Active.

Spark nz

HALF YEAR REPORT 2017

Contents

Key dates

Half-year results announcement
16 February 2017

Financial year-end
30 June 2017

This report is dated 16 February 2017 and is signed on behalf of the Board of Spark New Zealand Limited by Mark Verbiest, Chairman, and Simon Moutter, Managing Director.

Mark Verbiest
Chairman

Simon Moutter
Managing Director

Spark New Zealand Limited
ARBN 050 611 277

Always.

In today's volatile world, one constant is the ever growing influence of technology. And increasingly, technology offers possibilities to help build a better New Zealand.

We want to be active in helping New Zealanders harness the unbelievable power of technology to spur innovation, solve problems, overcome barriers and foster creativity – to help people do amazing things and lead amazing lives.

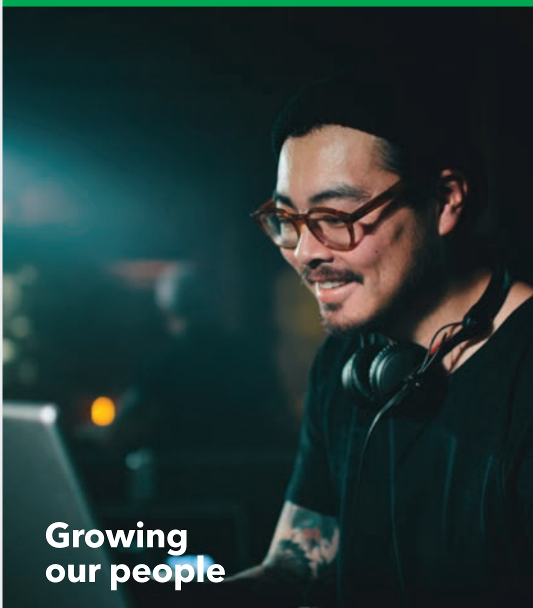
Every little victory we help our customers claim is another step towards realising our ambition to unleash the potential in all New Zealanders. That's a privilege and an inspiration that always keeps us going.

Always Active

Determined to make a difference, we're taking a lead on the things we believe truly matter to our customers and to our country.

We're actively investing in our people, our communities, our technology, our customer services and our environment – we're investing in a better future. The reason is simple – if more New Zealanders unleash their potential, so do we.

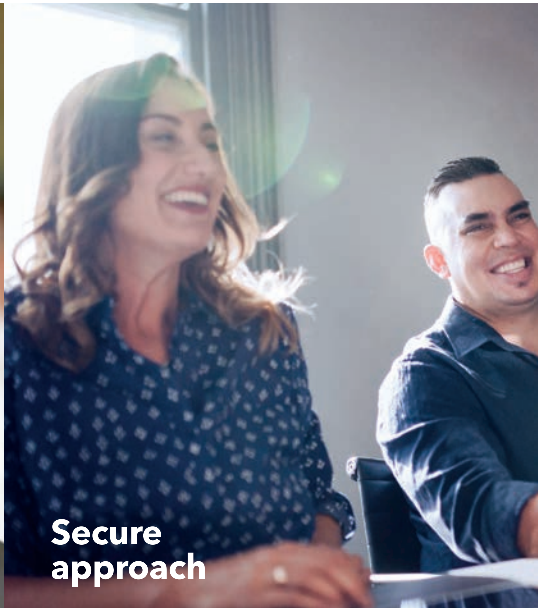
Investing more in New Zealand's future by growing as a business.



Making more of a difference to customers by growing our people.

Helping our community

Helping communities do amazing things with technology.

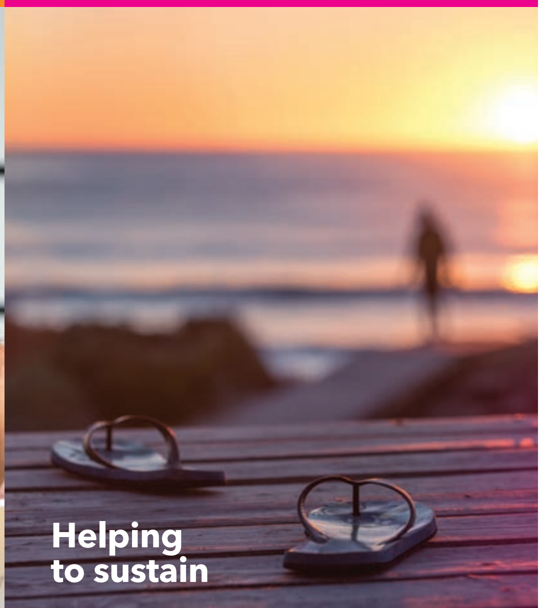


Secure approach

Protecting the things that enable success for Spark customers and New Zealand.

Effective leadership

Showing leadership on the things that matter.



Helping to sustain

Playing our part in protecting New Zealand's environment.

Performance snapshot

Operating revenues $
1,793M
▲ 4.1%

EBITDA $
471M
▲ 3.5%

Net earnings $
178M
▲ 12.7%

Mobile revenue $
588M
▲ 4.4%

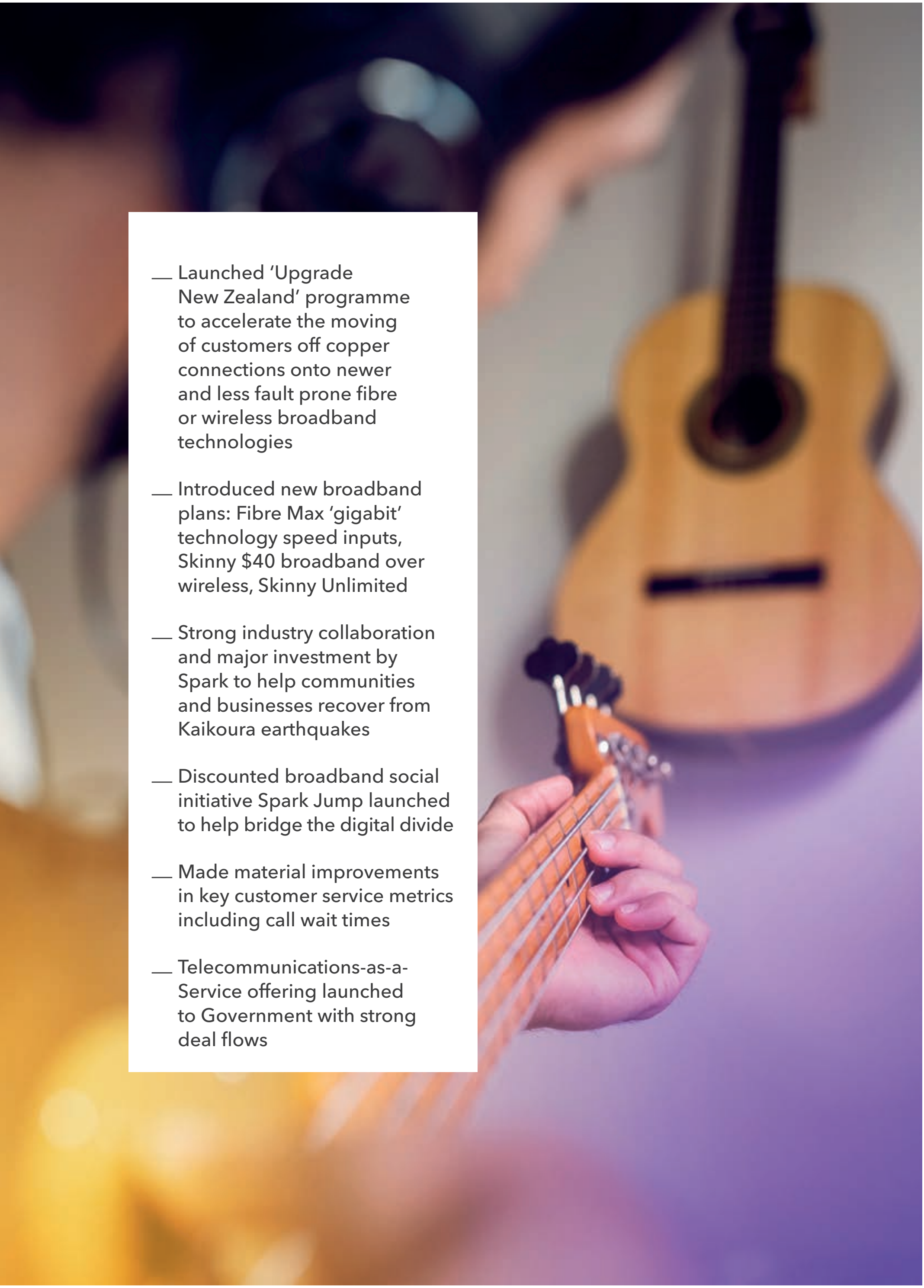
Broadband revenue $
344M
▲ 1.5%

IT services revenue $
384M
▲ 19.3%

Capital expenditure $
224M
▲ 3.7%

Mobile connections
2.353M
▲ 6.4%

Dividends
12.5 cents per share
No change



- Launched 'Upgrade New Zealand' programme to accelerate the moving of customers off copper connections onto newer and less fault prone fibre or wireless broadband technologies
- Introduced new broadband plans: Fibre Max 'gigabit' technology speed inputs, Skinny $40 broadband over wireless, Skinny Unlimited
- Strong industry collaboration and major investment by Spark to help communities and businesses recover from Kaikoura earthquakes
- Discounted broadband social initiative Spark Jump launched to help bridge the digital divide
- Made material improvements in key customer service metrics including call wait times
- Telecommunications-as-a-Service offering launched to Government with strong deal flows

SPARK – ALWAYS FOR NEW ZEALAND

Mark Verbiest
Chairman

Simon Moutter
Managing Director

It's been another six month period of dynamic change and progress at Spark New Zealand.

The financial results for the six months to 31 December 2016 are in line with our plan and reflect the ongoing execution of Spark's long-term strategy. Customer service levels have recovered markedly and several new market-leading offers have been launched.

However, some of the key indicators in the results also highlight the challenging market and operating environment and the need for us to maintain a fast pace of change and keep delivering for our customers.

Despite vigorous price competition, top-line operating revenue growth has been pleasing, with total operating revenues up 4.1% on the prior half-year to $1.793 billion. Mobile revenue was up 4.4%, broadband revenue up 1.5%, and IT services revenue up 19.3%.

While the operating revenue performance across mobile, broadband and IT services was good, it is clear the intense ongoing price competition, particularly at the lower end of the market, is driving margin pressure and reinforcing the need for us to increase our focus on this market via our flanking brand Skinny, as well as continuing to tightly manage operating and capital expenditure.

Operating expenses were up 4.3% to $1.320 billion. Much of this was attributable to an increase in the cost of supporting IT services growth and bringing on new big business customers, as well as the additional resources deployed to improve the service experience for our customers and reduce call centre wait times. Much of the service related cost uplift is expected to fall away as short-term customer pain points are progressively addressed through simplification and digitisation initiatives.

Earnings before interest, income tax, depreciation and amortisation (EBITDA) lifted by $16 million, or 3.5%, to $471 million in H1 FY17. This increase was driven by the inclusion of a full six months' earnings from the CCL Group (acquired in December 2015) and the timing of Southern Cross dividends, with $9 million of dividends originally expected in H2 FY17 being recognised in H1 FY17.

We are confident Spark is well positioned, however the operating environment around us is rapidly evolving. Globally, a digital revolution is helping fuel rapid social, environmental, economic and even political change. This is inevitably impacting businesses and industries as consumer behaviours and preferences change and product lifecycles shorten.

In New Zealand, near ubiquitous data connectivity and world-class digital technologies have driven competition and opportunity for businesses, and provided consumers with significantly more choice and value. Increasingly, customer experience is the new source of market power.

Across many areas of the economy, these forces are accelerating the commoditisation of products and services, and driving market convergence and consolidation. As a consequence we expect to see continued industry change and market disruption in the years ahead.

In markets susceptible to commoditisation, Spark is making the most of its brand assets. For example, the hyper-competitive broadband market has more than 90 providers driving prices down. This reinforces the merits of having a diverse portfolio of Spark, Bigpipe, and Skinny broadband deals to offer choices that meet all preferences. The half-year saw Skinny playing a bigger role as a brand, expanding its Wireless Broadband offer, moving into Unlimited fixed broadband and launching Skinny Direct, a pure online model for sales and service offering even sharper pricing to pre-paid mobile customers. Lightbox has also continued to prove its value as a vehicle to enhance customer loyalty and reduce churn, with more than a third of Spark's broadband customers now watching the service. Upgrades to the Lightbox 'engine' are underway to add functionality and flexibility, which will underpin our media strategy.

Gains were made by Spark Digital with our business, enterprise and Government customers, with revenue growth fuelled by a series of successful customer wins and the CCL Group acquisition, which helped to offset much of the decline in legacy telco revenues and the ongoing mobile pricing pressures. Operationally, there was a noticeably growing demand for Telecommunications-as-a-Service by eligible government agencies, as well as improvements in the delivery model for on-boarding large customers onto new platform IT services.

Over the half-year we have invested further to extend our existing network leadership and develop the future network pathway to ensure we can meet the growing demands of customers. The investment in additional capacity and resiliency at holiday hotspots ensured that Spark customers had arguably their best ever Christmas and New Year experience in terms of service continuity and coverage.

There has also been a big focus on a programme we are calling 'Upgrade New Zealand', designed to move as many of our customers as possible off older copper broadband onto newer less fault prone fibre or wireless technologies.

The earthquakes centred near Kaikoura on the South Island's east coast in November 2016 saw Spark contribute significant resources to disaster response efforts. Hundreds of Spark people worked around the clock and collaborated with industry partners including Chorus and Vodafone to help impacted customers and businesses get back online as quickly as possible and restore network diversity to the South Island. In these sorts of times, the industry puts aside competitive differences to work together in New Zealand's best interests – and Spark was proud to be part of that joint effort.

There has also been a big focus on a programme we are calling 'Upgrade New Zealand', designed to move as many of our customers as possible off older copper broadband onto newer less fault prone fibre or wireless technologies. As we acknowledged in our annual report six months ago, weather-related faults on copper connections were a key driver of the service challenges we faced in our call centres during winter 2016, as the volume of faults caused unacceptable delays for our customers. To that end, Spark is working proactively with local fibre companies (LFC's) to accelerate take-up of fibre through trialling initiatives such as 'street-in-a-week'. The scheme makes it easier and quicker for homeowners, as all homes in a given street that want Spark fibre broadband are connected in just one week – with customers having the certainty of being able to select a specific day for their fibre installation. Trials to date have been very successful, with fibre orders well ahead of those achieved via more traditional marketing. As at 31 December 2016, Spark had 138,000 fibre customers. Outside the trials, we continue to work with the fibre network companies to improve the fibre provisioning process and eliminate pain points for our customers. We are also looking at ways to improve the end-to-end service experience for business fibre customers in CBD areas, with a number of options being actively explored.

While fibre is the preferred broadband technology for customers who use large amounts of data, as part of Upgrade New Zealand we have also ramped up the rollout of Wireless Broadband for customers with low to medium data usage. Wireless Broadband uses Spark's high quality, super-fast 4G mobile network to provide home broadband (with the option of a phone line), without the need for a copper line connection. There were over 40,000 Wireless Broadband connections on our network as at 31 December 2016, well ahead of plan. The intention is to maintain this momentum by installing additional 4G network capacity in the areas where Wireless Broadband has the most potential to benefit customers.

On Spark's customer service, there is much work still to be done but the investment in call centre resources and processes has led to reduced call wait times and significant improvements on customer service measures. Digitisation will be pivotal to future service measures as customer preference continues to shift to online and mobile self-service channels.

The new Platforms business unit is well established. It aims to unlock the benefits of the completed re-engineering of Spark's IT systems to drive a digitisation, simplification and improved customer experience agenda throughout Spark. A new Spark app is launching imminently which will provide customers with significantly enhanced mobile self-service capability.

Alongside this investment in customer service there has also been significant ongoing investment in developing Spark talent, and in the ability to attract and retain smart, diverse and talented people within the business. This has been reflected in the number of senior leadership appointments from within over the last six months, as well as in our greater diversity across the organisation. There has also been a smooth transition to a new Spark Leadership Team and refreshed Board with two new Directors.

Innovation is more important to Spark than ever. The Spark Ventures team remains focused on creating long-term value through new opportunities, and has evolved its thinking to focus on a more balanced approach to build, buy or partner. Increasingly, more agile and innovative ways of working are becoming embedded across Spark.

While there will inevitably be more challenges to come and the market remains very competitive, Spark is confidently looking forward to the rest of the financial year, and to delivering on our ambitions for our customers, our shareholders and for New Zealand.

We note that due to unplanned work following the earthquakes centred near Kaikoura, we are now guiding capital expenditure of $415 million for FY17 (still within 11-12% of operating revenues).

That said, the results for the first half reaffirm the Board's view on full-year EBITDA guidance of 0-2% growth and support an interim dividend of 11 cents per share and a special dividend of 1.5 cents per share.

Mark Verbiest
Chairman

Simon Moutter
Managing Director

16 February 2017

GROUP RESULT OVERVIEW

Key performance indicators

SIX MONTHS ENDED 31 DECEMBER		2016	2015	% CHANGE
Operating revenues	$M	1,793	1,723	4.1%
Operating expenses	$M	(1,320)	(1,266)	4.3%
Share of associates' and joint ventures' net (losses)	$M	(2)	(2)	–
Earnings before interest, income tax, depreciation and amortisation (EBITDA) [1]	$M	471	455	3.5%
Net earnings	$M	178	158	12.7%
Capital expenditure [1]	$M	224	216	3.7%
Mobile connections [2,3]	(000)s	2,353	2,212	6.4%
Broadband connections [2,3]	(000)s	675	675	–
Employee numbers [4]		5,943	5,324	11.6%

1 EBITDA and capital expenditure are non-Generally Accepted Accounting Practice (GAAP) measures and are not comparable to the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) measures. These measures have been defined and reconciled on page 17.

2 Measure as at 31 December.

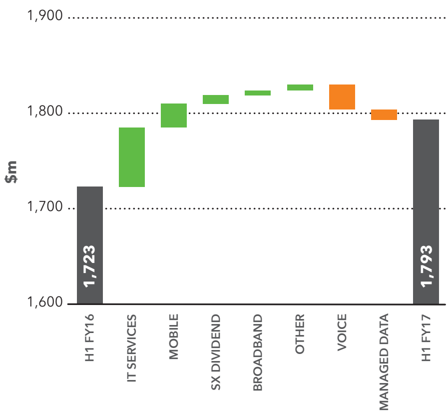
3 Measure relates to connections in the Spark Home, Mobile & Business and Spark Digital business units.

4 FTEs are full-time equivalents, including contractors, and are measured as at 31 December.

Spark's net earnings after tax for H1 FY17 were $178 million, an increase from H1 FY16 of $20 million, or 12.7%. EBITDA increased $16 million, or 3.5%, in H1 FY17 to $471 million.

Mobile connections grew 6.4% from 31 December 2015 to 2.353 million.

Operating revenues



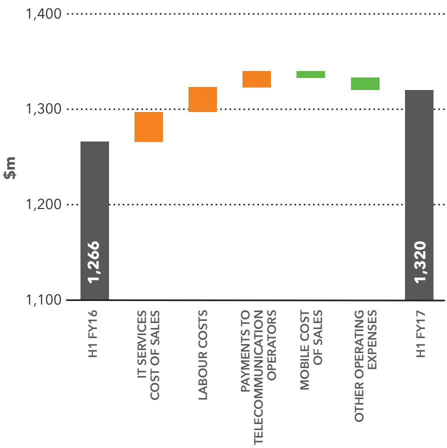
Total operating revenues increased by $70 million, or 4.1%, in H1 FY17 to $1,793 million. The key drivers of this increase in revenue were:

- ▲ **IT services revenue** grew by $62 million, or 19.3%, with targeted business acquisitions such as the CCL Group and continued transition to Cloud services driving growth across platform IT services (25.8% increase), traditional IT services (13.0% increase) and procurement revenues (19.0% increase). The CCL Group acquisition contributed an additional $29 million in IT services revenue compared to H1 FY16;
- ▲ **Mobile revenues** grew by $25 million, or 4.4%, with a net increase of 141,000 connections since December 2015 driven by value inclusions, taking the total mobile base to 2.353 million connections at 31 December 2016. The revenue growth was largely driven by sales of more high-end mobile devices, with service revenues increasing by $4 million, or 1.0%;
- ▲ **Broadband revenues** grew by $5 million, or 1.5%, while connections remained flat, as customers shift to higher value plans; and
- ▲ **Other operating revenue** increased by $15 million, or 22.7%, primarily due to the timing of Southern Cross dividends which were $9 million higher in H1 FY17 (but full-year dividends are expected to be lower across FY17 compared with FY16) and progress of the Ventures' businesses.

These increases were partly offset by:

- ▼ **Voice revenues** declined $26 million, or 7.7%, in line with previous trends as customers move away from landline based calling; and
- ▼ **Managed data revenues** declined by $11 million, or 11.5%, as business and wholesale customers continue to migrate off traditional data products.

Operating expenses



Total operating expenses increased by $54 million, or 4.3%, in H1 FY17 to $1,320 million. This increase was driven by:

- ▲ IT services costs increased $31 million, or 16.8%, in line with the growth in IT services revenues, including $13 million in relation to the CCL Group;
- ▲ Higher labour costs, increasing $26 million, or 10.3%, driven by investment into more staff in our call centres to improve service experience and to support IT services revenue growth, including $9 million in relation to the CCL Group; and
- ▲ Payments to telecommunications operators increased by $17 million, or 5.1%, due to higher input costs resulting from regulated price increases in December 2015 and penetration of higher speed UFB inputs, partially offset by Wireless Broadband adoption.

These increases were partly offset by:

- ▼ Mobile costs decreased by $7 million, or 3.1%, reflecting improved customer retention; and
- ▼ Other operating expenses decreased by $13 million, or 4.9%, because of continued tight cost control and $7 million of benefit from new customer acquisition costs being recognised over customer contract periods.

EBITDA

EBITDA takes operating revenues and subtracts operating expenses and Spark's share of associates' and joint ventures' net losses. In H1 FY17 the share of associates' and joint ventures' net losses was $2 million, consistent with H1 FY16.

EBITDA lifted by 3.5% in H1 FY17 to $471 million as growth in operating revenues outpaced operating expenses, boosted by the timing of Southern Cross dividends, the benefit of a full period's earnings from the CCL Group and the impact of new customer acquisition costs being recognised over customer contract periods, offset to some extent by increased call-centre costs.

Net earnings

Net earnings after tax for H1 FY17 were $178 million, an increase of $20 million, or 12.7%. Movements in items that are included in net earnings but excluded from EBITDA were as follows:

- ▼ Depreciation and amortisation expense decreased by $9 million, or 4.0%, to $215 million reflecting the decrease in capital expenditure in the past two financial years;
- ▼ Net finance expense remained unchanged at $13 million, with finance income and expense both decreasing by $1 million. This reflects lower interest rates despite an increase in average debt; and
- ▲ The income tax expense increased by $5 million, or 8.3%, due to the increase in net earnings in H1 FY17.

A summary of the results of Spark's key business units are outlined in the following section. Further details of the H1 FY17 and historical performance are available in a separate financials file on the investor section of our website at: investors.sparknz.co.nz/investor-centre.

Capital expenditure

Total capital expenditure for H1 FY17 was $224 million, an increase of $8 million, or 3.7%, on H1 FY16.

SIX MONTHS ENDED 31 DECEMBER	2016 $M	2015 $M	CHANGE %
Major programmes			
Mobile network	69	58	19.0%
Optical transport network (OTN) and Carrier Ethernet	11	21	(47.6%)
Re-engineering of IT systems	–	42	NM
Total major programmes	**80**	**121**	**(33.9%)**
Operating capital expenditure			
Customer growth and retention	131	86	52.3%
Southern Cross capacity	13	9	44.4%
Total operating capital expenditure	**144**	**95**	**51.6%**
Total capital expenditure	**224**	**216**	**3.7%**

NM = not meaningful

Major programmes

- In H1 FY17 $69 million was invested in Spark's mobile network. This investment continued the deployment of single radio access network (SRAN) and LTE sites, as well as catering for capacity and coverage for Wireless Broadband. Investment in Wireless Broadband has several key benefits, including improved customer experience, operating cost reduction, and simplification.
- Investment in the OTN and Carrier Ethernet programme decreased in H1 FY17 to $11 million from $21 million in H1 FY16, with investment focussed on meeting customer demand for services and traffic growth across the network as well as coverage expansion. H1 FY16 included additional investment in improved switching technology that was largely completed during FY16.

Operating capital expenditure

- Customer retention and growth capital expenditure increased in H1 FY17 to $131 million from $86 million in H1 FY16, driven by a combination of investment in Telecommunications-as-a-Service platforms and email platform migration.
- While the Re-engineering programme was formally completed in FY16, regular and interactive developments continue across our products and IT systems to enhance the customer experience. This spend is now represented within the wider customer growth and retention category.
- Spark continued to invest in Southern Cross international cable capacity, with four further tranches purchased for a total of $13 million in H1 FY17. Additional capacity will be purchased as and when required to meet upward trends in customer demand for data.

Cash flows

The full statement of cash flows is provided on page 26 in the interim financial statements. The following describes the main cash flow movements in H1 FY17 compared to H1 FY16.

Net cash flows from operating activities

The net cash inflow from operating activities was $300 million in H1 FY17, a $52 million, or 14.8%, decrease compared to H1 FY16. The major drivers of this change were:

- A net decrease in cash received from customers and payments to suppliers and employees of $13 million despite an increase in EBITDA due to the impact of changes in working capital. This is driven by the continued up-take in customers purchasing mobile handsets on deferred payment terms together with the strong growth in IT services contracts, where costs incurred to fulfil such contracts are deferred and recognised in operating expenses over the life of the contract. Inventories also increased during the period due to increasingly higher value mobile handsets and modems and the timing of Lightbox content rights renewals;
- A $22 million increase in tax payments with the comparative H1 FY16 period impacted by the timing of provisional tax payments; and
- A $19 million decrease in Southern Cross dividend receipts due to the timing of cash receipts.

Net cash flows from investing activities

The net cash outflow from investing activities was $217 million in H1 FY17, a $75 million, or 25.7%, decrease compared to H1 FY16. The major drivers of this change were:

- A $48 million decrease in payments for the purchase of businesses with the acquisition of the CCL Group for $50 million in H1 FY16; and
- A reduction in payments for capital expenditure by $18 million, and payments for long-term investments by $8 million with investment in NOW New Zealand and additional investment in Semble, Vigil Monitoring, App La Carte and Lightbox Sport during H1 FY16 compared with lower investment in H1 FY17.

Net cash flows from financing activities

The net cash outflow from financing activities was $79 million in H1 FY17, a $2 million, or 2.5% decrease from H1 FY16. The major drivers of this change were:

- A net increase in short and long-term debt of $153 million in H1 FY7, driven by the $125 million retail bond issue in September 2016, a $99 million increase in short-term borrowings, partially off-set by a $70 million decrease in bank funding;
- An increase in dividend payments of $27 million in H1 FY17 to $229 million, reflecting the increase in dividends per share paid during the period; and
- No cash payments for share buybacks in H1 FY17, compared to $11 million in H1 FY16.

Liquidity and capital resources

Spark's principal sources of liquidity are operating cash flows and external borrowing from established debt programmes and bank facilities.

Spark is committed to maintaining an 'A Band' credit rating and our capital management policies are designed to ensure this objective is met. As part of this commitment, Spark manages its debt levels to ensure that the ratio of net interest-bearing debt (inclusive of associated derivatives) to EBITDA does not materially exceed 1.1 times on a long-run basis, which for credit rating agency purposes equates approximately to net debt to EBITDA of 1.5 times. The difference between these two ratios is primarily due to the capitalisation of operating leases by credit rating agencies.

As at 31 December 2016 Spark had been assigned a long-term credit rating of A-/Stable by Standard & Poor's.

Dividends

Spark pays dividends on a semi-annual basis. A fully imputed ordinary dividend of 11 cents per share has been declared for H1 FY17, together with a 75% imputed special dividend of 1.5 cents per share, bringing the total dividends for H1 FY17 to 12.5 cents per share.

For FY17, subject to there being no material adverse changes in operating outlook, Spark anticipates paying an annual ordinary dividend of 22 cents per share and a special dividend of 3 cents per share. It is currently anticipated that the H2 FY17 ordinary dividend will be fully imputed and the special dividend at least 75% imputed.

	H1 FY17 ORDINARY DIVIDENDS	H1 FY17 SPECIAL DIVIDENDS
Dividends declared		
Ordinary shares	11.0 cents	1.5 cents
American Depositary Shares	39.58 US cents[1]	5.40 US cents[1]
Imputation		
Percentage imputed	100%	75%
Imputation credits per share	4.2778 cents	0.4375 cents
Supplementary dividend per share[2]	1.9412 cents	0.1985 cents
'Ex' dividend dates		
New Zealand Stock Exchange	16 Mar 2017	16 Mar 2017
Australian Securities Exchange	16 Mar 2017	16 Mar 2017
American Depositary Shares	15 Mar 2017	15 Mar 2017
Record dates		
New Zealand Stock Exchange	17 Mar 2017	17 Mar 2017
Australian Securities Exchange	17 Mar 2017	17 Mar 2017
American Depositary Shares	17 Mar 2017	17 Mar 2017
Payment dates		
New Zealand and Australia	7 Apr 2017	7 Apr 2017
American Depositary Shares	17 Apr 2017	17 Apr 2017

1 Based on the exchange rate at 13 February 2017 of NZ$1 to US$0.7197 and a ratio of five ordinary shares per one American Depositary Share. The actual exchange rate used for conversion is determined in the week prior to payment when the Bank of New York performs the physical currency conversion.

2 Supplementary dividends are paid to non-resident shareholders.

Non-GAAP measures

This half-year report includes non-GAAP financial measures that are not prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS'). These are defined and reconciled below.

Earnings before interest, income tax, depreciation and amortisation (EBITDA)

Spark calculates EBITDA by adding back depreciation, amortisation, finance expense and income tax expense to net earnings less finance income. EBITDA includes Spark's share of its associates' and joint ventures' net losses. The calculation of Spark's EBITDA is provided below and based on amounts taken from, and consistent with, those presented in the interim financial statements.

SIX MONTHS ENDED 31 DECEMBER	2016 $M	2015 $M
Net earnings for the period reported under NZ IFRS	178	158
Add back: depreciation and amortisation	215	224
Add back: net finance expense	13	13
Add back: income tax expense	65	60
EBITDA	**471**	**455**

Adjusted EBITDA, where applicable, is the segment result reported, plus the net result of corporate revenue and expenses, in the interim financial statements. It excludes significant one-off gains, expenses and impairments individually greater than $25 million that are also excluded from the segmental result to provide an indication of the underlying earnings of that segment. There were no adjusting items in H1 FY16 or H1 FY17. Segment results are reconciled to net earnings before income tax in note 3 of the interim financial statements.

Capital expenditure

Capital expenditure is the additions to property, plant and equipment and intangible assets, excluding goodwill, acquisitions and other non-cash additions that may be required by NZ IFRS, such as decommissioning costs.

Use of non-GAAP measures

Spark believes that these non-GAAP financial measures provide useful information to readers to assist in the understanding of the financial performance, financial position or returns of Spark. These measures are also used internally to evaluate performance of business units, to analyse trends in cash-based expenses, to establish operational goals and allocate resources. However, they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with NZ IFRS.

Non-GAAP financial measures reported by Spark are not uniformly defined or utilised by all companies in New Zealand or the telecommunications industry. Accordingly, these measures may not be comparable with similarly titled measures used by other companies.

Spark Home, Mobile & Business

Financial result

SIX MONTHS ENDED 31 DECEMBER	2016 $M	2015 $M	CHANGE %
Operating revenues	985	971	1.4%
Operating expenses	(594)	(575)	3.3%
EBITDA	**391**	**396**	**(1.3)%**
EBITDA margin	39.7%	40.8%	

Spark Home, Mobile & Business provides more than two million New Zealand consumers and SME's with the access and technology and digital services they need to succeed and thrive in today's dynamic world. It provides a full range of services and content, data and voice services across fibre and copper broadband, 3G and 4G mobile, online video entertainment and nationwide Wi-Fi zones.

H1 FY17 Operational highlights

- Continued momentum in mobile performance resulting in an increase in customers;
- A significant improvement in service levels in our customer call centres through investment in staff and improved systems and processes;
- Successful full launch of Wireless Broadband delivering clear service benefits for our customers, with over 40,000 now connected; and
- Successful integration of Lightbox into Spark Home Mobile & Business with additional marketing push helping growth of subscribers towards 250,000.

Increase in mobile revenue

4.1%

Financial performance

Operating revenues increased by $14 million, or 1.4% in H1 FY17. This was primarily driven by a $19 million, or 4.1%, increase in mobile revenues and a $6 million, or 1.9% increase in broadband revenue. Growth in mobile revenue was through a combination of increased customers and sales of more high-end mobile devices. Broadband revenues increased despite connections remaining flat as customers continue to migrate to higher-value plans. These increases were partly offset by a $14 million, or 8.2%, decrease in voice revenues through an increase in customers with a broadband only service to their home or business.

Operating expenses increased by $19 million, or 3.3%, in H1 FY17 primarily driven by a $13 million increase in labour costs as we invest into more staff in our call centres. This is expected to drop as customer pain points are addressed through simplification and digitisation initiatives. Other operating expenses increased $7 million, primarily due to the December 2015 regulated price increases to the cost of copper voice and broadband connections from Chorus.

This resulted in an overall decrease in EBITDA of $5 million, or 1.3%, in H1 FY17.

Spark Digital

Financial result

SIX MONTHS ENDED 31 DECEMBER	2016 $M	2015 $M	CHANGE %
Operating revenues	658	607	8.4%
Operating expenses	(467)	(414)	12.8%
EBITDA	**191**	**193**	**(1.0)%**
EBITDA margin	29.0%	31.8%	

Spark Digital provides solutions for the rapidly evolving needs of business, enterprise and Government customers to meet the demands of an increasingly globalised and mobile customer base. Spark Digital has unique experience and capability to deliver customers some of the best Information and Communications Technologies (ICT) solutions in New Zealand and is committed to helping customers gain the competitive advantage that digital solutions can deliver.

H1 FY17 Operational highlights

- Revenue in growth, reflecting customer wins and the CCL Group acquisition, offsetting the declines in legacy telco revenues;
- Customer demand for new ways of doing business evidenced through the substantial adoption of Telecommunications-as-a-Service by eligible Government Agencies;
- Completed the on-boarding of several large customers onto new platform IT services; and
- Supported NZ businesses to maintain connectivity and business continuity following the November earthquakes centred near Kaikoura.

Financial performance

Operating revenues increased by $51 million, or 8.4%, in H1 FY17. This was driven by strong IT services revenue growth, with targeted business acquisitions such as the CCL Group and continued transition to Cloud services increasing IT services revenue by $61 million, or 18.9%. This includes $29 million of higher IT services revenue following the acquisition of the CCL Group in December 2015. Platform IT services grew $23 million, or 24.7%, procurement revenues grew $26 million, or 19.0%, and traditional IT services grew $12 million, or 13.0%. Mobile revenues increased $3 million, or 3.2%, with a move towards high-end devices as businesses realise the benefits of mobility, offsetting the impact of lower average usage revenues per customer. Voice, broadband and managed data revenues declined a total of $11 million, broadly in line with previous trends.

Operating expenses increased by $53 million, or 12.8%, in H1 FY17. This includes higher operating expenses following the acquisition of the CCL Group in December 2015. Labour grew $16 million, or 15.1%, to support the growth in IT services including $9 million in relation to the CCL Group. Other operating expenses increased $37 million, or 12.2%, driven by increased mobile costs in line with higher device revenue and higher IT costs to support IT services revenue growth including $14 million in relation to the CCL Group.

Overall Spark Digital EBITDA declined $2 million, or 1.0%, in H1 FY17 due to underlying telecommunications decline and competitive mobile pricing pressure offsetting lower margin IT services growth.

Spark Connect & Platforms

Financial result

SIX MONTHS ENDED 31 DECEMBER	2016 $M	2015 $M	CHANGE %
Operating revenues	22	19	15.8%
Operating expenses	(188)	(201)	(6.5)%
Share of associates' and joint ventures' net profits	–	1	NM
EBITDA	**(166)**	**(181)**	**8.3%**

Spark Connect is responsible for Spark's ongoing network performance and technology roadmap, core connectivity, physical infrastructure and shared services functions, with the objective of lowering our cost per gigabyte of data across our networks.

Spark Platforms was established on 1 July 2016 and is responsible for leveraging previous investments in our IT re-engineering programme to re-invent customer experience through digital and service transformation.

H1 FY17 Operational highlights

- Ongoing investment in our 4G mobile network and Wireless Broadband, including Single Radio Access Network (SRAN), mobile core and the deployment of 2300 MHz spectrum;
- Continued expansion of the Optical Transport Network (OTN) to support exponential data growth;
- Rapid coordinated response to Kaikoura earthquakes, including increased network resilience for the South Island;
- Commenced decommissioning of the PSTN network, with removal of equipment from six Chorus exchanges;
- Implemented new Platforms operating model to deliver ongoing IT system enhancements and capital efficiency improvements;
- Customer experience "car washes" established to improve end-to-end customer journeys, including for Wireless Broadband and fibre, to drive NPS improvements; and
- Delivered improvements in operational KPI's, including provisioning times and interaction NPS.

Financial performance

Operating revenues increased by $3 million, or 15.8%, in H1 FY17 and includes revenues from Chorus, Telegistics Repair Limited, Connect 8 Limited (following its acquisition in December 2016) and partnering arrangements.

Operating expenses reduced by $13 million, or 6.5%, in H1 FY17. This reflects a continued focus on cost reduction and efficiency savings across all cost categories, including third party supplier costs and labour costs.

Overall Spark Connect & Platforms EBITDA improved by $15 million, or 8.3%, in H1 FY17 principally due to reductions in other operating expenses.

4G mobile coverage to over

93%

of the population

Spark Ventures & Wholesale

Financial result

SIX MONTHS ENDED 31 DECEMBER	2016 $M	2015 $M	CHANGE %
Operating revenues	112	121	(7.4)%
Operating expenses	(54)	(55)	(1.8)%
Share of associates' and joint ventures' net losses	(1)	(3)	(66.7)%
EBITDA	**57**	**63**	**(9.5)%**
EBITDA margin	50.9%	52.1%	

Spark Ventures & Wholesale is responsible for the stewardship of Spark's Wholesale products and services along with the development of a portfolio of new businesses and services that will create long-term value for Spark. Through a balanced portfolio of build, buy and partner activity, Spark Ventures & Wholesale will identify and unleash new markets, revenue, business models and capabilities through three growth engines: differentiation, adjacencies and disruptive new wholesale services.

H1 FY17 Operational highlights

- Transition to the next evolution of Ventures is now underway which will implement a more equal weighting between acquire, partner and build activities;
- Continued earnings growth from new Wholesale services with associated revenues up 18% on prior year;
- Accelerated growth in Qrious big data analytics revenues and earnings underpinned by targeted business acquisition and launch of new data powered marketing and as-a-service products;
- Ongoing validation of market entry points for Internet of Things (IOT) and the next wave of Ventures; and
- Good progress is being made in our investments in early stage businesses, Putti and Vigil Monitoring.

Financial performance

Operating revenues decreased by $9 million, or 7.4%, in H1 FY17. This was primarily because of changes in regulated wholesale pricing and ongoing rationalisation of wholesale legacy copper based voice and data services. This has been partially offset by revenue growth across Qrious, Morepork and new wholesale data and mobile services.

Operating expenses decreased by $1 million, or $1.8%, in H1 FY17. This was due to Morepork launch costs in H1 FY16 and recovery of doubtful debts partially offset by increased expenses to support Qrious revenue growth.

Overall Spark Ventures & Wholesale EBITDA declined by $6 million, or 9.5%, in H1 FY17 due to the rationalisation of legacy based services by Wholesale customers, partially offset by earnings growth across Qrious and Morepork and reduced share of associates' and joint ventures' losses following decisions taken in H2 FY16 to cease operations in Lightbox Sport and shut down the payment service within Semble.

NB: Ventures and Wholesale includes Wholesale, Qrious and Morepork operations, share of gains or losses associated with investments in Vigil Monitoring, Putti, Lightbox Sport and Semble and costs associated with various early stage proof of concepts and pilots.

INTERIM FINANCIAL STATEMENTS

These interim financial statements do not include all the notes and information normally included in the annual financial statements. Accordingly, they should be read in conjunction with the annual financial statements for the year ended 30 June 2016.

Statement of profit or loss

FOR THE SIX MONTHS ENDED 31 DECEMBER

	NOTES	2016 UNAUDITED $M	2015 UNAUDITED $M
Operating revenues	4	1,793	1,723
Operating expenses	5	(1,320)	(1,266)
Share of associates' and joint ventures' net losses		(2)	(2)
Earnings before interest, income tax, depreciation and amortisation		471	455
Depreciation and amortisation		(215)	(224)
Net finance expense		(13)	(13)
Net earnings before income tax		**243**	**218**
Income tax expense		(65)	(60)
Net earnings for the period		**178**	**158**
Earnings per share			
Basic and diluted earnings per share (cents)		9.7	8.6
Weighted average ordinary shares (millions)		1,831	1,830
Weighted average ordinary shares and options (millions)		1,834	1,834

See accompanying notes to the interim financial statements.

Statement of comprehensive income

FOR THE SIX MONTHS ENDED 31 DECEMBER

	2016 UNAUDITED $M	2015 UNAUDITED $M
Net earnings for the period	178	158
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Translation of foreign operations	–	2
Cash flow hedges net of tax	19	(9)
Other comprehensive income/(loss) for the period	**19**	**(7)**
Total comprehensive income for the period	**197**	**151**

Statement of financial position

	NOTES	AS AT 31 DECEMBER 2016 UNAUDITED $M	AS AT 30 JUNE 2016 AUDITED $M
Current assets			
Cash		56	52
Short-term receivables and prepayments		578	513
Short-term derivative assets		2	–
Inventories		97	81
Taxation recoverable		1	3
Total current assets		**734**	**649**
Non-current assets			
Long-term receivables and prepayments		224	210
Long-term derivative assets		7	12
Long-term investments	7	125	131
Property, plant and equipment		1,074	1,104
Intangible assets		1,175	1,131
Total non-current assets		**2,605**	**2,588**
Total assets		**3,339**	**3,237**
Current liabilities			
Short-term payables, accruals and provisions		465	450
Short-term derivative liabilities		1	5
Debt due within one year	6	199	190
Taxation payable		2	8
Total current liabilities		**667**	**653**
Non-current liabilities			
Long-term payables, accruals and provisions		19	21
Long-term derivative liabilities		68	69
Long-term debt	6	807	685
Deferred tax liabilities		123	125
Total non-current liabilities		**1,017**	**900**
Total liabilities		**1,684**	**1,553**
Equity			
Share capital		931	923
Reserves		(387)	(401)
Retained earnings		1,111	1,162
Total equity		**1,655**	**1,684**
Total liabilities and equity		**3,339**	**3,237**

See accompanying notes to the interim financial statements.

On behalf of the Board

Mark Verbiest, Chairman

Simon Moutter, Managing Director

Authorised for issue on 16 February 2017

Statement of changes in equity

SIX MONTHS ENDED 31 DECEMBER 2016 UNAUDITED	SHARE CAPITAL $M	RETAINED EARNINGS $M	HEDGE RESERVE $M	SHARE-BASED COMPENSATION RESERVE $M	REVALUATION RESERVE $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	TOTAL $M
Balance at 1 July 2016	**923**	**1,162**	**(31)**	**9**	**(357)**	**(22)**	**1,684**
Net earnings for the period	–	178	–	–	–	–	178
Other comprehensive income	–	–	19	–	–	–	19
Total comprehensive income for the period	**-**	**178**	**19**	**-**	**-**	**-**	**197**
Contributions by, and distributions to, owners:							
Dividends	–	(229)	–	–	–	–	(229)
Supplementary dividends	–	(30)	–	–	–	–	(30)
Tax credit on supplementary dividends	–	30	–	–	–	–	30
Issuance of shares under share schemes	8	–	–	(5)	–	–	3
Total transactions with owners	**8**	**(229)**	**-**	**(5)**	**-**	**-**	**(226)**
Balance at 31 December 2016	**931**	**1,111**	**(12)**	**4**	**(357)**	**(22)**	**1,655**

SIX MONTHS ENDED 31 DECEMBER 2015 UNAUDITED	$M	$M	$M	$M	$M	$M	$M
Balance at 1 July 2015	**924**	**1,222**	**(4)**	**10**	**(350)**	**(24)**	**1,778**
Net earnings for the period	–	158	–	–	–	–	158
Other comprehensive income/(loss)	–	–	(9)	–	–	2	(7)
Total comprehensive income/(loss) for the period	**-**	**158**	**(9)**	**-**	**-**	**2**	**151**
Contributions by, and distributions to, owners:							
Dividends	–	(201)	–	–	–	–	(201)
Supplementary dividends	–	(26)	–	–	–	–	(26)
Tax credit on supplementary dividends	–	26	–	–	–	–	26
Issuance of shares under share schemes	2	–	–	–	–	–	2
Shares repurchased	(4)	–	–	–	–	–	(4)
Total transactions with owners	**(2)**	**(201)**	**-**	**-**	**-**	**-**	**(203)**
Balance at 31 December 2015	**922**	**1,179**	**(13)**	**10**	**(350)**	**(22)**	**1,726**

Statement of cash flows

FOR THE SIX MONTHS ENDED 31 DECEMBER

	2016 UNAUDITED $M	2015 UNAUDITED $M
Cash flows from operating activities		
Cash received from customers	1,731	1,675
Interest receipts	7	8
Dividend receipts	22	41
Payments to suppliers and employees	(1,363)	(1,294)
Income tax paid	(79)	(57)
Interest payments	(18)	(21)
Net cash flows from operating activities	**300**	**352**
Cash flows from investing activities		
Purchase of business	(2)	(50)
Payments for long-term investments	(2)	(10)
Purchase of property, plant and equipment and intangibles	(211)	(229)
Capitalised interest paid	(2)	(3)
Net cash flows from investing activities	**(217)**	**(292)**
Cash flows from financing activities		
Proceeds from long-term debt	595	400
Repayment of long-term debt	(540)	(300)
Proceeds from short-term debt	495	184
Repayment of short-term debt	(397)	(152)
Dividend payments	(229)	(202)
Payments for share repurchases	–	(11)
Payments on finance leases	(4)	–
Receipts on finance leases	1	–
Net cash flows from financing activities	**(79)**	**(81)**
Net cash flow	**4**	**(21)**
Opening cash position	52	80
Foreign exchange movements	–	1
Closing cash position	**56**	**60**

Reconciliation of net earnings to net cash flows from operating activities

SIX MONTHS ENDED 31 DECEMBER UNAUDITED	2016 $M	2015 $M
Net earnings for the period	178	158
Adjustments to reconcile net earnings to net cash flows from operating activities		
Depreciation and amortisation	215	224
Bad and doubtful accounts	11	13
Deferred income tax	(7)	(11)
Share of associates' and joint ventures' net losses	2	2
Impairments	2	–
Other	(13)	(1)
Changes in assets and liabilities net of effects of non-cash and investing and financing activities		
Movement in accounts receivable and related items	(80)	(28)
Movement in inventories	(16)	(11)
Movement in current taxation	(4)	13
Movement in payables and related items	12	(7)
Net cash flows from operating activities	**300**	**352**

Notes to the interim financial statements

NOTE 1 About this report

Reporting entity

These unaudited interim financial statements are for Spark New Zealand Limited (the 'Company') and its subsidiaries (together the 'Group') for the six months ended 31 December 2016.

The Company is incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and is an FMC reporting entity under the Financial Markets Conduct Act 2013. The Company is listed on the New Zealand Main Board equity security market and the Australian Securities Exchange.

Basis of preparation

The interim financial statements have been prepared in accordance with the New Zealand equivalent to International Accounting Standard 34: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting*.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2016. The preparation of the interim financial statements also requires management to make judgements, estimates and assumptions. The Group has been consistent in applying the judgements, estimates and assumptions adopted in the annual financial statements for the year ended 30 June 2016. Critical accounting policies are the same as those set out in the annual financial statements for the year ended 30 June 2016.

Financial instruments are either carried at amortised cost, less any provision for impairment, or fair value. The only significant variances between instruments held at amortised cost and their fair value relates to long-term debt. There were no changes in valuation techniques during the period. The Group's derivatives are classified as being within level 2 of the fair value hierarchy. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves. The fair value of forward foreign exchange contracts is determined using forward exchange rates at the period end date, with the resulting value discounted back to present value.

At 31 December 2016, capital expenditure amounting to $142 million (31 December 2015: $147 million) had been committed under contractual arrangements.

Notes to the interim financial statements

NOTE 2 Significant transactions and events for the current period

The following significant transactions and events affected the financial performance and financial position of the Group for the six month period to 31 December 2016:

Segment changes

- From 1 July 2016, the Group's operating segments have changed to reflect changes in the structure of the Group's business units and ensure they continue to reflect how the Group analyses its business results. The Group has restated the comparative segment results as outlined in Note 3 and there was no change to the overall Group reported result because of these changes.

Debt programme

- On 7 September 2016, the Group issued $125 million of unsecured, unsubordinated fixed rate bonds with a coupon rate of 3.94%, maturing on 7 September 2026.
- On 30 November 2016 the Group established a $125 million committed revolving facility with Westpac New Zealand Limited, to mature on 30 November 2020. This replaced the $100 million committed revolving facility with Westpac New Zealand Limited which matured on 30 November 2016.

Capital expenditure

- The Group's additions to property, plant and equipment and intangible assets were $224 million, details of which are provided on page 14 of this half-year report.

Dividends

- Dividends paid during the six month period ended 31 December 2016 in relation to the H2 FY16 second-half dividend (ordinary dividend of 11 cents per share and special dividend of 1.5 cents per share) totalled $229 million or 12.5 cents per share. Dividends paid during the prior six month period ended 31 December 2015 totalled $201 million or 11 cents per share.

Acquisitions and long-term investments

- The Group acquired the remaining 50% of Connect 8 Limited, a fibre construction business, from its joint venture partner Vocus (New Zealand) Limited on 1 December 2016 and it was fully consolidated from this date. The joint venture was originally formed in February 2015, to provide additional fibre construction and delivery capability to meet the rapidly growing demand from businesses and consumers in New Zealand for digital services. Connect 8 Limited will continue to construct fibre and telecommunications assets for telecommunication providers in New Zealand.
- The Group acquired 100% of Clarity Information Management Limited on 1 August 2016 which was subsequently amalgamated into Qrious Limited on 31 October 2016.
- The Group recognised a $2 million impairment expense to fully write down its investment in TSM NZ Limited as its operations have ceased.

Notes to the interim financial statements

NOTE 3 Segment information

From 1 July 2016, the Group's operating segments changed, including the formation of a separate Spark Ventures & Wholesale business unit. Following these changes, the Group's operating segments at 31 December 2016 are:

- Spark Home, Mobile & Business - provides products, services and support to consumer and small business customers. It provides a full range of services and content, data and voice services across fibre and copper broadband, 3G and 4G mobile, online video entertainment and nationwide Wi-Fi zones;
- Spark Digital – integrates IT and telecommunications services to provide converged ICT solutions for clients;
- Spark Connect & Platforms – responsible for all the Group's network and IT operations, shared business operations and digital and service transformation; and
- Spark Ventures & Wholesale – responsible for the stewardship of the Group's wholesale products and services along with the development of a portfolio of new businesses and services.

In addition to the Group's operating segments, a Corporate Centre contains income and expenses not associated with the operating segments, such as dividends from investments and costs of providing corporate services, such as communications, legal, finance and human resources.

The segment results disclosed are based on those reported to the Managing Director and are how the Group analyses its business results. Segment results are an adjusted EBITDA and measured based on net earnings before depreciation, amortisation, finance income and expenses and income tax expense and other gains and expenses not allocated to segments. None of these excluded items are assessed on a segment basis by the Managing Director.

Comparative segment results

The Group has restated the comparative segment results to reflect changes in business unit structures. There was no change to the overall Group reported result because of these changes.

Restated segment results for each half-year period of FY15 and FY16 are available in a separate detailed financials file on the investor section of our website at: investors.sparknz.co.nz/investor-centre.

Notes to the interim financial statements

SIX MONTHS ENDED 31 DECEMBER 2016 UNAUDITED	SPARK HOME, MOBILE & BUSINESS $M	SPARK DIGITAL $M	SPARK CONNECT & PLATFORMS $M	SPARK VENTURES & WHOLESALE $M	TOTAL $M
Voice	157	94	1	59	311
Broadband	326	18	–	–	344
Managed data	–	64	–	21	85
Mobile	478	98	3	9	588
IT services	1	383	–	–	384
Other operating revenue	23	–	18	5	46
Internal revenue	–	1	–	18	19
Total operating revenue	**985**	**658**	**22**	**112**	**1,777**
Segment result	**391**	**191**	**(166)**	**57**	**473**

SIX MONTHS ENDED 31 DECEMBER 2015 UNAUDITED	SPARK HOME, MOBILE & BUSINESS $M	SPARK DIGITAL $M	SPARK CONNECT & PLATFORMS $M	SPARK VENTURES & WHOLESALE $M	TOTAL $M
Voice	171	99	1	66	337
Broadband	320	19	–	–	339
Managed data	–	69	–	27	96
Mobile	459	95	2	7	563
IT services	–	322	–	–	322
Other operating revenue	21	–	16	3	40
Internal revenue	–	3	–	18	21
Total operating revenue	**971**	**607**	**19**	**121**	**1,718**
Segment result	**396**	**193**	**(181)**	**63**	**471**

Reconciliation from segment result to consolidated net earnings before income tax

SIX MONTHS ENDED 31 DECEMBER UNAUDITED	2016 $M	2015 $M
Segment result	473	471
Net result of corporate revenue and expenses	(2)	(16)
Depreciation and amortisation	(215)	(224)
Net finance expense	(13)	(13)
Net earnings before income tax	**243**	**218**

Notes to the interim financial statements

NOTE 4 Operating revenues

SIX MONTHS ENDED 31 DECEMBER UNAUDITED	2016 $M	2015 $M
Voice	311	337
Broadband	344	339
Managed data	85	96
Mobile	588	563
IT services	384	322
Dividend income	35	26
Other operating revenue	46	40
Total operating revenues	**1,793**	**1,723**

Dividend income includes dividends received from associate companies Pacific Carriage Holdings Limited and Southern Cross Cables Holdings Limited.

NOTE 5 Operating expenses

SIX MONTHS ENDED 31 DECEMBER UNAUDITED	2016 $M	2015 $M
Payments to telecommunications operators	351	334
Mobile acquisition, procurement and IT services	437	413
Labour	278	252
Other operating expenses		
Direct network costs	31	38
Computer costs	40	38
Accommodation costs	50	47
Advertising, promotions and communication	41	45
Bad debts	9	11
Impairments	2	–
Other	81	88
	254	267
Total operating expenses	**1,320**	**1,266**

Notes to the interim financial statements

NOTE 6 Debt

FACE VALUE	FACILITY	COUPON RATE	MATURITY	AS AT 31 DECEMBER 2016 UNAUDITED $M	AS AT 30 JUNE 2016 AUDITED $M
Short-term debt					
Commercial paper		Variable	< 4 months	149	100
Short-term borrowings		Variable	< 1 month	50	–
				199	100
Bank funding					
Bank of Tokyo-Mitsubishi UFJ	100 million NZD	Variable	13/03/2018	100	100
Westpac New Zealand Limited	100 million NZD	Variable	30/11/2016	–	90
Bank of New Zealand	100 million NZD	Variable	31/10/2018	70	50
				170	240
Domestic notes					
250 million NZD		5.25%	25/10/2019	250	250
100 million NZD		4.50%	25/03/2022	102	103
100 million NZD		4.51%	10/03/2023	101	106
125 million NZD		3.94%	07/09/2026	113	–
				566	459
Euro Medium Term Notes					
22 million GBP		5.63%	14/05/2018	40	42
18 million GBP		5.75%	06/04/2020	31	34
				71	76
				1,006	**875**
Debt due within one year				199	190
Long-term debt				807	685

On 30 November 2016 the Group established a $125 million committed revolving facility with Westpac New Zealand Limited, to mature on 30 November 2020. As at 31 December 2016 this was undrawn. There have been no other changes in the Group's short-term financing programmes or stand-by facilities since 30 June 2016.

NOTE 7 Long-term investments

	AS AT 31 DECEMBER 2016 UNAUDITED $M	AS AT 30 JUNE 2016 AUDITED $M
Shares in Hutchison	107	107
Investment in associates and joint ventures	14	23
Other long-term investments	4	1
	125	**131**

Notes to the interim financial statements

NOTE 7 Long-term investments (continued)

The Group holds a 10% interest in Hutchison Telecommunications Australia Limited (Hutchison) which is quoted on the Australian Securities Exchange (ASX) and measures its fair value using its observable market share price as quoted on the ASX, classified as being within level 1 of the fair value hierarchy. As at 31 December 2016 the quoted price of Hutchison's shares on the ASX was A$0.076 (30 June 2016: A$0.075).

Investment in associates and joint ventures

The Group's investment in associates and joint ventures at 31 December 2016 consists of the following:

	TYPE	COUNTRY	OWNERSHIP	PRINCIPAL ACTIVITY
App La Carte Limited (Putti)	Associate	New Zealand	44%	Mobile applications
Feenix Communications Limited	Associate	New Zealand	30%	Supplier of network services
NOW New Zealand Limited	Associate	New Zealand	37%	Internet service provider
Pacific Carriage Holdings Limited	Associate	Bermuda	50%	A holding company
Southern Cross Cables Holdings Limited	Associate	Bermuda	50%	A holding company
TSM NZ Limited (Semble)	Associate	New Zealand	33%	Mobile wallet platform
Vigil Monitoring Limited (Jupl)	Associate	New Zealand	30%	Healthcare technology
Lightbox Sport General Partner Limited	Joint Venture	New Zealand	50%	Sports content streaming
TNAS Limited	Joint Venture	New Zealand	50%	Telecommunications development

NOTE 8 Significant events after balance date

TeamTalk notice of intention to make a full takeover offer

On 7 February 2017, the Group filed a notice of intention to make a full takeover offer for 100% of the fully paid ordinary shares in TeamTalk Limited (TeamTalk) at an offer price of 80 cents per share. To assist the Group in determining whether to proceed with the proposed offer, it requested that TeamTalk permit the Group to complete due diligence.

On 8 February 2017, TeamTalk directors recommended that shareholders do not sell their shares pending further communication from its board, however confirmed it will allow the Group to undertake limited due diligence.

Dividends

On 16 February 2017 the Board approved the payment of a first half ordinary dividend of 11 cents per share or approximately $202 million and a special dividend of 1.5 cents per share or approximately $27 million. The ordinary dividend will be fully imputed and the special dividend 75% imputed in line with the corporate income tax rate. In addition, supplementary dividends totalling approximately $29 million will be payable to shareholders who are not resident in New Zealand. In accordance with the Income Tax Act 2007, the Group will receive a tax credit from Inland Revenue equivalent to the amount of supplementary dividends paid.

Independent review report

KPMG

To the shareholders of Spark New Zealand Limited

We have completed a review of the interim financial statements of Spark New Zealand Limited and its subsidiaries ("the group") on pages 23 to 34 which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period ended on that date, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Shareholders as a body. Our review work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in the independent review 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's shareholders as a body, for our review work, this report or any of the conclusions we have formed.

Directors' responsibilities

The directors of Spark New Zealand Limited are responsible for the preparation of interim financial statements in accordance with Generally Accepted Accounting Practice in New Zealand and for such internal control as the directors determine is necessary to enable the preparation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibilities

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed* by the *Independent Auditor of the Entity*. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with Generally Accepted Accounting Practice in New Zealand. As the auditor of Spark New Zealand Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

Our firm has also provided other services to the group in relation to other assurance services. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditors of the group. The firm has no other relationship with, or interest in, the group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of the Group do not present fairly, in all material respects, the financial position of the company as at 31 December 2016, and of its financial performance and its cash flows for the 6 month period ended on that date, in accordance with Generally Accepted Accounting Practice in New Zealand.

KPMG

16 February 2017
Auckland

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