  | <b>1,804,566</b> | 955,453    |
| Assurance related services   | <b>88,280</b>    | 233,768    |
| Other non-audit services   | <b>214,687</b>   | 278,988    |
|  | <b>2,756,803</b> | 2,126,709  |
| Amounts received, or due and receivable, by other member firms of Ernst & Young International for:     |                  |            |
| Auditing the accounts of controlled entities   | <b>154,350</b>   | 147,000    |
|  | <b>2,911,153</b> | 2,273,709  |
| Amounts received, or due and receivable, by auditors other than the auditors of the parent entity for: |                  |            |
| Auditing the accounts of controlled entities   | -                | 168,000    |
| Taxation services  | -                | 76,667     |
| Due diligence  | -                | 119,333    |
|  | <b>2,911,153</b> | 2,637,709  |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**28. KEY MANAGEMENT PERSONNEL DISCLOSURES**

**(a) Details of key management personnel**

*(i) Directors*

Executive Directors

David Liam Gyngell

Patrick Redmond O'Sullivan Resigned 6 February 2012

Non-Executive Directors

Andrew Cummins

Adrian MacKenzie Resigned 10 October 2012

Timothy Charles Parker Resigned 24 December 2011

Daniel Petre Resigned 1 September 2011

Peter Bush

*(ii) Executives*

Simon Kelly Chief Operating Officer & Chief Financial Officer, Nine Entertainment Co (from 24 April 2012)

Geoff Jones Chief Executive Officer, Nine Events (from 1 January 2011)

Phillip Scott Managing Director, ACP Magazines Australia (from 10 November 2010, resigned 31 December 2011)

Matthew Stanton Managing Director, ACP Magazines Australia (from 1 January 2012)

**(b) Remuneration of key management personnel**

Total remuneration for key management personnel for the Group and Parent Entity during the financial year are set out below:

| <b>Remuneration by category</b> | <b>2012<br/>\$</b> | <b>2011<br/>\$</b> |
|---------------------------------|--------------------|--------------------|
| Short term                      | <b>10,781,815</b>  | 11,416,579         |
| Post employment                 | <b>117,623</b>     | 95,954             |
| Termination benefits            | <b>2,048,867</b>   | 7,292,896          |
| Share based payments            | <b>(733,856)</b>   | 1,515,812          |
|                                 | <b>12,214,449</b>  | 20,321,241         |

**(c) Other transactions with director, key management personnel and their personally related entities**

Nine Entertainment Co. Holdings Pty Ltd paid various costs on behalf of CVC Capital Partners and CVC Asia Pacific including travel and accommodation totalling \$176,541 for the financial year (2011: \$175,114).

All transactions between the Group and its director related entities are conducted under normal commercial terms and conditions unless otherwise noted.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**29. RELATED PARTY DISCLOSURES**

**Parent entity**

Nine Entertainment Co. Holdings Pty 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.

**Controlled entities, associates and joint ventures**

Interests in significant controlled entities are set out in Note 30.

Investments in associates and joint ventures are set out in Note 11.

**Entity with significant influence over the Group**

At the date of this report, Red Earth Holdings B.V., an entity incorporated in the Netherlands and ultimately owned and controlled by funds advised by CVC Capital Partners and CVC Asia Pacific, holds 100% of the Company's fully paid ordinary shares.

**Key management personnel**

Disclosures relating to key management personnel are set out in Note 28.

**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 (for information regarding outstanding balances at year end, refer to Notes 6 and 16):

|   | Consolidated   |                |
|---|----------------|----------------|
|   | 2012<br>\$'000 | 2011<br>\$'000 |
| <b>Rendering of services to and other revenue from -</b><br>Associates of Nine Entertainment Co.<br>ninemsn Pty Ltd | 7,170          | 8,843          |
| <b>Receiving of services from related parties -</b><br>Associates of Nine Entertainment Co.<br>ninemsn Pty Ltd      | 4,970          | 4,624          |
| Entities with significant influence over the Group<br>CVC Asia Pacific and CVC Capital Partners                     | 177            | 175            |
| <b>Dividends received from -</b><br>Associates of Nine Entertainment Co.<br>ninemsn Pty Ltd                         | 20,000         | 13,500         |
| Australian News Channel Pty Ltd   | 2,833          | 2,833          |
| Oztam   | 1,000          | -              |
| Post ACP Company Limited  | 1,062          | 607            |

**Terms and conditions of transactions with related parties**

All of the above transactions were conducted under normal commercial terms and conditions.

For the year ended 30 June 2012, the Group has not made any allowance for doubtful debts relating to amounts owed by related parties as the payment history has been excellent. 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.

**NINE ENTERTAINMENT CO. HOLDINGS PTY LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**30. INVESTMENT IN CONTROLLED ENTITIES**

The consolidated financial statements include the financial statements of Nine Entertainment Co. Holdings Pty Limited and its controlled entities. Significant controlled entities and those included in a class order with the parent entity are:

|   | Footnote | Place of Incorporation | Beneficial Interest Held by the Consolidated Entity 2012 % | Beneficial Interest Held by the Consolidated Entity 2011 % |
|---|----------|------------------------|--|--|
| <b>Nine Entertainment Co. Holdings Pty Ltd</b>  |          | <b>Australia</b>       | <b>Parent Entity</b>                                       | <b>Parent Entity</b>                                       |
| ACP Action Sports Holdings Pty Ltd              | A,D      | Australia              | 100  | 100  |
| ACP Action Sports Pty Ltd                       | A, D     | Australia              | 100  | 100  |
| ACP Colour Graphics Pty Ltd                     | A, D     | Australia              | 100  | 100  |
| ACP Entertainment Magazines Pty Ltd             | A, D     | Australia              | 100  | 100  |
| ACP Magazines Limited                           | A, D     | Australia              | 100  | 100  |
| ACP Masthead Nominees Pty Ltd                   | C,D      | Australia              | 100  | 100  |
| ACP Mastheads Pty Limited                       | A,D      | Australia              | 100  | 100  |
| ACP Media (UK) Investments Limited              | B,C,D    | UK                     | 100  | 100  |
| ACP Media (UK) Limited                          | B,C,D    | UK                     | 100  | 100  |
| ACP Media Limited                               | B,C,D    | New Zealand            | 100  | 100  |
| ACP NS Pacific Pty Ltd                          | A, D     | Australia              | 100  | 100  |
| ACP Magazines Pte Limited                       | A, D     | Singapore              | -  | 100  |
| Australian Consolidated Press Limited           | A, D     | Australia              | 100  | 100  |
| Bass New Zealand Limited                        | B        | New Zealand            | 100  | 100  |
| Bounty Services Pty Ltd                         | C,D      | Australia              | 100  | 100  |
| Burke's Backyard Publishing Pty Limited         | A,D      | Australia              | 50   | 50   |
| ecorp Limited                                   | A        | Australia              | 100  | 100  |
| Events Management Catering Pty Limited          | A        | Australia              | 100  | 100  |
| General Television Corporation Pty Limited      | A        | Australia              | 100  | 100  |
| Hearst / ACP Partnership                        | A,D      | Australia              | 50   | 50   |
| NBN Enterprises Pty Limited                     | A        | Australia              | 100  | 100  |
| NBN Investments Pty Limited                     | C        | Australia              | 100  | 100  |
| NBN Ltd   | A        | Australia              | 100  | 100  |
| NBN Productions Pty Ltd                         | C        | Australia              | 100  | 100  |
| Nine Films & Television Pty Ltd                 | A        | Australia              | 100  | 100  |
| Nine Network Australia Holdings Pty Ltd         | A        | Australia              | 100  | 100  |
| Nine Network Australia Pty Ltd                  | A        | Australia              | 100  | 100  |
| Nine Network Productions Pty Limited            | A        | Australia              | 100  | 100  |
| Pay TV Holdings Pty Limited                     | A        | Australia              | 100  | 100  |
| PBL Marketing Pty Ltd                           | A        | Australia              | 100  | 100  |
| Nine Entertainment Co. Debenture Co Pty Ltd     | A        | Australia              | 100  | 100  |
| Nine Entertainment Co. Finance (1) Pty Ltd      | C        | Australia              | 100  | 100  |
| Nine Entertainment Co. Finance (3) Pty Ltd      | A        | Australia              | 100  | 100  |
| Nine Entertainment Co. Finance Holdings Pty Ltd | A        | Australia              | 100  | 100  |
| Nine Entertainment Co. Group Limited            | C        | Australia              | 100  | 100  |
| Nine Entertainment Co. Mastheads Pty Ltd        | A        | Australia              | 100  | 100  |
| Nine Entertainment Co. Pty Ltd                  | A        | Australia              | 100  | 100  |
| Petelex Pty Limited                             | A        | Australia              | 100  | 100  |
| Queensland Television Holdings Pty Ltd          | A        | Australia              | 100  | 100  |
| Queensland Television Ltd                       | A        | Australia              | 100  | 100  |
| SherTip Pty Ltd                                 | A        | Australia              | 100  | 100  |
| Staflex Pty Ltd                                 | A        | Australia              | 100  | 100  |
| Sydney Superdome Pty Ltd                        | A        | Australia              | 100  | 100  |
| TCN Channel Nine Pty Ltd                        | A        | Australia              | 100  | 100  |
| Television Holdings Darwin Pty Limited          | A        | Australia              | 100  | 100  |
| Territory Television Pty. Ltd.                  | A        | Australia              | 100  | 100  |
| Ticketek New Zealand Limited                    | B,C      | New Zealand            | 100  | 100  |
| Ticketek Queensland Pty Ltd                     | C        | Australia              | 100  | 100  |

# NINE ENTERTAINMENT CO. HOLDINGS PTY LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

### 30. INVESTMENT IN CONTROLLED ENTITIES (CONTINUED)

|  | Footnote | Place of Incorporation | Beneficial Interest Held by the Consolidated Entity 2012 % | Beneficial Interest Held by the Consolidated Entity 2011 % |
|--|----------|------------------------|--|--|
| <b>Nine Entertainment Co. Holdings Pty Ltd</b> |          | <b>Australia</b>       | <b>Parent Entity</b>                                       | <b>Parent Entity</b>                                       |
| Ticketek Services Limited                      | B,C      | New Zealand            | 100  | 100  |
| Ticketek Victoria Pty Ltd                      | C        | Australia              | 100  | 100  |
| Ticketek Insights Pty Ltd                      | C        | Australia              | 100  | 100  |
| Ticketek Pty Ltd                               | A        | Australia              | 100  | 100  |
| White Whale Pty Ltd                            | A        | Australia              | 100  | 100  |
| Zacchaeus Pty Ltd                              | C        | Australia              | 100  | 100  |

- A. These controlled entities have entered into a deed of cross guarantee with the parent entity under ASIC Class Order 98/1418 - the "Closed Group" (refer Note 31).
- B. Controlled entities which are audited by other member firms of Ernst & Young International.
- C. Members of the "Extended Closed Group" only
- D. Beneficial interest held is at 30 June 2012. On 30 September 2012, the Group disposed of subsidiary Australian Consolidated Press Limited Group and its associated entities in full.

### 31. DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418 and various deeds of cross guarantee entered into with the parent entity, certain controlled entities of Nine Entertainment Co. Holdings Pty Ltd have been granted relief from the Corporations Act 2001 requirements for preparation, audit and publication of accounts.

The consolidated statement of comprehensive income and 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 2012 are:

|   | Closed Group <sup>1</sup> |                | Extended Closed Group <sup>2</sup> |                |
|---|---------------------------|----------------|------------------------------------|----------------|
|   | 2012<br>\$'000            | 2011<br>\$'000 | 2012<br>\$'000                     | 2011<br>\$'000 |
| <b>Consolidated Statement of Comprehensive Income</b>     |                           |                |                                    |                |
| Profit/(Loss) before income tax                           | <b>(776,643)</b>          | (338,081)      | <b>(1,083,569)</b>                 | (407,625)      |
| Income tax (expense)/benefit                              | <b>(1,262)</b>            | (51,793)       | <b>(2,321)</b>                     | (72,557)       |
| Net profit/(loss) after income tax                        | <b>(777,905)</b>          | (389,874)      | <b>(1,085,890)</b>                 | (480,182)      |
| Net profit/(loss) attributable to members of the parent   | <b>(777,905)</b>          | (389,874)      | <b>(1,085,890)</b>                 | (480,182)      |
| Transfer from other reserves                              | <b>(1,761)</b>            | 58,639         | <b>45</b>                          | 78,430         |
| Accumulated losses at the beginning of the financial year | <b>(975,128)</b>          | (643,893)      | <b>(1,365,392)</b>                 | (963,640)      |
| Accumulated losses at the end of the financial year       | <b>(1,754,794)</b>        | (975,128)      | <b>(2,451,237)</b>                 | (1,365,392)    |

<sup>1</sup> Closed Group are those entities party to the Deed of Cross Guarantee.

<sup>2</sup> Extended Closed Group are those entities in the Closed Group and members of the Obligor group that have collectively agreed to guarantee the senior bank facilities and subordinated debt.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

|   | Closed Group     |                  | Extended Closed Group |                  |
|---|------------------|------------------|-----------------------|------------------|
|   | 2012<br>\$'000   | 2011<br>\$'000   | 2012<br>\$'000        | 2011<br>\$'000   |
| <b>31. DEED OF CROSS GUARANTEE (continued)</b>      |                  |                  |                       |                  |
| <b>Consolidated Statement of Financial Position</b> |                  |                  |                       |                  |
| <b>Current Assets</b>                               |                  |                  |                       |                  |
| Cash and cash equivalents                           | 94,057           | 111,680          | 233,307               | 281,693          |
| Receivables   | 242,860          | 281,854          | 245,842               | 294,786          |
| Inventories   | 799              | 14,417           | 799                   | 16,737           |
| Program rights                                      | 151,551          | 161,877          | 151,566               | 161,877          |
| Assets classified as held for sale                  | 403,252          | -                | 686,649               | -                |
| Other   | 12,755           | 6,750            | 12,780                | 7,306            |
| <b>Total Current Assets</b>                         | <b>905,274</b>   | <b>576,578</b>   | <b>1,330,943</b>      | <b>762,399</b>   |
| <b>Non Current Assets</b>                           |                  |                  |                       |                  |
| Receivables   | 2,389            | 3,301            | 2,389                 | 3,301            |
| Program rights                                      | 68,423           | 52,791           | 68,423                | 52,791           |
| Investment in associates                            | 245,517          | 277,269          | 245,517               | 277,269          |
| Other financial assets                              | 6,800            | 86,969           | 6,907                 | 43,959           |
| Property, plant and equipment                       | 166,457          | 195,998          | 168,696               | 197,681          |
| Licences and mastheads                              | 344,669          | 1,079,431        | 344,669               | 1,533,229        |
| Other intangible assets                             | 1,221,241        | 1,415,149        | 1,221,241             | 1,438,925        |
| Other   | 12,904           | 8,531            | 12,904                | 8,531            |
| <b>Total Non Current Assets</b>                     | <b>2,068,400</b> | <b>3,119,439</b> | <b>2,070,746</b>      | <b>3,555,686</b> |
| <b>Total Assets</b>                                 | <b>2,973,674</b> | <b>3,696,017</b> | <b>3,401,689</b>      | <b>4,318,085</b> |
| <b>Current Liabilities</b>                          |                  |                  |                       |                  |
| Payables  | 302,981          | 375,320          | 377,159               | 500,092          |
| Interest-bearing loans and borrowings               | 2,760,173        | 108              | 3,800,010             | 108              |
| Provisions  | 62,900           | 75,061           | 62,810                | 76,126           |
| Derivatives   | 66,313           | 39,096           | 94,539                | 54,205           |
| Liabilities held for sale                           | 127,857          | -                | 195,313               | -                |
| <b>Total Current Liabilities</b>                    | <b>3,320,224</b> | <b>489,585</b>   | <b>4,529,831</b>      | <b>630,531</b>   |
| <b>Non Current Liabilities</b>                      |                  |                  |                       |                  |
| Payables  | 76,512           | 77,993           | 76,512                | 92,206           |
| Interest-bearing loans and borrowings               | 220              | 2,748,229        | 220                   | 3,662,551        |
| Deferred tax liability                              | 23,939           | 4,651            | 20,837                | 10,367           |
| Provisions  | 24,013           | 34,515           | 24,193                | 34,656           |
| Derivatives   | -                | 28,145           | -                     | 40,124           |
| <b>Total Non Current Liabilities</b>                | <b>124,684</b>   | <b>2,893,533</b> | <b>121,762</b>        | <b>3,839,904</b> |
| <b>Total Liabilities</b>                            | <b>3,444,908</b> | <b>3,383,118</b> | <b>4,651,593</b>      | <b>4,470,435</b> |
| <b>Net Assets/(liabilities)</b>                     | <b>(471,234)</b> | <b>312,899</b>   | <b>(1,249,904)</b>    | <b>(152,350)</b> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**32. FINANCIAL INSTRUMENTS**

**Financial risk management**

The Group's principal financial instruments, other than derivatives, comprise cash and short-term deposits and credit facilities (see Note 23(c)). 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. These derivatives create an obligation to or right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation. Derivative instruments that the Group uses to hedge risks such as interest rate, foreign currency and commodity price movements include –

- Interest rate swaps
- Forward foreign currency contracts

The Group's risk management activities are carried out centrally by the Nine Entertainment Co. Holdings Group Treasury department. The Group Treasury department operates under policies as approved by the Board. The Group Treasury department operates in co-operation with the Group's operating units so as to maximise the benefits associated with centralised management of Group risk factors.

**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 was established in 2007 and early 2008, when the majority of acquisitions occurred, and 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.

As described in Note 1(c), on 17 October 2012, the Group reached in principle an agreement ("Agreement") with representatives of its senior and mezzanine lenders for a restructuring of its Facilities which the Group intends to implement through a scheme of arrangement prior to the maturity of the Senior Debt. Funds managed by the Group's two largest senior lenders (who have advised they have the support of 75% of the outstanding senior debt), as well as Goldman Sachs Mezzanine Partners (representing 80% of the mezzanine debt), have confirmed that they support the in principle terms of this restructure.

As soon as the restructure is effected, it is expected that all the existing senior and mezzanine debt will be converted to equity and / or refinanced.

**(a) 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  | Note  |
|--|-------|
| Cash and cash equivalents                          | 23(a) |
| Trade and other receivables                        | 7     |
| Derivative liabilities – fair value through profit | 1(z)  |

The Group uses various methods in estimating the fair value of a financial instrument. 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, either directly (as prices) or indirectly (derived from prices).
- Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data which includes discounted cash flows, the maturity date and interest rates.

The fair value of the senior secured syndicated facilities and interest rate swaps are determined as Level 2 and the secured mezzanine note facility is assessed as Level 3.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**32. FINANCIAL INSTRUMENTS (continued)**

The following table lists the carrying values and fair values of the Group's bank facilities at balance date:

|  | Refer Note | 2012                  |                  | 2011                  |                  |
|--|------------|-----------------------|------------------|-----------------------|------------------|
|  |            | Carrying Amount \$000 | Fair Value \$000 | Carrying Amount \$000 | Fair Value \$000 |
| <i>Bank facilities secured – Current</i>                 |            |                       |                  |                       |                  |
| Senior secured syndicated facilities – at amortised cost | 23(c)      | 2,740,279             | 1,933,902        | -                     | -                |
| Secured Mezzanine note facility – at amortised cost      | 23(c)      | 1,078,128             | 91,126           |                       |                  |
| <b>Total bank facilities secured – Current</b>           |            | <b>3,818,407</b>      | <b>2,025,028</b> | <b>-</b>              | <b>-</b>         |
| <i>Bank facilities secured – Non-current</i>             |            |                       |                  |                       |                  |
| Senior secured syndicated facilities – at amortised cost | 23(c)      | -                     | -                | 2,727,876             | 2,318,695        |
| Secured Mezzanine note facility – at amortised cost      | 23(c)      | -                     | -                | 974,613               | 779,691          |
| <b>Total bank facilities secured – Non-current</b>       |            | <b>-</b>              | <b>-</b>         | <b>3,702,489</b>      | <b>3,098,386</b> |
| <b>Total bank facilities secured</b>                     |            | <b>3,818,407</b>      | <b>2,025,028</b> | <b>3,702,489</b>      | <b>3,098,386</b> |

**(b) 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 to are discussed in further detail below.

**(i) 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 in 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 FOR THE YEAR ENDED 30 JUNE 2012**

**32. FINANCIAL INSTRUMENTS (continued)**

|   | 2012                                      |                |              |              | 2011             |                |              |              |
|---|---|----------------|--------------|--------------|------------------|----------------|--------------|--------------|
|   | Contractual maturity (nominal cash flows) |                |              |              |                  |                |              |              |
|   | Less than 1 year                          | 1 to 2 year(s) | 2 to 5 years | Over 5 years | Less than 1 year | 1 to 2 year(s) | 2 to 5 years | Over 5 years |
|   | \$'000                                    | \$'000         | \$'000       | \$'000       | \$'000           | \$'000         | \$'000       | \$'000       |
| <b>Derivative – inflows<sup>1</sup></b>             |   |                |              |              |                  |                |              |              |
| Interest rate swaps – receive variable <sup>2</sup> | 163,153                                   | 47,257         | -            | -            | 256,543          | 177,347        | 41,880       | -            |
| Forward foreign currency contracts <sup>3</sup>     | -   | -              | -            | -            | -                | -              | -            | -            |
| <b>Derivatives – outflows<sup>1</sup></b>           |   |                |              |              |                  |                |              |              |
| Interest rate swaps – pay fixed <sup>2</sup>        | 181,629                                   | 56,687         | -            | -            | 251,194          | 181,629        | 56,687       | -            |
| Forward foreign currency contracts <sup>3</sup>     | -   | -              | -            | -            | 40,481           | -              | -            | -            |
| <b>Other financial assets<sup>1</sup></b>           |   |                |              |              |                  |                |              |              |
| Cash assets   | 237,604                                   | -              | -            | -            | 290,705          | -              | -            | -            |
| Trade and other receivables <sup>4</sup>            | 249,845                                   | -              | 2,732        | -            | 308,037          | -              | 3,301        | -            |
| <b>Other financial liabilities<sup>1</sup></b>      |   |                |              |              |                  |                |              |              |
| Trade and other payables <sup>4</sup>               | 380,710                                   | -              | -            | -            | 520,172          | 49,981         | 23,626       | 4,386        |
| Other interest bearing loans and borrowings         | 56  | -              | -            | -            | 108              | 21             | 50           | 31           |
| Debt facilities (including interest)                | 2,943,097                                 | 1,264,969      | -            | -            | 304,166          | 2,952,670      | 1,052,807    | -            |

<sup>1</sup> For floating rate instruments, the amount disclosed is determined by reference to the interest rate at the last repricing date

<sup>2</sup> Net amount for interest rate swaps for which net cash flows are exchanged. Categorisation of inflows and outflows is based on current variable rates at the reporting date

<sup>3</sup> Contractual amounts to be exchanged representing cash flows to be exchanged

<sup>4</sup> Excluding amounts due from/to subsidiaries

**(ii) 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 is 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 policy prescribes minimum and maximum average fixed rate maturity profiles for both asset and liability portfolios.

The Group maintains a mix of long term and short term debt and enters into interest rate swaps to manage these risks. 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 rate interest that is reset as market rates change.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**32. FINANCIAL INSTRUMENTS (continued)**

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

|  | 2012                        |                      |                             |              | 2011                        |                      |                             |              |
|--|-----------------------------|----------------------|-----------------------------|--------------|-----------------------------|----------------------|-----------------------------|--------------|
|  | 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 |
| <b>Financial assets</b>  |                             |                      |                             |              |                             |                      |                             |              |
| Cash and cash equivalents  | 4.33                        | 237,604              | -                           | 237,604      | 4.67                        | 290,705              | -                           | 290,705      |
| Trade and other receivables  | N/A                         | N/A                  | 252,577                     | 252,577      | N/A                         | N/A                  | 311,338                     | 311,338      |
| <b>Financial liabilities</b>   |                             |                      |                             |              |                             |                      |                             |              |
| Trade and other payables   | N/A                         | N/A                  | 457,222                     | 457,222      | N/A                         | N/A                  | 598,165                     | 598,165      |
| Derivative liabilities (interest rate swaps and collars)                                   | Various                     | N/A                  | 94,540                      | 94,540       | Various                     | N/A                  | 90,728                      | 90,728       |
| Forward foreign currency contracts   | N/A                         | N/A                  | N/A                         | N/A          | Various                     | N/A                  | 3,601                       | 3,601        |
| Interest bearing liabilities –<br>Senior secured syndicated facilities – at amortised cost | 6.15                        | 2,740,279            | -                           | 2,740,279    | 7.43                        | 2,727,876            | -                           | 2,727,876    |
| Secured Mezzanine note facility – at amortised cost  | 11.76                       | 1,078,128            | -                           | 1,078,128    | 10.42                       | 974,613              | -                           | 974,613      |

**Sensitivity Analysis**

The table below shows the effect on net profit after income tax if interest rates at balance date had been 10% higher or lower with all other variables held constant, taking into account all underlying exposures and related hedges. Concurrent movement in interest rates and parallel shifts in the yield curves are assumed.

A sensitivity of 10% has been selected as this is considered reasonable given the current level of both short term and long term Australian interest rates. A 10% sensitivity would move short term interest rates at 30 June 2012 from around 7.09% to 7.80% representing a 71 basis point shift. This would represent two to three rate increases in the official cash rate. In 2012, 100% (2011: 100%) of the Group's debt was denominated in Australian Dollars; therefore only the movement in Australian interest rates is used in this sensitivity analysis.

Based on the sensitivity analysis, if interest rates were 10% higher, net profit would be impacted by the interest expense being higher on the Group's net floating rate Australian Dollars positions during the year.

|  | Net Profit After Tax |             | Post-tax Equity (Cash flow hedge reserve)<br>As at 30 June |             |
|--|----------------------|-------------|--|-------------|
|  | 2012 \$'000          | 2011 \$'000 | 2012 \$'000  | 2011 \$'000 |
| If interest rates were 10% higher with all other variables held constant – increase/(decrease) | 4,658                | (3,334)     | 9,390  | 9,073       |
| If interest rates were 10% lower with all other variables held constant – increase/(decrease)  | (4,658)              | 3,334       | (9,390)  | (9,073)     |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**32. FINANCIAL INSTRUMENTS (continued)**

**(ii) 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
- manages exposures to individual entities it either transacts with or enters into derivative contracts with (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 or group of customers or individual institutions.

Financial assets are considered impaired where there is objective evidence that the Group will not be able to collect all amounts due according to the original trade and other receivable terms. Factors considered when determining if impairment exists include ageing and timing of expected receipts and the credit worthiness of counterparties. An allowance for doubtful debts is created for the difference between the assets carrying value and the present value of estimated future cash flows. The Group's trading terms do not generally include the requirement for customers to provide collateral as security for financial assets.

Refer to Note 7 for an ageing analysis of trade receivables and the movement in the allowance for doubtful debts. All other financial assets are not impaired and are not past due. Based on the credit history of these classes, it is expected that these amounts will be received when due.

Trade receivables include the following credit concentration:

|                        | <b>2012</b><br>\$'000 | <b>2011</b><br>\$'000 |
|------------------------|-----------------------|-----------------------|
| Advertising            | <b>165,429</b>        | 208,061               |
| Magazine distributions | -                     | 36,344                |
| Television stations    | <b>22,114</b>         | 19,526                |
| Other                  | <b>48,305</b>         | 26,857                |
|                        | <b>235,848</b>        | 290,788               |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**33. PARENT ENTITY DISCLOSURES**

| a) Financial Position           | Parent Entity  |                |
|---------------------------------|----------------|----------------|
|                                 | 2012<br>\$'000 | 2011<br>\$'000 |
| Current assets                  | 3              | -              |
| Non-current assets              | 71             | -              |
| <b>Total assets</b>             | <b>74</b>      | <b>-</b>       |
| Current liabilities             | 2,879          | 3,707          |
| Non-current liabilities         | -              | -              |
| <b>Total liabilities</b>        | <b>2,879</b>   | <b>3,707</b>   |
| <b>Net assets/(liabilities)</b> | <b>(2,805)</b> | <b>(3,707)</b> |
| Contributed equity              | 1,329,981      | 1,331,381      |
| Reserves                        | 3,965          | 4,452          |
| Retained earnings               | (1,336,751)    | (1,339,540)    |
| <b>Total equity/deficiency</b>  | <b>(2,805)</b> | <b>(3,707)</b> |

| b) Comprehensive income                               | Parent Entity  |                  |
|---|----------------|------------------|
|   | 2012<br>\$'000 | 2011<br>\$'000   |
| Net profit / (loss) for the year                      | 2,789          | (656,501)        |
| Other comprehensive income                            | -              | -                |
| <b>Total comprehensive income (loss) for the year</b> | <b>2,789</b>   | <b>(656,501)</b> |

**c) Commitments and Contingencies**

The parent entity was a party of the Deed of Cross Guarantee entered into with various Group companies. Refer to Note 31 for further details.

Refer to Note 22 for disclosure of the Group's commitments and contingencies. 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.