

VODAFONE NEW ZEALAND LIMITED
DIRECTORY
FOR THE YEAR ENDED 31 MARCH 2019

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Independent auditor's report

To the shareholder of Vodafone New Zealand Limited

We have audited the consolidated financial statements which comprise:

- the consolidated statement of financial position as at 31 March 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of Vodafone New Zealand Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of other assurance services on regulatory returns and agreed upon procedures over regulatory returns. In addition, the firm, partners, and certain employees of our firm deal with the Group on normal commercial terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence as auditor of the Group.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS RDR, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/>

This description forms part of our auditor's report.



Who we report to

This report is made solely to the Company's shareholder. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Lisa Crooke.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
27 August 2019

Auckland

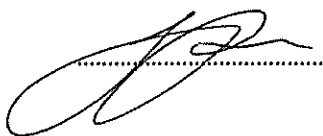
VODAFONE NEW ZEALAND LIMITED
DIRECTORS' APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

The Directors are pleased to present the consolidated financial statements of Vodafone New Zealand Limited and its controlled entities (together the "Group") for the year ended 31 March 2019 on pages 6 to 38.

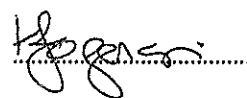
A shareholder's resolution has been passed by the shareholder of the Company whereby it agrees, pursuant to section 211(3) of the Companies Act 1993, that the Annual Report of Vodafone New Zealand Limited need not comply with section 211(1)(a) and (e) to (j) and section 211(2) of that Act.

For and on behalf of the Board of Directors, who authorised the issue of the consolidated financial statements on 26 August 2019.

J Paris
Director

A handwritten signature in black ink, appearing to be 'J Paris', written over a horizontal dotted line.

K Jorgensen
Director

A handwritten signature in black ink, appearing to be 'K Jorgensen', written over a horizontal dotted line.

VODAFONE NEW ZEALAND LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2019

	Notes	2019 \$ million	Restated ¹ 2018 \$ million
Revenue			
Service revenue		1,628.1	1,767.3
Device and other revenue		296.0	234.1
Lease revenue		37.8	28.6
Total revenue		1,961.9	2,030.0
Other income		5.4	5.5
Operating expenses - direct costs	4	(932.2)	(944.6)
Operating expenses - other	4	(656.3)	(670.2)
Net credit loss on financial assets		(17.3)	(18.2)
Share of (loss)/gain of investments accounted for using the equity method	11	(0.2)	0.5
Earnings before interest, tax, depreciation and amortisation		361.3	403.0
Depreciation and amortisation		(316.3)	(310.6)
Operating profit		45.0	92.4
Finance income	5	12.4	5.2
Finance costs	5	(33.0)	(43.8)
Finance costs - net		(20.6)	(38.6)
Profit before taxation		24.4	53.8
Income tax (expense)	21	(3.1)	(13.9)
Profit for the year		21.3	39.9
Other comprehensive (expense)/income:			
Changes in fair value of financial assets at fair value through OCI		(2.8)	-
Income tax relating to the changes in fair value of financial assets		0.9	-
		(1.9)	-
Total comprehensive income for the year		19.4	39.9
Profit is attributable to:			
Owners of the Parent		21.3	40.4
Non-controlling interest		-	(0.5)
		21.3	39.9
Total comprehensive income is attributable to:			
Owners of the Parent		19.4	40.4
Non-controlling interest		-	(0.5)
		19.4	39.9

Note:

¹ Certain amounts shown here do not correspond to the 2018 consolidated financial statements, for further details refer to note 25 "Restatement of previously reported 31 March 2017 consolidated financial statements".

The notes to the consolidated financial statements (pages 10 to 38) form an integral part of these consolidated financial statements.

VODAFONE NEW ZEALAND LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019

	Notes	2019 \$ million	Restated ¹ 2018 \$ million
Current assets			
Cash and cash equivalents		7.5	19.2
Receivable from Vodafone Group Plc	19	296.7	290.1
Trade and other receivables	6	253.3	181.7
Contract assets	7	72.2	64.9
Inventories	8	31.4	19.3
Tax receivable		16.6	11.7
		<u>677.7</u>	<u>586.9</u>
Non-current assets			
Trade and other receivables	6	22.9	1.6
Contract assets	7	7.6	18.2
Property, plant and equipment	9	903.3	935.8
Intangible assets	10	448.8	441.3
Investments accounted for using the equity method	11	4.1	3.1
Deferred tax assets	21	44.5	36.4
		<u>1,431.2</u>	<u>1,436.4</u>
Total assets		<u>2,108.9</u>	<u>2,023.3</u>
Current liabilities			
Bank overdrafts		1.1	-
Revenue received in advance		60.7	60.6
Trade payables		154.6	150.3
Accrued employee benefits		25.6	28.0
Other payables and accrued expenses	12	201.3	214.6
Finance leases	13	3.7	-
Provisions	14	21.3	0.3
		<u>468.3</u>	<u>453.8</u>
Non-current liabilities			
Revenue received in advance		5.0	6.4
Other payables and accrued expenses	12	3.3	3.3
Finance leases	13	11.4	-
Provisions	14	52.0	42.3
Related party borrowings	19	986.9	982.1
		<u>1,058.6</u>	<u>1,034.1</u>
Total liabilities		<u>1,526.9</u>	<u>1,487.9</u>
Net assets		<u>582.0</u>	<u>535.4</u>
Equity			
Contributed equity	15	454.6	454.6
Other reserves	16	127.4	80.8
Total equity		<u>582.0</u>	<u>535.4</u>
Contributed equity attributable to the owners of the Parent		582.0	534.2
Non-controlling interest		-	1.2
Total equity		<u>582.0</u>	<u>535.4</u>

Note:

¹ Certain amounts shown here do not correspond to the 2018 consolidated financial statements, for further details refer to note 25 "Restatement of previously reported 31 March 2017 consolidated financial statements".

The notes to the consolidated financial statements (pages 10 to 38) form an integral part of these consolidated financial statements.

VODAFONE NEW ZEALAND LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2019

	Contributed equity	Other reserves	Retained earnings	Attributable to owners of the parent	Non- controlling interest	Total equity
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
Balance as at 1 April 2017 as originally presented	454.6	8.5	53.9	517.0	-	517.0
Property, plant and equipment (notes 9 and 25)	-	-	(7.6)	(7.6)	-	(7.6)
Intangible assets (notes 10 and 25)	-	-	(18.4)	(18.4)	-	(18.4)
Income tax (credit) (notes 21 and 25)	-	-	7.3	7.3	-	7.3
Restated total equity at the beginning of the year¹	454.6	8.5	35.2	498.3	-	498.3
Profit/(loss) for the year	-	-	40.4	40.4	(0.5)	39.9
Total comprehensive income for the year	-	-	40.4	40.4	(0.5)	39.9
Share based payment charge	-	3.3	-	3.3	-	3.3
Repurchase of equity instruments of the Parent	-	(3.8)	-	(3.8)	-	(3.8)
Distribution to the Parent	-	-	(1.0)	(1.0)	-	(1.0)
Exercise of put options over non-controlling interest	-	(3.0)	-	(3.0)	-	(3.0)
Non-controlling interest (refer to note 17)	-	-	-	-	1.7	1.7
31 March 2018 on a restated¹ basis	454.6	5.0	74.6	534.2	1.2	535.4
Adoption of NZ IFRS 9 (refer to note 2.2)	-	-	(8.2)	(8.2)	-	(8.2)
Adoption of NZ IFRS 15 (refer to note 2.2)	-	-	32.0	32.0	-	32.0
Restated total equity at the beginning of the year	454.6	5.0	98.4	558.0	1.2	559.2
Profit for the year	-	-	21.3	21.3	-	21.3
Other comprehensive (expense)	-	-	(1.9)	(1.9)	-	(1.9)
Total comprehensive income for the year	-	-	19.4	19.4	-	19.4
Share based payment charge	-	3.3	-	3.3	-	3.3
Repurchase of equity instruments of the Parent	-	(2.9)	-	(2.9)	-	(2.9)
Exercise of put options over non-controlling interest	-	3.0	-	3.0	-	3.0
Non-controlling interest (refer to note 17)	-	-	1.2	1.2	(1.2)	-
Balance as at 31 March 2019	454.6	8.4	119.0	582.0	-	582.0

Note:

¹ Certain amounts shown here do not correspond to the 2018 consolidated financial statements, for further details refer to note 25 "Restatement of previously reported 31 March 2017 consolidated financial statements".

The notes to the consolidated financial statements (pages 10 to 38) form an integral part of these consolidated financial statements.

VODAFONE NEW ZEALAND LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31. MARCH 2019

	Notes	2019 \$ million	2018 \$ million
Cash flows from operating activities			
Cash generated from operations		279.1	418.1
Income tax paid		(24.4)	(20.9)
Net cash generated from operating activities		254.7	397.2
Cash flows from investing activities			
Acquisition of interest of business, net of cash acquired	17	-	(9.2)
Settlement of contingent consideration		(2.4)	-
Acquisition of investments accounted for using the equity method	11	(1.2)	(0.5)
Purchases of property, plant and equipment		(143.8)	(218.5)
Proceeds from the sale of property, plant and equipment		-	9.4
Purchases of intangible assets		(86.3)	(70.0)
Net advances to Vodafone Group Plc		(29.1)	(90.8)
Interest received		0.1	0.2
Net cash used in investing activities		(262.7)	(379.4)
Cash flows from financing activities			
Principal elements of finance lease payments		(1.4)	-
Transaction with non-controlling interest		(3.0)	-
Net cash used in financing activities		(4.4)	-
Net (decrease)/increase in cash and cash equivalents		(12.4)	17.8
Cash and cash equivalents at beginning of year		19.2	1.8
Exchange (losses) on cash and cash equivalents		(0.4)	(0.4)
Cash and cash equivalents at end of year		6.4	19.2
Cash and cash equivalents is included in the consolidated statement of financial position as follows:			
Cash and cash equivalents		7.5	19.2
Bank overdrafts		(1.1)	-
Cash and cash equivalents at end of year		6.4	19.2

The notes to the consolidated financial statements (pages 10 to 38) form an integral part of these consolidated financial statements.

VODAFONE NEW ZEALAND LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2019

1. General information

Vodafone New Zealand Limited ("the Company") is incorporated and domiciled in New Zealand. The Company's registered office and principal place of business is 74 Taharoto Road, Takapuna, Auckland 0622, New Zealand. These consolidated financial statements are for the Company and its controlled entities (together "the Group"). The Group provides telecommunications services in New Zealand. The Group is a for-profit entity and is registered under Companies Act 1993.

The Group is eligible to apply Tier 2 for-profit Accounting Standards on the basis that it does not have public accountability and is not a large for-profit public sector entity and has elected to report in accordance with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime ("NZ IFRS RDR").

These consolidated financial statements are the statutory consolidated financial statements of the Group.

Certain amounts shown here do not correspond to the 2018 consolidated financial statements and reflect adjustments made. Refer to notes 9 "Property, plant and equipment", 10 "Intangible assets" and 25 "Restatement of previously reported 31 March 2017 consolidated financial statements".

These consolidated financial statements for the year ended 31 March 2019 have been approved for issue by the Board of Directors on 26 August 2019.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

2.1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP") under which the Group is a for-profit entity. The consolidated financial statements comply with the reduced disclosure concessions under NZ IFRS RDR and other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS RDR.

The consolidated financial statements are presented in New Zealand dollars which is also the functional currency of the Group.

This section describes the critical accounting judgements and estimates that management has identified as having a potentially material impact on the Group's consolidated financial statements and sets out our significant accounting policies that relate to the financial statements as a whole.

Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention with the exception of derivatives and financial assets measured at fair value through other comprehensive income ("FVOCI").

Significant new accounting pronouncements

Two significant new accounting standards, NZ IFRS 15 "Revenue from Contracts with Customers" and NZ IFRS 9 "Financial Instruments", were adopted by the Group on 1 April 2018. The impact of adopting these new standards on the financial statements at 1 April 2018, and the key changes to the accounting policies previously applied by the Group, are summarised below in note 2.2 "New standards, amendments and interpretations adopted by the Group".

Notes to the Consolidated Financial Statements

2.2 New standards, amendments and interpretations adopted by the Group

NZ IFRS 9 "Financial Instruments"

NZ IFRS 9 "Financial Instruments" was adopted by the Group on 1 April 2018 and impacts the classification and measurement of the Group's financial instruments, revises the requirement for when hedge accounting can be applied and requires certain additional disclosures. The primary impacts of applying NZ IFRS 9 in the current financial year are disclosed below.

Primary impacts of applying the NZ IFRS 9 accounting policy

The cumulative retrospective impact of changes to the classification and measurement of financial instruments under NZ IFRS 9 has been reflected by the Group as an adjustment to equity on the date of adoption. The accounting policies for financial instruments following the adoption of NZ IFRS 9 are consistent with the Groups pre-existing policy under NZ IAS 39 "Financial Instruments: Recognition and Measurement", except as set out below.

- The carrying values of trade receivables, contract assets and finance lease receivables are reduced by the lifetime estimated future credit losses at the date of initial recognition where previously credit losses were not recognised on such assets until there was an indicator of impairment, such as a payment default. Information about expected credit losses for trade receivables and contract assets can be found in notes 2.11 "Trade receivables, other receivables and loans" and 2.12 "Contract assets", as well as, notes 6 "Trade and other receivables" and 7 "Contract assets".

NZ IFRS 15 "Revenue from Contracts with Customers"

NZ IFRS 15 "Revenue from Contracts with Customers" was adopted by the Group on 1 April 2018 with the cumulative retrospective impact reflected as an adjustment to equity on the date of adoption. The Group did not restate comparative periods on adoption of NZ IFRS 15. The primary impacts of applying NZ IFRS 15 in the current financial year are disclosed below.

Primary impacts of applying the NZ IFRS 15 accounting policy

The primary impacts of applying the NZ IFRS 15 ("current") accounting policy in place of the accounting policy applied in the Group's Statutory accounts for the year ended 31 March 2018 ("previous policy") are:

- Under the previous policy, revenue allocated to obligations was restricted to the amount receivable without the delivery of additional goods or services; this restriction no longer applies under the current policy. The primary impact is that revenue allocated to equipment typically increases and revenue subsequently recognised for service delivery during the contract period typically decreases when the Group sells subsidised devices, such as handsets, together with airtime service agreements. The recognition of additional up-front unbilled equipment revenue (and the determination of the discount rate used) are key drivers for the increase in the contract asset value recorded under NZ IFRS 15.
- Under the current policy, direct and incremental contract acquisition costs, such as commissions, are typically recognised in expenses over the related contract period; this generally leads to the later recognition of charges for such costs compared with the previous policy. The amounts of contract acquisition costs deducted from revenue as they are considered to relate to the funding of customer discounts are higher under the current policy than under the previous policy.
- Contract fulfilment costs are deferred under current policy when the requirement for the deferral of expense recognition are met; such costs were generally expensed as incurred under previous policy. Refer to note 2.3 "Revenue" paragraph "Contract-related costs".

The key causes of the movements recorded in the consolidated statement of financial position as a result of the adoption of NZ IFRS 15 on 1 April 2018 are disclosed above. Due to the complexity and volume of the Group's contracts, it is not possible to separately quantify each of the underlying reasons giving rise to the increase in contract assets.

Cumulative retrospective adjustments as a result of the adoption of NZ IFRS 9 and NZ IFRS 15 as at 1 April 2018

As explained above, cumulative retrospective adjustments as a result of the adoption of NZ IFRS 9 and NZ IFRS 15 were adjusted to equity as at 1 April 2018. The impact of the adoption of NZ IFRS 9 and NZ IFRS 15 on the consolidated statement of financial position at 1 April 2018 is set out below.

Notes to the Consolidated Financial Statements

	31 March 2018	Impact of adoption	Impact of adoption	1 April 2018
Consolidated statement of financial position	As restated ²	NZ IFRS 9	NZ IFRS 15	Restated
	\$ million	\$ million	\$ million	\$ million
Current assets				
Cash and cash equivalents	19.2	-	-	19.2
Receivable from Vodafone Group Plc	290.1	-	-	290.1
Trade and other receivables	181.7	(10.2)	-	171.5
Contract assets ¹	64.9	(1.7)	44.5	107.7
Inventories	19.3	-	-	19.3
Tax receivable	11.7	-	-	11.7
	586.9	(11.9)	44.5	619.5
Non-current assets				
Trade and other receivables	1.6	-	-	1.6
Contract assets ¹	18.2	-	-	18.2
Property, plant and equipment	935.8	-	-	935.8
Intangible assets	441.3	-	-	441.3
Investments accounted for using the equity method	3.1	-	-	3.1
Deferred tax assets/(liability)	36.4	3.7	(12.5)	27.6
	1,436.4	3.7	(12.5)	1,427.6
Total assets	2,023.3	(8.2)	32.0	2,047.1
Current liabilities				
Revenue received in advance	60.6	-	-	60.6
Trade payables	150.3	-	-	150.3
Accrued employee benefits	28.0	-	-	28.0
Other payables and accrued expenses	214.6	-	-	214.6
Provisions	0.3	-	-	0.3
	453.8	-	-	453.8
Non-current liabilities				
Revenue received in advance	6.4	-	-	6.4
Other payables and accrued expenses	3.3	-	-	3.3
Provisions	42.3	-	-	42.3
Related party borrowings	982.1	-	-	982.1
	1,034.1	-	-	1,034.1
Total liabilities	1,487.9	-	-	1,487.9
Net assets	535.4	(8.2)	32.0	559.2
Equity				
Contributed equity	454.6	-	-	454.6
Other reserves	80.8	(8.2)	32.0	104.6
Total equity	535.4	(8.2)	32.0	559.2
Contributed equity attributable to the owners of the Parent	534.2	(8.2)	32.0	558.0
Non-controlling interest	1.2	-	-	1.2
Total equity	535.4	(8.2)	32.0	559.2

Notes:

¹ Contract assets represent an asset for accrued revenue in respect of goods or services delivered to customers for which a trade receivable does not yet exist. These amounts will be reclassified as trade receivables before they become due.

² Certain amounts shown here do not correspond to the 2018 consolidated financial statements, for further details refer to note 25 "Restatement of previously reported 31 March 2017 consolidated financial statements".

Reconciliation of consolidated financial statements as at 31 March 2019 from NZ IAS 18 to NZ IFRS 15

The Group did not restate comparative periods on adoption of NZ IFRS 15 on 1 April 2018; therefore, this note provides information about the Group's results for the year to 31 March 2019 under the previous accounting rules which are therefore comparable to prior periods. The Group's revenue accounting policy under the previous accounting rules is provided below.

Notes to the Consolidated Financial Statements

Revenue accounting policy under NZ IAS 18

Revenue is recognised to the extent the Group has delivered goods or rendered services under an agreement, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is measured at the fair value of the consideration receivable, exclusive of sales taxes and discounts.

The Group principally obtains revenue from providing mobile and fixed telecommunication services including: access charges, voice and video calls, messaging, interconnect fees, fixed and mobile broadband and related services such as providing televisual and music content, connection fees and equipment sales. Products and services may be sold separately or in bundled packages.

Revenue for access charges, voice and video calls, messaging and fixed and mobile broadband provided to contract customers is recognised as services are performed, with unbilled revenue resulting from services already provided accrued at the end of each period and unearned revenue from services to be provided in future periods deferred. Revenue from the sale of prepaid credit is deferred until such time as the customer uses the airtime, or the credit expires.

Revenue from interconnect fees is recognised at the time the services are performed.

Revenue for the provision of televisual and music content is recognised when or as the Group performs the related service and, depending on the nature of the service, is recognised either at the gross amount billed to the customer or the amount receivable by the Group as commission for facilitating the service.

Customer connection revenue is recognised together with the related equipment revenue to the extent that the aggregate equipment and connection revenue does not exceed the fair value of the equipment delivered to the customer. Any customer connection revenue not recognised, together with any related excess equipment revenue, is deferred and recognised over the period in which services are expected to be provided to the customer.

Revenue for device sales is recognised when the device is delivered to the end customer and the significant risks and rewards of ownership have transferred. For device sales made to intermediaries, revenue is recognised if the significant risks associated with the device are transferred to the intermediary and the intermediary has no general right to return the device to receive a refund. If the significant risks are not transferred, revenue recognition is deferred until sale of the device to an end customer by the intermediary or the expiry of any right of return.

In revenue arrangements including more than one deliverable, the arrangements are divided into separate units of accounting. Deliverables are considered separate units of accounting if the following two conditions are met: (i) the deliverable has value to the customer on a stand-alone basis and (ii) there is evidence of the fair value of the item. The arrangement consideration is allocated to each separate unit of accounting based on its relative fair value. The Group generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a stand-alone basis after considering any appropriate volume discounts. Revenue allocated to deliverables is restricted to the amount that is receivable without the delivery of additional goods or services. This restriction typically applies to revenue recognised for devices provided to customers, including handsets.

Contract-related costs

Intermediaries are given cash incentives by the Group to connect new customers and upgrade existing customers.

For intermediaries who do not purchase products and services from the Group, such cash incentives are accounted for as an expense. Such cash incentives to other intermediaries are also accounted for as an expense if:

- The Group receives an identifiable benefit in exchange for the cash incentive that is separable from sales transactions to that intermediary; and
- The Group can reliably estimate the fair value of that benefit.

Cash incentives that do not meet these criteria are recognised as a reduction of the related revenue.

Notes to the Consolidated Financial Statements

Critical accounting judgements applied in the recognition of revenue under NZ IAS 18

Gross versus net presentation

When the Group sells goods or services as a principal, income and payments to suppliers are reported on a gross basis in revenue and operating costs. If the Group sells goods or services as an agent, revenue and payments to suppliers are recorded in revenue on a net basis, representing the margin earned. Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its business partners; such judgements impact the amount of reported revenue and operating expenses but do not impact reported assets, liabilities or cash flows.

Primary statements under NZ IAS 18

The Group's consolidated financial statements for the year ended 31 March 2019 are prepared in accordance with NZ IFRS 15 "Revenue from Contracts with Customers"; comparative periods have not been restated. Where there are differences between the primary consolidated financial statements presented in accordance with NZ IFRS 15 and comparable presentation under the Group's previous revenue accounting policy (in accordance with NZ IAS 18 "Revenue"), the effects are disclosed below. The Group's consolidated statement of cash flows is not affected by the implementation of NZ IFRS 15 and so is not re-presented.

Consolidated income statement (reconciliation from NZ IAS 18 to NZ IFRS 15)

Year ended 31 March 2019	NZ IAS 18 basis \$ million	Adjustments \$ million	NZ IFRS 15 basis \$ million
Total revenue	1,973.2	(11.3)	1,961.9
Operating expenses - direct costs	(945.2)	13.0	(932.2)
Operating expenses - other	(655.2)	(1.1)	(656.3)
Income tax expense	(2.8)	(0.3)	(3.1)
Profit for the year	21.0	0.3	21.3

Consolidated statement of financial position (reconciliation from NZ IAS 18 to NZ IFRS 15)

As at 31 March 2019	NZ IAS 18 basis \$ million	Adjustments \$ million	NZ IFRS 15 basis \$ million
Current assets			
Contract assets	33.7	38.5	72.2
Non-current assets			
Contract assets	1.0	6.6	7.6
Deferred tax assets	57.5	(13.0)	44.5
Equity			
Other reserves	95.3	32.1	127.4

2.3 Revenue

When the Group enters into an agreement with a customer, goods and services deliverable under the contract are identified as separate performance obligations ("obligations") to the extent that the customer can benefit from the goods or services on their own and that the separate goods and services are considered distinct from other goods and services in the agreement. Where individual goods and services don't meet the criteria to be identified as separate obligations they are aggregated with other goods and/or services in the agreement until a separate obligation is identified. The obligations identified will depend on the nature of individual customer contracts, but might typically be separately identified for mobile handsets, other equipment such as set-top boxes and routers provided to customers and services provided to customers such as mobile and fixed line communication services. Where goods and services have a functional dependency (for example a fixed line router can only be used with the Group's services) this does not, in isolation, prevent those goods or services from being assessed as separate obligations.

Notes to the Consolidated Financial Statements

The Group determines the transaction price to which it expects to be entitled to return for providing the promised obligations to the customer based on the committed contractual amounts, net of GST and discounts. Where indirect channel dealers, such as retailers, acquire customer contracts on behalf of the Group and receive commission, any commissions that the dealer is compelled to use to fund discounts or other incentives to the customer are treated as payments to the customer when determining the transaction price and consequently are not included in contract acquisition costs.

The transaction price is allocated between the identified obligations according to the relative standalone selling prices of the obligations. The standalone selling price of each obligation deliverable in the contract is determined according to the prices that the Group would achieve by selling the same goods an/or services included in the obligation to a similar customer on a standalone basis; where standalone selling prices are not directly observable, estimation techniques are used maximising the use of external inputs.

Revenue is recognised when the respective obligations in the contract are delivered to the customer and payment remains probable. There are no significant judgments involved in determining whether to recognise revenue over time or at a point in time.

- Revenue for the provision of services, such as mobile airtime and fixed line broadband, is recognised over time, when or as the Group performs the related service during the agreed service period.
- Revenue for device sales to end customers is generally recognised at the point in time when the device is delivered to the end customer. For device sales made to intermediaries such as indirect channel dealers, revenue is recognised if control of the device has transferred to the intermediary and the intermediary has no right to return the device to receive a refund; otherwise revenue recognition is deferred until sale of the device to an end customer by the intermediary or the expiry of any right of return.

Where refunds are issued to customers they are deducted from revenue in the relevant service period.

When the Group has control of goods and services prior to delivery to a customer, then the Group is the principal in the sale to the customer. As a principal, receipts from, and payments to, suppliers are reported on a gross basis in revenue and operating costs. If another party has control of goods or services prior to transfer to the customer, then the Group is acting as an agent for the other party and revenue in respect of the relevant obligations is recognised net of any related payments to the supplier and recognised revenue represents the margin earned by the Group.

Customers typically pay in advance for prepay mobile services and monthly for other communication services. Customers typically pay for handsets and other equipment either up-front at the time of sale or over the term of the related service agreement.

When revenue recognised in respect of a customer contract exceeds amounts received from a customer at that time a contract asset is recognised; contract assets will typically be recognised for handsets or other equipment provided to customers where payment is recovered by the Group via future service fees. If amounts received or receivable from a customer exceed revenue recognised for a contract, for example if the Group receives an advance payment from a customer, a contract liability is recognised.

When contract assets or liabilities are recognised, a financing component may exist in the contract; this is typically the case when a handset or other equipment is provided to a customer up-front but payment is received over the term of the related service agreement, in which case the customer is deemed to have received financing. If a significant financing component is provided to the customer, the transaction price is reduced and interest revenue is recognised over the customer's payment period using an interest rate reflecting the relevant central bank rates and customer credit risk.

Contract-related costs

When costs directly relating to a specific contract are incurred prior to recognising revenue for a related obligation, and those costs enhance the ability of the Group to deliver an obligation and are expected to be recovered, then those costs are recognised on the consolidated statement of financial position as fulfilment costs and are recognised as expense in line with the recognition of revenue when the related obligation is delivered.

The direct and incremental costs of acquiring a contract including, for example certain commissions payable to staff or agents for acquiring customers on behalf of the Group, are recognised as contract acquisition cost assets in the consolidated statement of financial position when the related payment obligation is recorded. Costs are recognised as an expense in line with the recognition of the related revenue that is expected to be earned by the Group; typically this is over the contract period as new commissions are payable on contract renewal. Certain amounts payable to agents are deducted from revenue recognised.

Notes to the Consolidated Financial Statements

2.4 Consolidation

Subsidiaries

A subsidiary is an entity controlled by the Group. The Group controls an entity when the Group is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of the subsidiaries acquired or disposed during the year are included in the consolidated statement of comprehensive income from the effective date of control or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group. All intra-group transactions, balances, incomes and expenses are eliminated on consolidation.

2.5 Investments accounted for using the equity method

An associate is an entity over which the Group has significant influence and that is neither a subsidiary or an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

For a joint venture, the control of the arrangement is shared with other parties, as applicable. A joint venture is based on management's assessment of the legal form and substance of the arrangement.

For both associates and joint ventures the results and assets and liabilities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets, less any impairment in the value of the investment. The Group's share of post-tax profits or losses are recognised in the consolidated statement of comprehensive income. Losses in excess of Group's interest in that associate are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the entity.

2.6 Foreign currency transactions

All foreign currency transactions during the year have been brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at balance date are translated at the exchange rate existing at that date. Exchange differences are brought to account in the consolidated statement of comprehensive income in the period in which they arise.

2.7 Current or non-current classification

Assets are classified as current in the consolidated statement of financial position where recovery is expected within 12 months of the reporting date. All assets where recovery is expected more than 12 months from the reporting date and all deferred tax assets, goodwill and intangible assets, property, plant and equipment and investments in associates and joint ventures are reported as non-current.

Liabilities are classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. For provisions, where the timing of settlement is uncertain, amounts are classified as non-current where settlement is expected more than 12 months from the reporting date.

2.8 Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents are held by the Group on a short-term basis with all having an original maturity of three months or less. The carrying amounts approximates their fair value.

Notes to the Consolidated Financial Statements

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within current liabilities.

2.10 Derivatives

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured to their fair value at each balance date. They are classified as held for trading and accounted for at fair value through profit or loss ("FVPL") unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the balance date.

2.11 Trade receivables, other receivables and loans

Trade receivables represent amounts owed by customers where the right to payment is conditional only on the passage of time. Trade receivables that are recovered in instalments from customers over an extended period are discounted at market rates and interest revenue is accredited over the expected repayment period.

Trade receivables are recorded at amortised cost and reduced by allowances for lifetime estimated credit losses, with the exception of below. For trade receivables held at amortised cost the carrying values approximate fair value.

Other trade receivables that do not carry any interest and are stated at their nominal value, for example customers who sign-up for interest free mobile phones. These transactions are recorded at fair value through other comprehensive income.

Estimated future credit losses are first recorded on the initial recognition of a receivable and are based on the ageing of the receivable balances, historical experience and forward looking considerations. Individual balances are written off when management deems them not to be collectible. The Group applies the simplified approach and records lifetime expected credit losses for trade receivables. Expected credit losses are measured using historical cash collection data for periods of at least 24 months wherever possible and grouped into various customer segments based on product or customer type. The historical loss rates are adjusted where macroeconomic factors or other commercial factors are expected to have a significant impact when determining future expected credit loss rates.

Other receivables, prepayments and receivables from related parties are all measured at amortised cost.

2.12 Contract assets

Contract assets represent an asset for accrued revenue in respect of goods or services delivered to customers for which a trade receivable does not yet exist. These amounts will be reclassified as trade receivables before they become due. The carrying value of all contract assets are recorded at amortised cost is reduced by allowances for lifetime estimated credit losses.

In a manner similar to trade receivables the Group applies the simplified approach and records lifetime expected credit losses for contract assets. Refer 2.11 "Trade receivables, other receivables and loans".

2.13 Inventories

Inventories are valued at the lower of cost and net realisable value. Costs are assigned to inventory on hand using the weighted average basis.

2.14 Property, plant and equipment

Property, plant and equipment are initially stated at cost and depreciated as outlined below. Cost includes purchase price and costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Where appropriate, the cost of property, plant and equipment includes site preparation costs, installation costs, the cost of obtaining initial resource consents, and direct costs. Direct costs include employee costs and directly attributable overheads. Directly attributable overheads include a proportion of office accommodation and other operating expenses, weighted for capitalisable labour hours.

Notes to the Consolidated Financial Statements

The cost of an item of property, plant and equipment also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Changes in the liability resulting from changes in the estimated timing or amount of payments required to settle the obligation or changes to the discount rate are added to, or deducted from, the cost of the related asset, except that where a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised in profit or loss.

Where an item of property, plant and equipment is disposed of, the gain or loss recognised in operating expenses in the consolidated statement of comprehensive income is calculated as the difference between the sale price and the carrying amount of the item.

Depreciation is provided on property, plant and equipment excluding land. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its expected useful life. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis.

The following estimated useful lives are used in the calculation of depreciation:

Property, plant and equipment:

Fixtures, fittings and improvements	4 - 8 years
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Communication & network equipment includes the following:

Customer premises equipment	1 - 4 years
IT equipment	3 - 5 years
Network equipment	4 - 8 years
Network and broadband infrastructure	8 - 15 years
Fibre cables & ducting	20 - 35 years

Assets are depreciated from the date they are brought into service, or in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Construction in progress is accounted for at cost and capitalised to property, plant and equipment as projects are completed. Depreciation of these assets commences when the assets are ready for their intended use.

2.15 Intangible assets

Goodwill

Goodwill arising on the acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the business recognised at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is not subject to amortisation but is tested annually for impairment or whenever impairment indicators are noted. On disposal of a subsidiary or business, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the consolidated statement of comprehensive income on disposal.

For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash generating units ("CGU's"). Management has determined the recoverable amount of the Group CGU's by assessing the fair value less cost of disposal ("FVLCD") of the underlying assets.

If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Impairment losses recognised for goodwill are not reversible in subsequent periods. The recoverable amount is the higher of fair value less costs of disposal and value in use.

Notes to the Consolidated Financial Statements

Computer software and licenses

Computer software comprises computer software purchased from third parties as well as the cost of internally developed software. The cost of an internally generated intangible asset that meets the recognition criteria is the sum of directly attributable expenditure incurred to create, produce and prepare the asset so that it is capable of operating in the manner intended by management.

Computer software licenses are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and are probable of producing future economic benefits, are recognised as intangible assets. Direct costs of software development include employee costs and directly attributable overheads.

Software integral to an item of hardware equipment is classified as property, plant and equipment. Costs associated with maintaining computer software programs are recognised as an expense as they are incurred. Internally developed software is recognised only if all of the following conditions are met – an asset is created that can be separately identified; it is probable that the asset created will generate future economic benefits; and the development cost of the asset can be measured reliably. The amounts capitalised for network licenses and additional spectrum licenses are amortised over the period of the licenses on a straight line basis. The amortisation commences from the date of network acceptance, which is when the network is technically ready to operate the commercial service.

Software is amortised on a straight line basis over the useful lives between 3 to 5 years. Customer base is amortised on a sum of digit basis over the estimated useful lives of underlying customers, which is between 7 to 9 years.

Radio spectrum licences are amortised over the legal lives of the underlying spectrum management rights as at acquisition date. The average legal lives range from 15 to 20 years.

2.16 Impairment of non-financial assets

At each balance date, the Group reviews the carrying amounts of its property, plant and equipment and finite lived intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years and an impairment loss reversal is recognised immediately in profit or loss.

2.17 Financial assets and liabilities

Financial assets and financial liabilities, in respect of financial instruments, are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. In general, this will be on trade-date, the date on which the Group commits to purchase or sell the asset.

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that provides a residual interest in the assets of the Group after deducting all of its liabilities and includes no obligation to deliver cash or other financial assets. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

On the date of initial application, 1 April 2018, the Group assessed which business models apply to the financial assets and financial liabilities held by the Group and has classified its financial instruments into the appropriate NZ IFRS 9 categories. The main effects resulting from this reclassification are the impact on the carrying amounts, relating to the recognition of loss allowances:

Notes to the Consolidated Financial Statements

From 1 April 2018, the Group classifies its financial assets in the following measurement categories:

- Those to be measured at amortised cost; and
- Those to be measured subsequently at fair value (either through OCI or through profit or loss).

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

For all financial assets held at amortised cost the carrying values approximate fair value.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gains/(losses) arising on derecognition is recognised directly in the consolidated statement of comprehensive income and presented in other gains/(losses) together with foreign exchange gains/(losses). Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in the consolidated statement of comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the consolidated statement of comprehensive income and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains/(losses) are presented in other gains/(losses) and impairment expenses are presented as separate line item in the consolidated statement of comprehensive income. Refer to note 6 "Trade and other receivables".
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises. Refer note 2.10 "Derivatives".

Fair value and carrying value information

The carrying value and valuation basis of the Group's financial assets are set out in notes 2.11 "Trade receivables, other receivables and loans", 2.12 "Contract assets" and 2.9 "Cash and cash equivalents".

The carrying value and valuation basis of the Group's financial liabilities are set out in notes 2.19 "Trade and other payables", 2.20 "Employee benefits", 2.22 "Leases", and 2.23 "Borrowings". The carrying values approximate fair value for the Group's trade payables and other payables categories.

2.18 Impairment of financial assets

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or Group of financial assets was impaired. A financial asset or a Group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or Group of financial assets that could be reliably estimated.

From 1 April 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The Group restatement on transition to NZ IFRS 9 on 1 April 2018 as a result of applying the expected credit risk model is summarised in the table on page 12.

Notes to the Consolidated Financial Statements

Expected credit loss

The Group has financial assets classified and measured at amortised cost and fair value through other comprehensive income that are subject to the expected credit loss model requirements of NZ IFRS 9. Information about expected credit losses for trade receivables and contract assets can be found in notes 2.11 "Trade receivables, other receivables and loans" and 2.12 "Contract assets", as well as, notes 6 "Trade and other receivables" and 7 "Contract assets".

2.19 Trade and other payables

Trade and other payables are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. The amounts are unsecured and are usually paid within normal business terms. Trade and other payables are classified as non-current only when the Group has the unconditional right to defer payment for more than 12 months from balance date. Otherwise the amounts are classified as current. Trade and other payables are measured initially at fair value and are subsequently measured at amortised cost using the effective interest method.

2.20 Employee benefits

An accrual is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Accruals are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Contributions to Kiwisaver and defined contribution superannuation plans are expensed when incurred. Accruals made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the balance date.

2.21 Provisions

Provisions are recorded at the best estimate of the expenditure required to settle the obligation at the balance date. Where the effect is material, the expected expenditures 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 liability for which the future cash flow estimates have not been adjusted. Where discounting is used, the carrying amount of the provision is increased each period to reflect the passage of time. Interest expense relating to the unwinding of the discount is recorded in finance costs in the consolidated statement of comprehensive income. Provisions expected to be settled within 12 months are measured at the undiscounted amounts required to settle the obligation.

2.22 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments as determined at the inception of the lease. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the consolidated statement of comprehensive income.

Rentals payable under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

2.23 Borrowings

Borrowings are initially measured at fair value, net of transaction costs. Borrowings are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount of the financial liability.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

2.24 Taxation

Current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance date where the Group operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.25 Share-based payments

The Group has a number of share plans used to award shares in the ultimate parent company, Vodafone Group Plc. to employees as part of their remuneration package. A charge is recognised over the vesting period in the consolidated statement of comprehensive income to record the cost of these, based on the fair value of the award on the grant date.

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the net effect of non-market-based vesting conditions. A corresponding increase in share-based payment reserves is also recognised.

The fair value of awards of non-vested shares is an average calculation of the closing price of Vodafone Group Plc's shares on the days prior to the grant date, adjusted for the present value of the delay in receiving dividends where appropriate.

2.26 Equity dividends

Dividends paid and received are included in the period in which the related dividends are actually paid or received.

2.27 Commitments

A commitment is a contractual obligation to make a payment in the future, mainly in relation to leases and agreements to buy assets such as network infrastructure and IT systems. These amounts are not recorded in the consolidated statement of financial position since we have not yet received the goods or services from the supplier. The amounts disclosed are the minimum amounts that we are committed to pay. Refer to note 22 "Commitments".

2.28 Contingent liabilities

Contingent liabilities are potential future cash outflows, where the likelihood of payment is considered more than remote, but is not considered probable or cannot be measured reliably. Refer to note 23 "Contingencies".

Notes to the Consolidated Financial Statements

2.29 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Refer to note 15 "Contributed equity".

3. Critical accounting estimates, assumptions and judgements

The preparation of the consolidated financial statements requires judgements, estimates and assumptions. Application is based on future expectations as well as historical experience and other factors, as appropriate to the particular circumstances.

3.1 Revenue recognition

Critical accounting judgements and key sources of uncertainty relating to NZ IFRS 15

Revenue recognition under NZ IFRS 15 is significantly more complex than under previous reporting requirements and necessitates the collation and processing of large amounts of data and the increased use of management judgements and estimates to produce financial information. Significant accounting judgements and source of estimation uncertainty include the determination of the discount rate used for valuation purposes and are discussed further below.

Gross versus net presentation

If the Group has control of goods or services when they are delivered to a customer, then the Group is the principal in the sale to the customer; otherwise the Group is acting as an agent. Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its business partners; such judgements impact the amount of reported revenue and operating expenses but do not impact reported assets, liabilities or cash flows. Scenarios requiring judgement to determine whether the Group is a principal or an agent include, for example, those where the Group delivers third-party branded services (such as music or TV content) to customers.

Allocation of revenue to goods and services provided to customers

Revenue is recognised when goods and services are delivered to customers. Goods and services may be delivered to a customer at different times under the same contract, hence it is necessary to allocate the amount payable by the customer between goods and services on a 'relative standalone selling price basis'; this requires the identification of performance obligations ("obligations") and the determination of standalone selling prices for the identified obligations. The determination of obligations is, for the primary goods and services sold by the Group, not considered to be a critical accounting judgement. The determination of standalone selling prices for identified obligations is discussed below.

It is necessary to estimate the standalone price when the Group does not sell equivalent goods or services in similar circumstances on a standalone basis. When estimating the standalone price the Group maximises the use of external inputs; methods for estimating standalone prices include determining the standalone price of similar goods and services sold by the Group, observing the standalone prices for similar goods and services when sold by third parties or using a cost-plus reasonable margin approach (which is sometimes the case for handsets and other equipment). Where it is not possible to reliably estimate standalone prices due to lack of observable standalone sales or highly variable pricing, which is sometimes the case for services, the standalone price of an obligation may be determined as the transaction price less the standalone prices of other obligations in the contract.

The standalone price determined for obligations materially impacts the allocation of revenue between obligations and impacts the timing of revenue when obligations are provided to customers at different times - for example, the allocation of revenue between handsets, which are usually delivered up-front, and services which are typically delivered over the contract period. However, there is not considered to be a significant risk of material adjustment to the carrying value of contract-related assets or liabilities in the twelve months after the balance sheet date if these estimates were revised.

Notes to the Consolidated Financial Statements

3.2 Business combinations and goodwill

When the Group completes a business combination, the fair values of the identifiable assets and liabilities acquired, including intangible assets, are recognised. The determination of the fair values of acquired assets and liabilities are based, to some extent, on management's judgement. If the purchase consideration exceeds the fair values of the net assets acquired then the incremental amount paid is recognised as goodwill. If the purchase consideration is lower than the fair value of the net assets acquired then the difference is recorded as a gain in the profit and loss component of the consolidated statement of comprehensive income.

Allocation of the purchase price between finite lived assets and indefinite lived assets such as goodwill affects the subsequent results of the Group as finite lived intangible assets are amortised, whereas indefinite lived intangible assets, including goodwill, are not amortised. Refer to notes 10 "Intangible assets" and 17 "Business combinations".

3.3 Impairment reviews

For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as CGU's. Management has determined the recoverable amount of the Group cash-generating units by assessing the FVLCOF of the underlying assets. The valuation is considered to be level 1 in the fair value hierarchy as it is based on a quoted price.

Previously, management has determined the recoverable amount of the Group CGU's based on value in use ("VIU"), which is determined using discounted cash flow models. The value in use calculations require the Group to estimate the future cash flows expected to arise from the CGU's and suitable discount rates to determine the present value.

3.4 Property, plant and equipment

Where appropriate, the cost of property, plant and equipment includes site preparation costs, installation costs, the cost of obtaining initial resource consents, and direct costs. Direct costs include employee costs and a reasonable proportion of overhead costs, which are directly attributable to bringing the asset to the location and condition necessary for its intended use. Estimation is involved in determining both the relevant employee costs to be considered as direct costs, and the appropriate rate at which to capitalise these costs per hour.

The depreciation charge for an asset is derived using estimates of its expected useful life, which are reviewed annually. The useful life over which tangible assets are depreciated depends on management's estimate of the period over which economic benefit will be derived from the asset. Reducing the useful life will increase the depreciation charge in the consolidated statement of comprehensive income. Useful lives are periodically reviewed to ensure that they remain appropriate. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates. Management determines the useful lives and residual values for assets when they are acquired, based on experience with similar assets and taking into account other relevant factors such as any expected change in technology. Refer to note 9 "Property, plant and equipment".

3.5 Finite lived intangible assets

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and are probable of producing future economic benefits, are recognised as intangible assets. Direct costs of software development include employee costs and a reasonable proportion of overhead costs, which are directly attributable to bringing the asset to the location and condition necessary for its intended use. Estimation is involved in determining both the relevant employee costs to be considered as direct costs, and the appropriate rate at which to capitalise these costs per hour.

Finite lived intangible assets include amounts spent by the Group acquiring licenses and spectrum, customer bases and the costs of purchasing and developing computer software. Where intangible assets are acquired through business combinations and no active market for the assets exists, the fair value of these assets is determined by discounting estimated future net cash flows generated by the asset. Estimates relating to the future cash flows and discount rates used may have a material effect on the reported amounts of finite lived intangible assets.

Notes to the Consolidated Financial Statements

Estimation of useful life

The useful life over which intangible assets are amortised depends on management's estimate of the period over which economic benefit will be derived from the asset. Reducing the useful life will increase the amortisation charge in the consolidated statement of comprehensive income. Useful lives are periodically reviewed to ensure that they remain appropriate. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The basis for determining the useful life for the most significant categories of intangible assets is discussed below.

Customer base

The estimated useful life principally reflects management's view of the average economic life of the customer base and is assessed by reference to customer churn rates. An increase in churn rates may lead to a reduction in the estimated useful life and an increase in the amortisation charge.

Software

For computer software, the estimated useful life is based on management's view, considering historical experience with similar products as well as anticipation of future events which may impact their life such as changes in technology. The useful life will not exceed the duration of a licence.

Radio spectrum licenses

Radio spectrum licences are amortised over the legal lives of the underlying spectrum management rights as at acquisition date. The average legal lives range from 15 to 20 years.

Refer to note 10 "Intangible assets".

3.6 Provisions

In the course of the Group's activities, a number of lease agreements for cell sites, point of presence ("POP") sites and other network infrastructure assets are entered into for which the Group has decommissioning obligations on termination of the leases.

In order to determine the carrying amount of the provision for decommissioning costs, the Group estimates the timing and amount of cash flows that will be required to settle the obligation. These estimates are evaluated each reporting period to determine whether any adjustments are required.

The associated cash outflows are substantially expected to occur at the end of the life of the relevant assets. The useful life for cell sites and POP sites is calculated by reference to the longest remaining lease term after factoring in expected exits from cell sites and POP sites each year based on historic trends. The useful life of other network infrastructure assets is based on estimates performed by engineers.

The amount of cash outflows are estimated based on actual costs of exiting sites already incurred, and estimates provided by engineers. Refer to note 14 "Provisions".

Notes to the Consolidated Financial Statements

4. Operating expenses

Operating expenses - direct costs	2019 \$ million	2018 \$ million
Interconnect and access costs	369.8	388.1
Device and other product costs	341.9	366.4
Other direct and variable costs	220.5	190.1
	<u>932.2</u>	<u>944.6</u>

Interconnect and access costs comprise the costs paid to other telecommunication operators (for delivery of voice, messaging, or data from Vodafone customers to other customers); access fees (fixed payments to access the networks of Chorus and other telecommunication operators) and international bandwidth (contracted capacity of international connections). Device and other product costs comprise equipment costs (which include handsets and modems), SIM costs, one-off commissions, and provisioning costs. Other direct and variable costs comprise the costs associated with content, enterprise projects and managed services (for example Vodafone managed IT systems), regulatory fees, handset insurance costs, other miscellaneous mobile costs, and ongoing commissions and logistics costs.

Operating expenses – other	2019 \$ million	2018 \$ million
Labour costs	278.3	263.9
IT and network costs	91.9	90.7
Media, publicity and communication	44.6	51.5
Operating lease expenses ¹	39.4	48.0
Intercompany recharges	156.6	157.6
Other expenses	45.5	58.5
	<u>656.3</u>	<u>670.2</u>

Note:

¹ Operating lease expenses include \$5.9 million of sub-lease rental earnings (2018: \$3.1 million).

5. Finance costs – net

	Notes	2019 \$ million	2018 \$ million
Vodafone Group Plc	19	4.7	5.0
Other		7.7	0.2
Total finance income		<u>12.4</u>	<u>5.2</u>
Vodafone Overseas Finance Limited	19	(32.5)	(40.7)
Other		(0.5)	(3.1)
Total finance costs		<u>(33.0)</u>	<u>(43.8)</u>
Finance costs - net		<u>(20.6)</u>	<u>(38.6)</u>

Notes to the Consolidated Financial Statements

6. Trade and other receivables

	Note	2019 \$ million	2018 \$ million
Current			
<u>At amortised cost:</u>			
Trade receivables		160.5	157.5
Less: loss allowance		(9.8)	(7.0)
Net trade receivables		150.7	150.5
Prepayments		31.2	19.3
Other receivables		6.0	7.0
Receivables from related parties	19	2.7	4.9
		190.6	181.7
<u>At fair value through OCI:</u>			
Trade receivables		62.7	-
Total current		253.3	181.7
Non-current			
<u>At fair value through OCI:</u>			
Trade receivables		18.4	-
<u>At amortised cost:</u>			
Prepayments		4.5	1.6
Total non-current		22.9	1.6

Trade receivables are recorded at amortised cost and reduced by allowances for lifetime estimated credit losses, with the exception of below.

Other trade receivables that do not carry any interest are stated at their nominal value, for example customers who sign-up for interest free mobile phones. These transactions are recorded at FVOCI.

The provision for expected credit losses from the date of initial adoption has increased. The closing loss allowances for trade receivables as at 31 March 2019 reconcile to opening loss allowances as follows:

	2019 \$ million	2018 \$ million
Loss allowances as at 31 March 2018 under NZ IAS 39	7.0	14.4
Recognition of additional allowances at 1 April 2018	10.2	-
Loss allowances as at 1 April 2018 under NZ IFRS 9	17.2	14.4
Increase in loss allowances recognised in profit or loss during the year	16.0	14.3
Increase in loss allowances recognised in OCI during the year	2.8	-
Receivables written off during the year as uncollectible	(22.7)	(21.7)
Loss allowances as at 31 March 2019 under NZ IFRS 9	13.3	7.0

Notes to the Consolidated Financial Statements

7. Contract assets

	2019 \$ million	2018 \$ million
At amortised cost:		
Current		
Contract assets	39.4	-
Less: Loss allowance	(0.8)	-
Net contract assets	38.6	-
Accrued revenue	35.3	68.8
Less: loss allowance	(1.7)	(3.9)
Net accrued revenue	33.6	64.9
Total current	72.2	64.9
Non-current		
Contract assets	7.1	-
Less: loss allowance	(0.5)	-
Net contract assets	6.6	-
Accrued revenue	1.0	18.2
Total non-current	7.6	18.2

Contract assets are recorded at amortised cost and the carrying value is reduced by an allowance for lifetime estimated credit losses.

The provision for expected credit losses from the date of initial adoption has decreased. The closing loss allowances for contract assets as at 31 March 2019 reconcile to opening loss allowances as follows:

	2019 \$ million	2018 \$ million
Loss allowances as at 31 March 2018 under NZ IAS 39	3.9	-
Recognition of additional allowances at 1 April 2018	1.4	-
Loss allowances as at 1 April 2018 under NZ IFRS 9	5.3	-
Increase in loss allowances recognised in profit or loss during the year	1.3	-
Impairment losses recognised on contract assets	-	3.9
Contract assets written off during the year as uncollectible	(3.6)	-
Loss allowances as at 31 March 2019 under NZ IFRS 9	3.0	3.9

8. Inventories

Inventories comprises the cost of mobile handsets and network spares.

	2019 \$ million	2018 \$ million
Mobile handsets, network spares and other	34.3	24.9
Provision for inventory obsolescence	(2.9)	(5.6)
Balance at the end of the year	31.4	19.3

Inventories recognised as an expense during the year of \$231.1 million (2018: \$259.0 million) are included within "Operating expenses - direct costs" in the consolidated statement of comprehensive income. The current year charge includes \$0.7 million (2018: \$1.0 million) in respect of write-downs of inventory to net realisable value.

Notes to the Consolidated Financial Statements

9. Property, plant and equipment

\$ million	Fixtures & Fittings	Communication & Network equipment	Construction in progress	Total
2018 movements				
Net book value restated ¹	33.0	901.1	21.7	955.8
Additions – acquisitions (refer to note 17)	0.5	0.3	3.2	4.0
Additions	1.8	184.2	20.7	206.7
Transfer from construction in progress	0.8	20.3	(21.1)	-
Net movement from asset retirement obligation	-	(4.2)	-	(4.2)
Disposals	-	(7.0)	-	(7.0)
Depreciation charge	(8.4)	(211.1)	-	(219.5)
Net book value restated¹	27.7	883.6	24.5	935.8
At 31 March 2018 restated¹				
Cost	111.7	2,911.9	24.5	3,048.1
Accumulated depreciation	(84.0)	(2,028.3)	-	(2,112.3)
Net book value restated¹	27.7	883.6	24.5	935.8
2019 movements				
Net book value restated ¹	27.7	883.6	24.5	935.8
Additions	0.1	6.1	185.4	191.6
Transfer from construction in progress	1.7	166.9	(168.6)	-
Net movement from asset retirement obligation	-	7.5	-	7.5
Depreciation charge	(8.6)	(223.0)	-	(231.6)
Closing net book value	20.9	841.1	41.3	903.3
At 31 March 2019				
Cost	77.8	2,748.3	41.3	2,867.4
Accumulated depreciation	(56.9)	(1,907.2)	-	(1,964.1)
Net book value	20.9	841.1	41.3	903.3

Communication & Network equipment at 31 March 2019 includes \$43.4 million (2018: nil) of leases including the Hawaiki fibre optic cable purchased for a net consideration of \$27.2 million from Vodafone Group Plc entities. Refer note 19 "Related parties".

Note:

¹ Certain amounts shown here do not correspond to the 2018 consolidated financial statements and reflect an adjustment to the recorded brought forward 1 April 2017 net book value. A reassessment of the net book value identified a miscalculation of depreciation and amortisation. Refer to note 25 "Restatement of previously reported 31 March 2017 consolidated financial statements".

Notes to the Consolidated Financial Statements

10. Intangible assets

\$ million	Goodwill	Radio spectrum licenses	Software	Customer base	Construction in progress	Total
2018 movements						
Net book value restated ¹	165.9	132.1	113.3	22.0	23.6	456.9
Additions – acquisition (refer to note 17)	5.1	-	0.2	-	-	5.3
Additions	-	-	46.4	-	23.8	70.2
Transfer from construction in progress	-	-	18.0	-	(18.0)	-
Amortisation charge	-	(15.5)	(65.1)	(10.5)	-	(91.1)
Net book value restated¹	171.0	116.6	112.8	11.5	29.4	441.3
At 31 March 2018 restated¹						
Cost	171.0	625.4	905.3	103.4	29.4	1,834.5
Accumulated amortisation	-	(508.8)	(792.5)	(91.9)	-	(1,393.2)
Net book value restated¹	171.0	116.6	112.8	11.5	29.4	441.3
2019 movements						
Net book value restated ¹	171.0	116.6	112.8	11.5	29.4	441.3
Additions	-	-	8.6	-	83.8	92.4
Transfer from construction in progress	-	-	86.8	-	(86.8)	-
Disposals	-	-	(0.2)	-	-	(0.2)
Amortisation charge	-	(15.5)	(61.6)	(7.6)	-	(84.7)
Closing net book value	171.0	101.1	146.4	3.9	26.4	448.8
At 31 March 2019						
Cost	171.0	225.4	578.1	103.4	26.4	1,104.3
Accumulated amortisation	-	(124.3)	(431.7)	(99.5)	-	(655.5)
Net book value	171.0	101.1	146.4	3.9	26.4	448.8

Note:

¹ Certain amounts shown here do not correspond to the 2018 consolidated financial statements and reflect an adjustment to the recorded brought forward 1 April 2017 net book value. A reassessment of the net book value identified a miscalculation of depreciation and amortisation. Refer to note 25 "Restatement of previously reported 31 March 2017 consolidated financial statements".

11. Investments accounted for using the equity method

	2019 \$ million	2018 \$ million
Opening balance	3.1	2.1
Additions	1.2	0.5
Share of (loss)/profits	(0.2)	0.5
Closing balance	4.1	3.1

Nature of investment in joint ventures and associates:

Set out below are the joint ventures and associates of the Group at 31 March 2019. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation for all entities is New Zealand which is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of Entity	% of ownership	Nature of relationship	Measurement method	Carrying amount \$ million
Rural Connectivity Group Limited	33%	Joint Venture	Equity	1.1
Centurion GSM Limited	25%	Associate	Equity	2.9
TNAS Limited	50%	Associate	Equity	0.1
				4.1

The joint venture and associates all have a balance date of 31 March.

Notes to the Consolidated Financial Statements

12. Other payables and accrued expenses

	Note	2019 \$ million	2018 \$ million
Included within other payables and accrued expenses			
Current			
Other payables and accruals ¹		145.0	154.3
GST and other taxes payable		24.1	26.8
Related party payables	19	32.2	33.5
		201.3	214.6
Included within other payables and accrued expenses			
Non-current			
Other payables and accruals		3.3	3.3
		3.3	3.3

Note:

¹ In 2017, a contingent payment of \$8.6 million payable to the former shareholders of WorldxChange Communications Limited was included within non-current other payables and accruals. In 2018, \$9.0 million has been recognised within the current other payables and accrued expenses. In 2019, \$2.4 million has been settled on 12 November 2018 and the remaining balance of \$6.6 million has been released to the consolidated statement of comprehensive income.

13. Finance leases

	2019 \$ million	2018 \$ million
Current		
Finance lease liability	3.7	-
	3.7	-
Non-current		
Finance lease liability	11.4	-
	11.4	-

As at 31 March 2019, the Group has finance lease contracts relating to laptops, network equipment and customer mobile phones.

14. Provisions

\$ million	Asset retirement obligations	Employee provision	Other	Total
At 31 March 2017	37.7	-	0.8	38.5
Additional provisions	6.0	-	0.2	6.2
Utilised	(0.6)	-	-	(0.6)
Reversed	-	-	(0.8)	(0.8)
Unwinding of discount rate	(0.7)	-	-	(0.7)
At 31 March 2018	42.4	-	0.2	42.6
Additional provisions	7.5	30.8	1.4	39.7
Utilised	-	(10.0)	(0.2)	(10.2)
Unwinding of discount rate	1.2	-	-	1.2
At 31 March 2019	51.1	20.8	1.4	73.3

	2019 \$ million	2018 \$ million
Current	21.3	0.3
Non-current	52.0	42.3
	73.3	42.6

Notes to the Consolidated Financial Statements

Provisions for asset retirement obligations

In the course of the Group's activities, a number of sites and other assets are utilised which are expected to have costs associated with decommissioning. The associated cash outflows are substantially expected to occur at the end of the life of the relevant assets. All sites with asset retirement obligations, including subsidiaries, are provided for. A risk-free discount rate that reflects the risks specific to the liability has been used.

Employee provision

During the year the Group announced an organisational wide restructure, including the disestablishment of employees based in New Zealand. As at 31 March 2019, an amount of \$20.8 million has been provided for and is expected to be utilised within the next 12 months.

15. Contributed equity

Ordinary shares	2019		2018	
	shares (million) Number	\$	shares (million) Number	\$
Ordinary shares at the beginning of the year	945.1	454.6	945.1	454.6
Ordinary shares at the end of the year	<u>945.1</u>	<u>454.6</u>	<u>945.1</u>	<u>454.6</u>

Share capital comprises 945,100,000 (2018: 945,100,000) ordinary shares fully paid. All ordinary shares carry one vote per share and have equal rights to dividends and surpluses upon liquidation.

16. Other reserves

	Notes	2019 \$ million	2018 \$ million
Other reserves at 1 April, as restated ¹		80.8	43.7
Adoption of NZ IFRS 9	2.2	(8.2)	-
Adoption of NZ IFRS 15	2.2	32.0	-
Other reserves at 1 April, as restated		<u>104.6</u>	<u>43.7</u>
Total comprehensive income for the year, attributable to owners of the Parent		19.4	40.4
Distribution to the Parent		-	(1.0)
Exercise of put options over non-controlling interest	17	3.0	(3.0)
Share based payments reserves movement		0.4	(0.5)
Non-controlling interest	17	-	1.2
Other reserves at end of year		<u>127.4</u>	<u>80.8</u>

Dividend per share was nil (2018: nil).

Note:

¹ Certain amounts shown here do not correspond to the 2018 consolidated financial statements, for further details refer to note 25 "Restatement of previously reported 31 March 2017 consolidated financial statements".

17. Business combinations

Purchase consideration	2018 \$ million
Consideration paid in cash	<u>9.2</u>
Total consideration	<u>9.2</u>

Notes to the Consolidated Financial Statements

Assets and liabilities recognised at the date of acquisition were:	Fair value
Trade and other receivables	2.0
Current tax receivable	0.2
Inventory	0.8
Property, plant and equipment	4.0
Intangible assets	0.2
Deferred tax asset	3.0
Trade payables and other liabilities	(3.3)
Other non-current liabilities	(1.1)
Fair value of net identifiable assets acquired	<u>5.8</u>
Net assets acquired	<u>3.4</u>
Add/(Less): Non-controlling interest	(1.7)
Goodwill arising on acquisition	<u>5.1</u>

In 2018:

The Group acquired 70% of Baycity Communications Limited and its subsidiaries (together "Farmside"), a provider of rural broadband services, on 1 June 2017 for cash consideration of \$10.0 million less a working capital adjustment, and including an option to purchase the remaining 30% of Farmside shares for \$3.0 million. The business was acquired to protect the supply contract between the Group and Farmside and to secure the rural broadband initiative margin. Details of the purchase consideration and the net assets and liabilities recognised are above. The goodwill comprises the value of expected synergies arising from the acquisition. None of the goodwill recognised is expected to be deductible for income tax purposes.

As at 31 March 2018, the Group recognised the \$3.0 million purchase price within other payables and accrued expenses with the corresponding entry recorded within other reserves in the consolidated statement of changes in equity, refer to notes 15 "Other payables and accrued expenses" and 20 "Business combinations". During the year of acquisition Farmside contributed revenue of \$15.9 million and a net loss before tax of \$2.3 million to the Group for the period from 1 June 2017 to 31 March 2018. If the acquisition had occurred on 1 April 2017, consolidated pro-forma revenue and net loss before tax for the year ended 31 March 2018 would have increased by \$3.4 million and \$0.5 million respectively.

In 2019:

On 31 May 2018, the Group acquired the remaining 30% of shares in Farmside for \$3.0 million. Prior to the purchase, the carrying value of the existing non-controlling interest balance was \$1.2 million. The Group reversed out the entire carrying value and recognised a decrease in the retained earnings attributable to the owners of the parent of \$1.8 million. The effect on the equity during the year is summarised as follows:

	2019 \$ million
Carrying value of non-controlling interest	1.2
Consideration paid to non-controlling interest	(3.0)
Excess of consideration paid recognised in transactions with non-controlling interests reserves within equity	<u>(1.8)</u>

The consideration paid to non-controlling interest is disclosed in the consolidated statement of cash flows.

Notes to the Consolidated Financial Statements

18. Subsidiaries

Set out below are the subsidiaries of the Group at 31 March 2019. The country of incorporation for all entities is New Zealand which is also their principal place of business and the proportion of ownership interest is the same as the proportion of voting rights held.

Name	Nature of business	2019	2018
		Effective interest held by the Group (%)	
Vodafone New Zealand Foundation Limited	Non-trading trustee of the Vodafone New Zealand Foundation	100	100
Vodafone Mobile NZ Limited	Holds management rights to spectrum assets	100	100
Vodafone Next Generation Services Limited	Provider of unified communication services	100	100
Baycity Communications Limited ^{1&2}	Provider of rural broadband services	100	70
Baycity Dairy Limited ²	Dormant company	-	70
Farmside Limited ²	Dormant company	-	70
Farmside Technologies Limited ²	Dormant company	-	70
Myfarmside Limited ²	Dormant company	-	70

Notes:

¹ The Group acquired the remaining 30% of shares in Baycity Communications Limited and its subsidiaries (together "Farmside") for \$3.0 million on 31 May 2018.

² On 31 January 2019, Baycity Communications Limited and its subsidiaries have been amalgamated into one entity.

19. Related parties

The parent entity in the consolidated Group, and the ultimate New Zealand entity, is Vodafone New Zealand Limited. As at 31 March 2019 and 2018, the immediate parent entity of Vodafone New Zealand Limited was Vodafone Europe BV. As at 31 March 2019 and 2018, the ultimate parent entity, of the parent and the wholly-owned Group, was Vodafone Group Plc. unless otherwise stated, related parties are under common control of the ultimate parent entity.

In addition, the Group has a number of related parties including subsidiaries as detailed in 18 "Subsidiaries", associates and joint venture arrangements as detailed in note 11 "Investments accounted for using the equity method" and executive directors and other members of key management personnel.

During the year the Group entered into the following transactions with related parties:

Transaction type	Notes	Related party	2019	2018
			\$ million	\$ million
Purchases of goods and services ¹		Vodafone Group Plc entities	(287.8)	(259.5)
Sale of goods and services		Vodafone Group Plc entities	10.8	11.6
Finance income	5	Vodafone Group Plc	4.7	5.0
Finance charges	5	Vodafone Overseas Finance Limited	(32.5)	(40.7)
Loans repaid		Vodafone Overseas Finance Limited	-	122.2
Sale of trade receivables ²		Vodafone Overseas Finance Limited	-	33.1
Purchases of goods and services		Associates – Centurion GSM Limited	(70.6)	(65.8)
Sale of goods and services		Associates – Centurion GSM Limited	0.6	0.7
Sale of goods and services		Joint ventures – Rural Connectivity Group Limited	2.2	1.0

Notes:

¹ During the year ended 31 March 2019, the Group purchased the Hawaiki fibre optic cable for a net consideration of \$27.2 million and inventory of \$10.9 million from Vodafone Group Plc entities. Refer to note 9 "Property, plant and equipment".

² During the year ended 31 March 2018, the Group sold certain trade receivables to Vodafone Overseas Finance Limited. These trade receivables had a face value of \$36.5 million and were sold for a net consideration of \$33.1 million. Substantively all risks and rewards associated with the receivables passed onto the purchaser at the date of sale, therefore the receivables were derecognised. Following this transaction Vodafone Overseas Finance Limited sold these receivable balances to a financial institution, for a net consideration of \$33.3 million. There was no sale of trade receivables during the year ended 31 March 2019.

Notes to the Consolidated Financial Statements

The following balances were outstanding at the end of the balance date:

Balances	Related party	2019	2018
		\$ million	\$ million
Amount owed to related parties	Vodafone Group Plc entities	(32.2)	(33.5)
Amount owed by related parties	Vodafone Group Plc entities	2.7	4.9
Loan from related parties – non current	Vodafone Overseas Finance Limited	(986.9)	(982.1)
Amount owed by related parties	Vodafone Group Plc	296.7	290.1
Amount owed by related parties	Associates – Centurion GSM Limited	2.0	-
Amount owed by related parties	Joint ventures – Rural Connectivity Group Limited	1.1	0.3

Purchases / sales of goods and services and Amounts owed to / by related parties

These are trading transactions and intercompany recharges arising in the normal course of business. Purchases of goods and services from Vodafone Group Plc entities include inventory purchases. The closing balances are payable/receivable on demand and are non-interest bearing and unsecured.

Loan from related parties – Vodafone Overseas Finance Limited

The non-current loan with Vodafone Overseas Finance Limited is interest bearing and denominated in GBP. Interest on the loan is charged at LIBOR plus a margin of 1.3%. The loan is unsecured and repayable in full on 1 July 2020. The loan has a covenant of 3x interest cover. There were no defaults or breaches of covenants by the Group on any borrowing arrangements during the current year (2018: none).

The finance charges paid to Vodafone Overseas Finance Limited includes \$1.1 million capitalised to qualifying assets during the year (2018: \$0.2 million). The weighted average capitalisation rate on funds borrowed is 2.02% per annum (2018: 1.68% per annum).

Amounts owed by related parties – Vodafone Group Plc

The receivable from Vodafone Group Plc is payable on demand. The receivable from Vodafone Group Plc bears an average floating interest rate for the year of 1.86% (2018: 1.80%).

20. Share-based payments

Under the Vodafone Global Incentive Plan awards of shares are granted to Directors and certain employees. The release of these shares is conditional upon continued employment and for some awards achievement of certain performance targets measured over a three year period. Movements in award shares are summarised below.

	2019		2018	
	Number of shares (million)	Weighted average fair value at grant date	Number of shares (million)	Weighted average fair value at grant date
Outstanding at 1 April	3.0	\$4.33	3.2	\$3.75
Granted during the year	1.4	\$3.54	1.3	\$4.31
Forfeited during the year	(0.6)	\$4.20	(0.5)	\$4.02
Exercised during the year	(0.7)	\$4.53	(1.0)	\$3.70
Outstanding at 31 March	3.1	\$3.92	3.0	\$4.33

21. Income tax

Income tax recognised in profit or loss	2019	2018
	\$ million	\$ million
Tax expense comprises:		
Current tax expense	19.2	21.9
Over provision in previous year	(0.2)	(1.9)
Deferred income tax (Current Year)	(12.4)	(6.1)
Deferred income tax (Prior Year)	(3.5)	-
Income tax expense	3.1	13.9

Notes to the Consolidated Financial Statements

Income tax expense on pre-tax accounting profit reconciles to the income tax expense in the consolidated financial statements as follows:

	2019 \$ million	2018 \$ million
Profit before income tax	24.4	53.8
Income tax expense calculated at 28%	6.8	15.1
Non-deductible expenses	1.8	2.5
Non-assessable income	(1.8)	-
Over provision in previous year	(3.7)	(1.9)
Other	-	(1.8)
Income tax expense	3.1	13.9

Deferred tax assets/(liabilities)

\$ million	Property, plant & equipment	Provisions & accruals	Other	Intangible assets	Total
At 31 March 2017 restated ¹	16.1	22.2	0.2	(11.2)	27.3
Recognised in the consolidated statement of comprehensive income	(9.8)	4.8	1.3	9.7	6.0
Acquired in business	2.9	0.1	-	-	3.0
Reclassify prior years	10.3	(1.7)	-	(8.6)	-
Recognised directly in equity	-	-	0.1	-	0.1
At 31 March 2018 ¹	19.5	25.4	1.6	(10.1)	36.4
Recognised in the consolidated statement of comprehensive income	9.3	1.9	-	4.7	15.9
Income tax relating to the changes in FV financial assets	-	-	1.0	-	1.0
Recognised directly in equity	-	(9.9)	1.1	-	(8.8)
At 31 March 2019	28.8	17.4	3.7	(5.4)	44.5

Note:

¹ Certain amounts shown here do not correspond to the 2018 consolidated financial statements, for further details refer to note 25 "Restatement of previously reported 31 March 2017 consolidated financial statements".

22. Commitments

	2019 \$ million	2018 \$ million
Capital commitments	37.9	49.3
	37.9	49.3

The Group holds commercial operating leases on properties, network infrastructure, motor vehicles and other items of equipment.

Future minimum operating lease payments:

	2019 \$ million	2018 \$ million
Within one year	61.3	61.8
Later than one year but not later than five years	132.6	147.6
Later than five years	79.4	79.0
	273.3	288.4

Sublease receivables outstanding under non-cancellable subleases is \$11.5 million (2018: \$8.7 million).

23. Contingencies

There are no significant contingent liabilities as at 31 March 2019 (2018: nil).

Notes to the Consolidated Financial Statements

24. Events subsequent to year end

On 13 May 2019, Vodafone Group Plc agreed to the sale of Vodafone New Zealand Limited for consideration of NZD 3.4 billion (Euro 2.1 billion) to Infratil Limited and Brookfield Asset Management Inc. Approvals by both the New Zealand Overseas Investment Office and the New Zealand Commerce Commission have been obtained and the sale was completed on 31 July 2019.

As part of the sale process and purchase price settlement all Group financing with Vodafone Overseas Finance Limited and receivables from Vodafone Group Plc were settled. In addition the employee share scheme was settled.

A new facility was entered into to fund the settlement of previous Vodafone Group financing arrangements and future cash flow requirements. The new facility includes term loans and a revolving credit facility, and has covenants relating to interest cover ratio and leverage ratios. A total of \$1.5 billion is available under the facility.

There were no other events subsequent to 31 March 2019 requiring disclosure or qualifying for recognition (adjusting event).

25. Restatement of previously reported 31 March 2017 consolidated financial statements

During the process of preparing these consolidated financial statements the Directors have made adjustments following a reassessment of the 31 March 2017 restatement relating to fixed and intangible assets.

Included below are reconciliations of the amounts previously reported in the 31 March 2017 consolidated statement of financial position to the restated amounts reported in the consolidated statement of financial position, and explanations of the adjustments. The Group's consolidated statement of comprehensive income and consolidated statement of cash flows are not affected by the restatement and so are not re-presented.

Notes to the Consolidated Financial Statements

Previously reported consolidated statement of financial position as at 31 March 2017	2017 \$ million	Adjustments \$ million	Restated ¹ 2017 \$ million
Current assets			
Cash and cash equivalents	2.6	-	2.6
Receivable from Vodafone Group Plc	264.3	-	264.3
Trade and other receivables	238.0	-	238.0
Inventories	16.7	-	16.7
Tax receivable	13.6	-	13.6
	535.2	-	535.2
Non-current assets			
Trade and other receivables	22.6	-	22.6
Property, plant and equipment ¹	963.4	(7.6)	955.8
Intangible assets ¹	475.3	(18.4)	456.9
Investments accounted for using the equity method	2.1	-	2.1
Deferred tax assets ¹	20.0	7.3	27.3
	1,483.4	(18.7)	1,464.7
Total assets	2,018.6	(18.7)	1,999.9
Current liabilities			
Bank overdraft	0.8	-	0.8
Revenue received in advance	66.2	-	66.2
Trade payables	108.2	-	108.2
Accrued employee benefits	31.1	-	31.1
Other payables and accrued expenses	223.0	-	223.0
Provisions	1.9	-	1.9
Related party borrowings	122.2	-	122.2
	553.4	-	553.4
Non-current liabilities			
Revenue received in advance	11.0	-	11.0
Other payables and accrued expenses	13.1	-	13.1
Provisions	36.6	-	36.6
Related party borrowings	887.5	-	887.5
	948.2	-	948.2
Total liabilities	1,501.6	-	1,501.6
Net assets	517.0	(18.7)	498.3
Equity			
Contributed equity	454.6	-	454.6
Other reserves	62.4	(18.7)	43.7
Total equity	517.0	(18.7)	498.3

Notes:

¹ Calculation of assets depreciation and amortisation - the Group has made adjustments to correct the timing differences in the measurement of depreciation and amortisation calculations for fixed and intangible assets in prior periods.

	2017 \$ million
Adjustments which impact net assets and retained earnings	
Property, plant and equipment	(7.6)
Intangible assets	(18.4)
Retained earnings	26.0
Tax effect of the adjustments	
Deferred tax asset	7.3
Retained earnings	(7.3)