EFFORTLESS EXPERIENCES. THE NEW NORMAL.

HALF YEAR REPORT 2018

COVER

The True Honey Co.

From mobile plans and devices to mobile apps; our mobility solutions have helped the team at The True Honey Co. access their systems remotely and monitor their hives in the most pristine locations throughout the North and South Island. "We have our own beehives, beekeepers, producing every drop of honey that we package under The True Honey Co. brand. Then we deliver direct to our consumers around the globe. With the utilisation of innovation and technology, it's allowed me to grow our business. And I'm very grateful to the team at Spark for the services they provide."

*– **Jim McMillan**, The True Honey Co. Founder*

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Key dates

Half-year results announcement
21 February 2018

Financial year-end
30 June 2018

This report is dated 21 February 2018 and is signed on behalf of the Board of Spark New Zealand Limited by Justine Smyth, Chair, and Simon Moutter, Managing Director.

Justine Smyth
Chair

Simon Moutter
Managing Director

Spark New Zealand Limited
ARBN 050 611 277

New Zealanders' expectations of what technology should deliver have never been higher. To succeed in this new world Spark must put more power in our customers' hands – giving them smarter, simpler products and services.

People want more freedom – so we've ramped up our wireless initiatives and championed new technologies to help our customers stay seamlessly connected wherever they are.

They want more choice – so we've broadened options across our suite of brands to provide a better digital life no matter what their budget is.

And they want an effortless experience – so we've continued to simplify, automate and digitise the business, making it easier for customers to engage with us.

This is the new normal for us: a world where every day we refine and improve our tech, to ensure our digital services are a truly useful part of our customers' lives. Helping them win the little victories that add up to something huge.

A WIRELESS WAY OF LIVING

We want life in New Zealand to be better connected, more mobile and more entertaining than ever before.

45%

of our broadband customers are on fibre or wireless broadband technologies.

4.5G

mobile is now live on 38 sites in 30 locations.

104,000

premises on wireless broadband.

Unlimited

mobile data plan successfully launched, setting new benchmark in the market for value.

Performance snapshot

Operating revenues $

1,822M

▲ 1.6%

EBITDA $

463M

▼ 1.7%

Net earnings $

172M

▼ 3.4%

Mobile revenue $

635M

▲ 8.0%

Broadband revenue $

341M

▼ 0.9%

Cloud, security and service management revenue[1] $

181M

▲ 17.5%

Capital expenditure $

262M

▲ 17.0%

Mobile connections

2,437K

▲ 3.6%

Dividends per share

12.5 cents

No change

1 Spark has revised the categories of operating revenues presented to provide greater insight into the drivers of business performance. This has resulted in the disaggregation of the previously reported 'IT services' revenue category as summarised on page 32.

- Strong growth in mobile revenues and margins and highly successful launch of unlimited mobile data plan

- 300,000 subscribers to Lightbox, with new media platform and services to launch in April

- Simplification of products, services and plans across the business gives customers better value and opens up access to self-service

- Spark App enhancements allow customers to diagnose and, in some cases, fix broadband issues themselves

- 35 “bots” automating tasks across business and proactively solving customer problems

- Nationwide Internet of Things network roll-out commenced; expect to provide coverage to 20 urban centres and in key rural areas by mid-2018

Simpler for our customers, smarter for our business.

The six months to 31 December 2017 have seen Spark embrace a bold programme of digital transformation, in line with our strategy.

Spark has continued to invest substantially in a digital services future, using best-in-class technology to meet the rising expectations of our customers. We've made real progress on a number of strategic initiatives, and are encouraged by this to consider accelerating our business transformation in the second half.

Financial results

We continue to maintain top-line revenue growth with H1 FY18 revenues up $29 million, or 1.6%, to $1.822 billion. This is on the back of continued strong performance in mobile, up 8.0%; cloud, security and service management, up 17.5%; and growth associated with the acquisitions of Ubiquity and Digital Island.

Overall, EBITDA for H1 FY18 declined by $8 million, or 1.7%, to $463 million. Included in the H1 FY18 results were $13 million of change costs as we position the business towards the lowest cost operator model. With depreciation and amortisation, interest and tax expenses relatively flat half-on-half, overall net earnings declined $6 million, or 3.4%, to $172 million.

Justine Smyth Chair

Simon Moutter Managing Director

Our wireless broadband product is now in 104,000 premises, a little more than a year after we launched it into urban markets and we are still targeting 125,000 wireless broadband customers at financial year end.

Progress on strategic initiatives

Towards the end of the previous financial year, we updated our strategy with the three key areas of focus that will drive the next phase of Spark's transformation, helping us win in a market where customer experience is the new source of market power.

First, we are putting a far greater emphasis on wireless technologies. This means investing in our mobile network to provide customers with a seamless digital experience and, where possible, moving them off the legacy copper network onto newer, more reliable fibre and wireless broadband. Second, we are using our multi-brand strategy to better serve the growing price-sensitive end of the market, expanding the products we offer through Skinny and other brands. Third, we are committed to becoming the lowest cost operator through simplification, automation and digitisation initiatives across the business. On all three of these areas we have made substantial progress in the first half of FY18.

We grew mobile revenue and margin with total mobile ARPU returning to growth for the first time in two years, up 1.8% on the prior year. The successful launch of our unlimited mobile data plan, which set a new benchmark in the market for value, encouraged pay-monthly customers to upgrade to this higher value offer, and the growth of our online-only Skinny Direct service helped improve prepaid ARPU by 7.0% compared to the prior year.

Our wireless broadband product is now in 104,000 premises a little more than a year after we launched it into urban markets and is delivering around $46 million of annualised gross reduction in broadband access costs. We are still targeting 125,000 wireless broadband customers at financial year end. At the same time, we have maintained the rate of migration from copper to fibre and we are pleased to have around 45% of broadband customers on these new technologies, which keeps us on track for being mostly ex-copper by 2020 – improving the customer experience and reducing the cost to serve.

We have also continued to upgrade our own legacy systems to new technology platforms, with good progress on the closure of our Public Switched Telephone Network (PSTN). We are well on track for moving all our customers to a new generation IP-based voice network by 2022.

Our ability to grow wireless broadband and mobile more generally is underpinned by a substantial investment in the Spark mobile

Customers can now use the Spark App or MySpark to get help with using their smartphones and to diagnose and fix broadband issues themselves – in addition to the range of functionality that was already available such as topping up and adding extras, setting up or modifying payments, and checking data usage.

network. We've continued rolling out 4.5G across New Zealand and now have it live on 38 large sites in 30 locations. This technology is an enhanced version of 4G, delivering three to five times the speed and network capacity. It also helps us prepare for a 5G future, by giving us a deeper understanding of the more intensive data use-cases that will be made possible by 5G.

We have progressed our plans in the Internet of Things (IoT) space, by commencing the rollout of a low-power IoT network, suitable for when sensors or devices are transferring small amounts of data and are reliant on battery power. We have been testing this network in the industrial and agriculture markets and expect it to be commercially available in mid-March. We are also testing "LTE Cat-M1" technology over our mobile network, which is ideal where sensors and devices are transferring large amounts of data regularly and real-time access to that data is critical. We believe these two networks will be complementary when it comes to meeting customer needs.

Data consumption continued to grow, driven primarily by music and video streaming. Our partnerships with Spotify and Netflix continue and, together with Lightbox, remain a valuable means of customer growth and retention. We are excited to announce our new video media platform will launch in April, which will expand the range of content available and add an additional revenue stream with 'pay-per-view movies'.

Spark Digital saw strong customer demand for its cloud, security and service management products, with customer wins in the health sector reflecting a growing demand for the benefits and flexibility that cloud-based platforms offer.

Qrious strengthened its position to focus on its specialist big data and analytics solutions and new data-powered marketing offerings. It has shown continued growth over the past six months, enhancing its technology and consulting offerings, and winning a number of new public and private sector customers.

At the more price-sensitive end of the market, we've increased the scale and the product set of our Skinny brand. Skinny has committed to having the lowest prices in market and this promise, along with its award-winning service, has proved very successful with customers. Skinny's "Data Binge" product, which launched during the half, allows customers to access unlimited data for a defined period of time (up to 12 hours) without committing to an expensive plan or pack. Skinny has successfully expanded into the broadband market and has grown the online-only, lowest-price Skinny Direct service over the half, including by making this service available for small business customers.

The moves to lead the market in terms of value for our unlimited mobile data plan and the growth of low-price plans under Skinny are evidence the mobile market is serving consumers of all budgets very well. We believe consumers have benefited hugely from infrastructure-based mobile competition between three mobile network providers – with faster network rollouts, much lower pricing and a steady stream of product innovations, almost all funded by the industry players involved. The 2017 Commerce Commission Annual Telecommunications Monitoring Report shows New Zealand mobile prices are well below OECD averages for typical bundles.

While this is a great story for consumers, the pressure on prices in an environment of sharply growing data usage across both broadband and mobile means we must continue to reduce costs if we are to continue to invest in new technologies while maintaining the high-quality experience our customers rightly expect. This brings us to the third of our strategic priorities – to radically simplify, automate and digitise our processes, products and services. There has been huge progress in this programme over the half year.

Our simplification programme has seen us migrate 166,000 consumer and small business customers from outdated mobile and broadband plans onto new fit-for-purpose plans, which offer better value and allow for digital self-service. Within Spark Digital, we have delivered a comprehensive programme consolidating our processes and systems for managed data, and set out a simplified and standardised future for offers and services, which we will implement along with new contracts. We have also reduced overheads and staff training needs by closing down end-of-life products such as dial-up internet.

We have a dedicated team looking at opportunities for automation across the business, and we have built and leveraged automation to draw re-usable benefit from it. We now have 35 “bots” performing automated and sometimes very complex tasks across a variety of functions, from managing security functions to proactively resolving broadband faults to synchronising fibre orders with our smaller fibre service providers.

Decisions on where and how to automate are informed by a big data platform, which allows us to identify opportunities for greater efficiency, or to predict problems and proactively take corrective action. Automation and artificial intelligence are now materially reducing the need for human-based help, freeing up staff to focus on more rewarding, customer-focused work.

We’ve improved our customer self-service tools with enhancements to the Spark App, the MySpark self-service platform and the simplification of our online “Help” section. Customers can now use the Spark App or MySpark to customise the information they receive, make changes to their accounts, and to diagnose and, in some cases, fix broadband issues themselves. This is in addition to the range of functionality that was already available such as topping up and adding extras, setting up or modifying payments, and checking data usage.

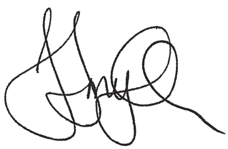
These initiatives and our big focus on improving customer service across the board are starting to bear fruit. We measure customer satisfaction using the Net Promotor Score (NPS) methodology, and we also use learnings from our customer satisfaction scores when designing customer journeys. Over the half year we’ve seen a rise in NPS across both Spark Digital and Spark Home, Mobile & Business, alongside an 18% reduction of calls into our customer care centres. Skinny has continued to win awards for customer satisfaction, and this month was named the winner of Consumer NZ’s People’s Choice award for the third consecutive year. As a company that was “born digital” Skinny has been showing the way for Spark as we ramp up our digitisation and simplification initiatives. Spark Digital has also seen its focus on increasing proactive contacts and issue resolution result in improving margins on its largest accounts.

The momentum in our business transformation has given us confidence to be bolder in pursuing the big improvements in NPS and company culture that we set out as our ambitions towards the end of last financial year.

To this end, we have been looking at how an Agile way of working, best known as the methodology used by software companies, may assist in our transformation to a world-class digital services provider. Our intention has always been to scale up our use of Agile, but we now see significant benefit in adopting Agile across the whole organisation in the coming months, to help us achieve three crucial outcomes: putting customers at the absolute centre of our business; dramatically improving speed to market for products and services; and further energising our company culture.

We are now working through what our new operating model might look like. As a first step, we've set up three "frontrunner tribes" focused on broadband, managed data and digital experience – parts of the company we consider most capable of making early changes. We will be using these early tribes to learn how best to roll Agile out wider across Spark.

Based on the results from the first half, we are reaffirming the Board's view on full-year EBITDA guidance of 0-2% growth versus FY17 actual EBITDA (excluding net gain from sale of Mayoral Drive carpark), and support a total H1 FY18 dividend per share of 12.5c, made up of a 75% imputed ordinary dividend per share of 11.0c and a 75% imputed special dividend per share of 1.5c. We note, however, that we are considering accelerating our business transformation to strengthen the FY19 result. No decision has yet been made, but if the programme is accelerated, then FY18 guidance may reduce due to the associated costs of change. We will update the market if appropriate.



Justine Smyth
Chair

Simon Moutter
Managing Director

21 February 2018

Board and Senior Leadership changes

We were delighted to announce Pip Greenwood will join the Board as an independent, non-executive Director. Pip has significant experience in capital markets, mergers and acquisitions, telecommunications, and governance. We very much look forward to her joining the board in April this year, at which time our Board of Directors will be 50% female. We are proud of this milestone and believe it reflects the pipeline of strong, capable female leaders available for us to draw from.

We also announced during the half that Jason Paris, the CEO of Spark Home, Mobile & Business (HMB), will be leaving Spark early this year. We are very sad to see Jason leave, but wish him all the best with his new opportunity. Grant McBeath, formerly General Manager of Customer Channels for HMB, has been appointed interim CEO of HMB. Grant has been on the HMB Leadership team for five years and has played a key role in the transformation to date.

Entertainment for everyone. From Lightbox, Spotify, Netflix to our new video media platform. More content, pay-per-view movies and more pay-per-view events in the pipeline. **Stay tuned.**

SPARK RESULT OVERVIEW

Key performance indicators

SIX MONTHS ENDED 31 DECEMBER		2017	2016	% CHANGE
Operating revenues	$M	1,822	1,793	1.6%
Operating expenses	$M	(1,358)	(1,320)	2.9%
Share of associates' and joint ventures' net (losses)	$M	(1)	(2)	(50.0%)
Earnings before interest, income tax, depreciation and amortisation (EBITDA) [1]	$M	463	471	(1.7%)
Net earnings	$M	172	178	(3.4%)

Connections

Total mobile connections

2,437K

▲ 3.6%

Broadband connections[2]

694K

▲ 2.8%

People

Employee numbers[3]

5,614

▼ 5.5%

Capital expenditure[1]

Total capital expenditure

$262M

▲ 17.0%

Capital expenditure to operating revenues

14.4%

H1FY17 12.5%

Investors

Earnings per share

9.4 cents

▼ 3.1%

Total dividends per share

12.5 cents

H1FY17 12.5 cents

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 are defined and reconciled on page 17.

2 Includes wireless broadband connections.

3 Employee numbers are full-time equivalents, including contractors, and are measured as at 31 December.

Net earnings movements

EBITDA
$463M
▼ $8M
▼ 1.7%

NET EARNINGS INCREASES / NET EARNINGS DECREASES

OPERATING REVENUES
$1,822M
▲ $29M
▲ 1.6%

Net earnings increases

Cloud, security and service management
▲ $27M ▲ 17.5%
Growth reflects strong customer demand for the benefits and flexibility that Cloud based "as a Service" products offer.

Mobile revenue
▲ $47M ▲ 8.0%
Strong mobile service revenue growth of $23 million, or 6.0%, was driven by increased average revenue per user and connection growth. Other mobile revenue, which increased $24 million, or 11.7%, continues to be driven by the sale of high-end mobile devices.

Procurement and partners
▲ $7M ▲ 4.0%
Low margin procurement and partners revenues increased due to greater volumes over the period.

Other operating revenue
▲ $6M ▲ 6.8%
Other operating revenue growth was driven by the continued progress of Spark Ventures' businesses such as Qrious (including the purchase of Ubiquity in July 2017) and a $3 million gain associated with the buyback of retail stores, partially offset by $7 million lower Southern Cross dividends in H1 FY18.

Net earnings decreases

Voice revenue
▼ $46M ▼ 13.6%
Voice revenue continued to decline as a greater proportion of customers opt for a broadband-only services to their home or business.

Broadband revenue
▼ $3M ▼ 0.9%
Broadband revenues decreased despite an increase in connections due to increased migration to lower priced but higher margin wireless broadband products since H1 FY17.

Managed data and networks revenue
▼ $9M ▼ 8.6%
Managed data revenue continued to decline due to the migration of business and wholesale customers off traditional data products, and ongoing price pressure.

OPERATING EXPENSES
($1,358M)
▲ $38M
▲ 2.9%

Net earnings increases

Payments to telecommunications operators
▼ $23M ▼ 6.6%
Decrease in baseband and access charges and broadband costs from the uptake of wireless broadband.

Labour
No change
Labour costs have remained flat with increased costs associated with business acquisitions being offset by lower staff levels as we transition to the lowest cost operator model.

Net earnings decreases

Mobile costs
▲ $22M ▲ 9.9%
Increase in mobile costs reflects increased mobile revenue, in particular mobile device costs.

IT services costs
▲ $11M ▲ 5.1%
IT services costs increased in line with the growth in cloud, security and service management revenues.

Other operating expenses
▲ $28M ▲ 11.0%
Increase due to costs of change associated with the Quantum programme (up $13 million) and a higher level of advertising campaigns (up $10 million).

SHARE OF ASSOCIATES' AND JOINT VENTURES' NET LOSSES
($1M)

▼ $1M ▼ 50.0%
Spark's holdings in associates and joint ventures has decreased, resulting in lower net losses recognised, including the exit of Putti during the period.

NET EARNINGS
$172M
▼ $6M
▼ 3.4%

EBITDA
$463M
▼ $8M
▼ 1.7%

Depreciation and amortisation expense
$214M
▼ $1M ▼ 0.5%
Small decrease due to lower average capital expenditure levels in the past three years.

Income tax expense
$63M
▼ $2M ▼ 3.1%
Decrease in line with the decrease in net earnings before tax.

Net finance expense
$14M
▲ $1M ▲ 7.7%
Decrease included a $1 million increase in finance expenses, and stable finance income. This reflects an increase in average debt and stable interest rates compared to the prior period, partially offset by higher capitalised interest.

A summary of the results of Spark's key business units are outlined in the following section. Further details of the H1FY18 and historical performance of Spark are available in a separate financials file on the investor section of our website at: investors.sparknz.co.nz/investor-centre.

Cash flows

Spark's principal sources of liquidity are operating cash flows and external borrowing from established debt programmes and bank facilities. The full statement of cash flows is provided on page 26 in the interim financial statements. The following provides a summary of the cash inflows and outflows from operating, investing and financing activities during the year and the movements compared to H1 FY17.

	CASH INFLOWS	CASH OUTFLOWS
NET CASH FLOWS FROM OPERATING ACTIVITIES **$405M** **▲ $105M** **▲ 35.0%**	**Cash received from customers** **$1,777M ▲ 2.7%** Increase is consistent with the increase in operating revenues from the prior period. **Dividend receipts** **$7M ▼ (68.2%)** Decrease in Southern Cross dividend receipts due to lower dividends during the year and the timing of cash receipts.	**Payments to suppliers and employees** **($1,302M) ▼ 4.5%** Decrease largely driven by the timing of contractual payments to a large supplier of $45 million. **Income tax payments** **($70M) ▼ 11.4%** Decrease in tax payments impacted by the timing of provisional tax payments. **Net interest payments** **($7M) ▼ 36.4%** Lower net interest payments reflecting lower costs of debt and increased capitalised interest despite an increase in average net debt.
NET CASH FLOWS FROM INVESTING ACTIVITIES **($292M)** **▲ $75M** **▲ 34.6%**	No cash inflows from investing activities during the period.	**Payments for capital expenditure and capitalised interest paid** **($240M) ▲ 12.7%** Increase due to the timing of key projects during H1 FY18. **Payments for long-term investments** **($6M) ▲ 200.0%** Increase due to an investment in Globetouch during the current period and no significant investments in H1 FY17. **Payments for purchase of businesses** **($46M) ▲ 44M** Payments during the period included the acquisitions of Ubiquity, Digital Island and the buy-back of retail stores with only minor acquisitions in H1FY17.
NET CASH FLOWS FROM FINANCING ACTIVITIES **($48M)** **▲ $31M** **▲ 39.2%**	**Net increase in debt** **$184M ▲ 20.3%** A net increase in short and long-term debt of $184 million in H1 FY18 to support acquisitions activity and the top up of dividends. **Receipts from finance leases** **$1M No change** No change in receipts from finance leases during the period.	**Dividend payments** **($229M) No change** Dividends per share paid during the period remained unchanged. **Payments for finance leases** **($4M) No change** No change in payments for finance leases during the period.

Capital expenditure[1]

Total capital expenditure for H1 FY18 was $262 million, an increase of $38 million, or 17.0%, on H1 FY17.

This is a timing variance due to the phasing of some of our key projects and accordingly full year capital expenditure is expected to remain within the 11%-12% target for FY18.

SIX MONTHS ENDED 31 DECEMBER	2017 $M	2016 $M
Cloud	19	22
Converged Communications Network (CCN)	17	3
International cable construction and capacity purchases	14	14
IT systems	64	60
Mobile network	89	69
Plant, fixed Network and core sustain and resiliency	38	36
Other	21	20
Total capital expenditure	**262**	**224**

Capital expenditure in H1 FY18 included the following key focus areas and projects:

- $19 million was invested in cloud-related capital expenditure to support cloud, security and service management revenue growth;
- $17 million was invested in the CCN, which will replace the legacy PSTN network and enable us to deliver IP-based voice services in the future;
- Investment in international cable construction and capacity purchases was again $14 million as Spark continued to invest in Southern Cross international cable capacity to meet upward trends in customer demand for data;
- IT systems investment of $64 million in H1 FY18 funded developments across our products and IT systems to enhance the customer experience. This included the continued build of Telecommunications-as-a-Service IT platforms for Spark Digital clients to support its substantial take up by eligible Government agencies as well as ongoing simplification, automation and digitisation of Spark's ways of working;
- $89 million was invested in Spark's mobile network, an increase of $20 million compared to H1 FY17, due to upfront purchases of equipment to enable earlier delivery of capacity and coverage requirements. Mobile investment in H1 FY18 continued the deployment of the single radio access network (SRAN) and Long-Term Evolution (LTE) sites, increased capacity and coverage for wireless broadband, as well as lifecycle investment and licencing in the mobile core;
- $38 million was invested in the fibre build programme, Optical Transport Network (OTN) and Carrier Ethernet expansion to meet customer demand for services and traffic growth across the network as coverage expands. Various investments in Spark-owned properties were also carried out; and
- Other capital expenditure increased to $21 million and includes investment in store refits, Lightbox, Qrious, Internet of Things and Morepork.

1 Capital expenditure is a non-GAAP measure and is defined on page 17.

Dividends

Spark pays dividends on a semi-annual basis. A 75% imputed ordinary dividend of 11.0 cents per share has been declared for H1 FY18, together with a 75% imputed special dividend of 1.5 cents per share, bringing the total dividends for H1 FY18 to 12.5 cents per share.

Subject to no adverse changes in operating outlook, Spark anticipates paying a total FY18 dividend of 25.0 cents per share that is at least 75% imputed. This dividend is likely to be made up of an ordinary dividend determined by earnings, topped up by a special dividend to maintain a total dividend per share of 25.0 cents. The dividend reinvestment plan remains suspended.

	H1 FY18 ORDINARY DIVIDENDS	H1 FY18 SPECIAL DIVIDENDS
Dividends declared		
Ordinary shares	11.0 cents	1.5 cents
American Depositary Shares	40.59 US cents[1]	5.54 US cents[1]
Imputation		
Percentage imputed	75%	75%
Imputation credits per share	3.2083 cents	0.4375 cents
Supplementary dividend per share[2]	1.4559 cents	0.1985 cents
'Ex' dividend dates		
New Zealand Stock Exchange	15 Mar 2018	15 Mar 2018
Australian Securities Exchange	15 Mar 2018	15 Mar 2018
American Depositary Shares	15 Mar 2018	15 Mar 2018
Record dates		
New Zealand Stock Exchange	16 Mar 2018	16 Mar 2018
Australian Securities Exchange	16 Mar 2018	16 Mar 2018
American Depositary Shares	16 Mar 2018	16 Mar 2018
Payment dates		
New Zealand and Australia	6 Apr 2018	6 Apr 2018
American Depositary Shares	20 Apr 2018	20 Apr 2018

1 Based on the exchange rate at 19 February 2018 of NZ$1 to US$0.7380 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'). 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 as they are not uniformly defined or utilised by all companies in New Zealand or the telecommunications industry.

While there were no adjusting items in H1 FY17 or H1 FY18, Spark's policy is to present 'adjusted EBITDA' and 'adjusted net earnings' when the period includes significant items (such as one-off gains, expenses and impairments) individually greater than $25 million.

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

Spark calculates EBITDA by adding back depreciation and amortisation, net finance expense and income tax expense to net earnings. EBITDA includes Spark's share of associate and joint venture net losses. A reconciliation 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	2017 $M	2016 $M
Net earnings for the period reported under NZ IFRS	172	178
Add back: depreciation and amortisation	214	215
Add back: net finance expense	14	13
Add back: income tax expense	63	65
EBITDA	**463**	**471**

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.

Spark Home, Mobile & Business

Financial result

SIX MONTHS ENDED 31 DECEMBER	2017 $M	2016 $M	CHANGE %
Operating revenues	1,034	1,019	1.5%
Operating expenses	(614)	(608)	1.0%
EBITDA	**420**	**411**	**2.2%**
EBITDA margin	40.6%	40.3%	

Strong gains in mobile combined with a continuation of broadband connection growth, offset by ARPU decline, with an increasing amount higher margin wireless broadband connections improving overall EBITDA margin.

Operational highlights

- Launch of the unlimited mobile plan and its above expectation performance in market;
- 5-point improvement in customer Net Promoter Score for the period through improved service levels in call centres, the retail experience in retail stores and business hubs, combined with great new service offerings in both the Spark, Skinny and Bigpipe brands;
- Insourcing of Spark retail stores driving improved margins, particularly in mobile; and
- Lightbox exceeds 300,000 subscribers through continuing to offer New Zealanders great new content options like the award-winning "Handmaid's Tale".

Increase in mobile service revenue

8.8%

Financial performance

Operating revenues increased by $15 million, or 1.5%, for the half year. This was primarily driven by a $43 million, or 8.8%, increase in mobile revenues, including mobile service revenue growth of 8.8% from continued connection gains and a 4.4% increase in average revenue per user from H1 FY17. This increase was partially offset by a $27 million, or 16.0%, decrease in voice revenues as a greater proportion of customers opted for a broadband-only service to their home or business. Broadband revenues decreased by $3 million, or 0.9%, due to increased migration to lower priced but higher margin wireless broadband products since H1 FY17. Cloud, security and service management, procurement and partners, managed data and networks and other operating revenues remained relatively stable, increasing $2 million.

Operating expenses increased by $6 million, or 1.0%, from H1 FY17 primarily driven by increased mobile costs of sale reflecting increased mobile revenue and in particular mobile device costs. There was also increased promotional activity during the period through Spark Arena, the "Little can be Huge" brand campaign and key new product launches. These increases were partially offset by a $7 million, or 10.0%, reduction in labour cost and decreased input costs through increased wireless broadband and voice connections.

This resulted in an overall increase in EBITDA of $9 million, or 2.2%, in H1 FY18.

Spark Digital

Financial result

SIX MONTHS ENDED 31 DECEMBER	2017 $M	2016 $M	CHANGE %
Operating revenues	633	614	3.1%
Operating expenses	(454)	(436)	4.1%
EBITDA	**179**	**178**	**0.6%**
EBITDA margin	28.3%	29.0%	

Focus on excellent service delivery resulting in improved customer profitability and stronger NPS scores.

Operational highlights

- Significant reduction in complexity around product plans, with over 5,000 variants removed from the managed data and networks portfolio, and mobile and voice portfolios reduced by 100+ each;
- Customer relationship NPS scores improved substantially following focused effort on increasing pro-active contacts, and issue resolution;
- Customer wins in the health sector, reflecting demand for the benefits and flexibility that Cloud-based platforms offer;
- Consistently good service delivery has resulted in growth in the profitability of our top IT Services clients; and
- Launch of new managed data IT support systems, creating the foundation for improved customer experience and better self-service.

Increase in Cloud, security & service management revenue

17.3%

Financial performance

Operating revenues increased by $19 million, or 3.1%, in H1 FY18. The primary driver of growth was cloud, security and service management revenue which grew $26 million, or 17.3%, reflecting strong customer demand for "as a Service" products. When coupled with growth in procurement and partners of $8 million, the revenue growth was substantially more than the ongoing decline in higher margin voice and managed data and networks, albeit at lower margins.

Operating expenses increased by $18 million, or 4.1%, in H1 FY18. Most of the growth was in operating expenses required to support the $34 million of revenue growth in cloud, security and service management and procurement and partners. Labour increased $2 million, with new employees bought on to support the growing cloud and security businesses, these increases were mostly offset by decreases in other areas through the Quantum programme.

Overall, Spark Digital EBITDA increased by $1 million, or 0.6%, in H1 FY18, with growth in cloud, security and service management and the ongoing cost reduction from Quantum offsetting underlying higher margin voice and managed data and networks declines. Growth potential for cloud, security and service management remains strong.

Spark Connect & Platforms

Financial result

SIX MONTHS ENDED 31 DECEMBER	2017 $M	2016 $M	CHANGE %
Operating revenues	27	24	12.5%
Operating expenses	(201)	(203)	(1.0%)
EBITDA	**(174)**	**(179)**	**(2.8%)**

Spark Connect began the rollout of the 4.5G mobile network across the country, and continued to invest in network resiliency to support high customer demand for data.

Spark Platforms continued to re-invent customer experience and drive NPS improvements through digital customer journeys and service transformation.

Operational highlights

- Rolled out 4.5G services to 30 locations to enhance network performance and capacity and on a pathway to 5G;
- Continued decommissioning of the PSTN network, with removal of equipment from a further 28 exchanges;
- Significantly improved Net Promoter Scores for digital customer interactions;
- Designed 38% of customer journeys digital first;
- Automated the provisioning of managed data services for our customers; and
- Established tools and ways of working to enable faster development of products and services and improved capital efficiency.

Digital first customer journeys

38%

Financial performance

Operating revenues increased by $3 million, or 12.5%, in H1 FY18. This includes revenues from Chorus, Telegistics Repair Limited, Connect 8 Limited (following its acquisition in December 2016) and partnering arrangements.

Operating expenses reduced by $2 million, or 1.0%, in H1 FY18. This reflects a continued focus on cost reduction and efficiency across all cost categories, largely offset by higher spot prices causing $4 million higher electricity costs.

Overall, Spark Connect & Platforms EBITDA improved by $5 million, or 2.8%, in H1 FY18 due to both increased operating revenues and reductions in other operating expenses.

Spark Ventures & Wholesale

Financial result

SIX MONTHS ENDED 31 DECEMBER	2017 $M	2016 $M	CHANGE %
Operating revenues	119	120	(0.8%)
Operating expenses	(61)	(56)	8.9%
Share of associates' and joint ventures' net losses	–	(1)	NM
EBITDA	**58**	**63**	**(7.9%)**

Gaining momentum with 2.7x increase in Qrious operating revenues, moves into Internet of Things and the acquisition of Digital Island.

Operational highlights

- Significant growth in Qrious revenue, underpinned by the acquisition of Ubiquity in July 2017 and refocusing the business on its strength in data analytics and data-powered marketing;
- Commenced roll-out of national low-powered Internet of Things (IoT) network to support proliferation of low-powered IoT devices to support smart cities, smart agri and improved tracking/monitoring use cases;
- Completed move to bring different IoT and smart solutions into a single operational unit, to better leverage network and data analytics advantages;
- Growth products beginning to offset the declining legacy products business within Wholesale, contributing 50% of total Wholesale margin in H1 FY18; and
- Spark Ventures portfolio expanded through strategic minority investment in international IoT business GlobeTouch and through the acquisitions of Ubiquity and Digital Island. Exited the investment in Putti.

Financial performance

Operating revenues across Spark Ventures & Wholesale decreased by $1 million, or 0.8%, in H1 FY18. This was primarily due to ongoing rationalisation of wholesale legacy copper-based voice and data services. This continues to be partially offset by revenue growth in Qrious, IoT, new wholesale data and mobile services and revenue from Ubiquity and Digital Island businesses.

Operating expenses increased by $5 million, or 8.9%, in H1 FY18. This was due to increased labour costs as a result of Ubiquity and Digital Island acquisitions and increased operating expenses to support growth in Qrious and IoT, partially offset by cost efficiencies in Morepork and Ventures support areas.

Overall, Spark Ventures & Wholesale EBITDA declined by $5 million, or 7.9%, in H1 FY18 due to the rationalisation of legacy-based services by wholesale customers and increasing operating expenses to support new venture businesses, partially offset by earnings growth in new ventures and reduced share of associates' and joint ventures' net losses.

INTERIM FINANCIAL STATEMENTS

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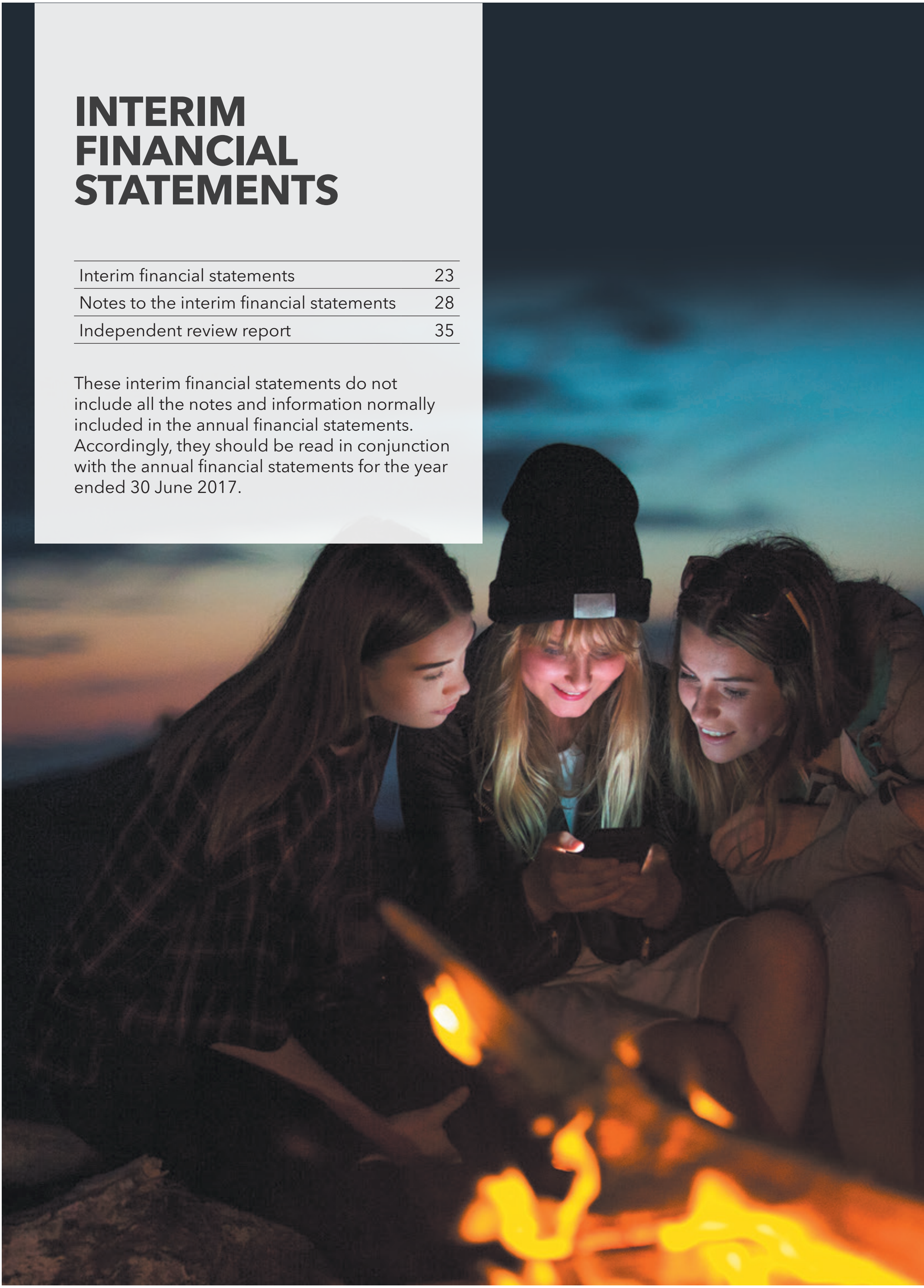
These interim financial statements do not include all the notes and information normally included in the annual financial statements. Accordingly, they should be read in conjunction with the annual financial statements for the year ended 30 June 2017.



Statement of profit or loss and other comprehensive income

FOR THE SIX MONTHS ENDED 31 DECEMBER

	NOTES	2017 UNAUDITED $M	2016 UNAUDITED $M
Operating revenues	4	1,822	1,793
Operating expenses	5	(1,358)	(1,320)
Share of associates' and joint ventures' net losses		(1)	(2)
Earnings before interest, income tax, depreciation and amortisation		463	471
Depreciation and amortisation		(214)	(215)
Net finance expense		(14)	(13)
Net earnings before income tax		235	243
Income tax expense		(63)	(65)
Net earnings for the period		**172**	**178**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of long-term investments designated at fair value through other comprehensive income		7	–
Items that may be reclassified to profit or loss:			
Cash flow hedges net of tax		(5)	19
Other comprehensive income for the period		2	19
Total comprehensive income for the period		**174**	**197**
Earnings per share			
Basic and diluted earnings per share (cents)		9.4	9.7
Weighted average ordinary shares (millions)		1,834	1,831
Weighted average ordinary shares and options (millions)		1,835	1,834

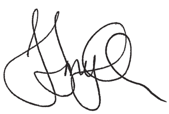
See accompanying notes to the interim financial statements.

Statement of financial position

	NOTES	AS AT 31 DECEMBER 2017 UNAUDITED $M	AS AT 30 JUNE 2017 AUDITED $M
Current assets			
Cash		117	52
Short-term receivables and prepayments		638	610
Short-term derivative assets		2	–
Inventories		83	94
Total current assets		**840**	**756**
Non-current assets			
Long-term receivables and prepayments		244	237
Long-term derivative assets		8	7
Long-term investments	7	119	108
Property, plant and equipment		1,077	1,070
Intangible assets		1,257	1,153
Total non-current assets		**2,705**	**2,575**
Total assets		**3,545**	**3,331**
Current liabilities			
Short-term payables, accruals and provisions		558	464
Short-term derivative liabilities		23	30
Debt due within one year	6	342	295
Taxation payable		2	2
Total current liabilities		**925**	**791**
Non-current liabilities			
Long-term payables, accruals and provisions		17	18
Long-term derivative liabilities		52	45
Long-term debt	6	838	692
Deferred tax liabilities		127	134
Total non-current liabilities		**1,034**	**889**
Total liabilities		**1,959**	**1,680**
Equity			
Share capital		940	935
Reserves		(407)	(406)
Retained earnings		1,053	1,122
Total equity		**1,586**	**1,651**
Total liabilities and equity		**3,545**	**3,331**

See accompanying notes to the interim financial statements.

On behalf of the Board



Justine Smyth, Chair

Simon Moutter, Managing Director

Authorised for issue on 21 February 2018

Statement of changes in equity

SIX MONTHS ENDED 31 DECEMBER 2017 UNAUDITED	SHARE CAPITAL $M	RETAINED EARNINGS $M	HEDGE RESERVE $M	SHARE-BASED COMPEN-SATION RESERVE $M	RE-VALUATION RESERVE $M	FOREIGN CURRENCY TRANS-LATION RESERVE $M	TOTAL $M
Balance at 30 June 2017	**935**	**1,122**	**(20)**	**5**	**(368)**	**(23)**	**1,651**
Adjustment on adoption of NZ IFRS 9 (net of tax)	–	(12)	–	–	–	–	(12)
Balance at 1 July 2017	**935**	**1,110**	**(20)**	**5**	**(368)**	**(23)**	**1,639**
Net earnings for the period	–	172	–	–	–	–	172
Other comprehensive income/(loss)	–	–	(5)	–	7	–	2
Total comprehensive income/(loss) for the period	**-**	**172**	**(5)**	**-**	**7**	**-**	**174**
Contributions by, and distributions to, owners:							
Dividends	–	(229)	–	–	–	–	(229)
Supplementary dividends	–	(29)	–	–	–	–	(29)
Tax credit on supplementary dividends	–	29	–	–	–	–	29
Issuance of shares under share schemes	5	–	–	(3)	–	–	2
Total transactions with owners	**5**	**(229)**	**-**	**(3)**	**-**	**-**	**(227)**
Balance at 31 December 2017	**940**	**1,053**	**(25)**	**2**	**(361)**	**(23)**	**1,586**

SIX MONTHS ENDED 31 DECEMBER 2016 UNAUDITED	$M	$M	$M	$M	$M	$M	$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**

Statement of cash flows

FOR THE SIX MONTHS ENDED 31 DECEMBER

	2017 UNAUDITED $M	2016 UNAUDITED $M
Cash flows from operating activities		
Cash received from customers	1,777	1,731
Interest receipts	7	7
Dividend receipts	7	22
Payments to suppliers and employees	(1,302)	(1,363)
Income tax payments	(70)	(79)
Interest payments	(14)	(18)
Net cash flows from operating activities	**405**	**300**
Cash flows from investing activities		
Payments for purchase of businesses	(46)	(2)
Payments for long-term investments	(6)	(2)
Payments for purchase of property, plant and equipment and intangibles	(236)	(211)
Capitalised interest paid	(4)	(2)
Net cash flows from investing activities	**(292)**	**(217)**
Cash flows from financing activities		
Proceeds from long-term debt	651	595
Repayment of long-term debt	(510)	(540)
Proceeds from short-term debt	720	495
Repayment of short-term debt	(677)	(397)
Dividend payments	(229)	(229)
Payments for finance leases	(4)	(4)
Receipts from finance leases	1	1
Net cash flows from financing activities	**(48)**	**(79)**
Net cash flow	**65**	**4**
Opening cash position	52	52
Closing cash position	**117**	**56**

Reconciliation of net earnings to net cash flows from operating activities

SIX MONTHS ENDED 31 DECEMBER UNAUDITED	2017 $M	2016 $M
Net earnings for the period	172	178
Adjustments to reconcile net earnings to net cash flows from operating activities		
Depreciation and amortisation	214	215
Bad and doubtful accounts	8	11
Deferred income tax	(10)	(7)
Share of associates' and joint ventures' net losses	1	2
Impairments	1	2
Other	(1)	(13)
Changes in assets and liabilities net of effects of non-cash and investing and financing activities		
Movement in accounts receivable and related items	(55)	(80)
Movement in inventories	11	(16)
Movement in current taxation	–	(4)
Movement in payables and related items	64	12
Net cash flows from operating activities	**405**	**300**

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 'Spark' or 'the 'Group') for the six months ended 31 December 2017.

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*.

Except as amended by the early adoption of NZ IFRS 9 *Financial Instruments* (2014), the accounting policies adopted are consistent with those followed in the preparation of Spark's annual financial statements for the year ended 30 June 2017. The preparation of the interim financial statements requires management to make judgements, estimates and assumptions. Spark has been consistent in applying the judgements, estimates and assumptions adopted in the annual financial statements for the year ended 30 June 2017. Critical accounting policies are the same as those set out in the annual financial statements for the year ended 30 June 2017.

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. Spark'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 2017, capital expenditure amounting to $134 million (31 December 2016: $142 million) had been committed under contractual arrangements.

Early adoption of NZ IFRS 9 *Financial Instruments* (2014)

Spark has now adopted NZ IFRS 9 *Financial Instruments* (2014) (NZ IFRS 9), the final version of the standard which replaces earlier versions of NZ IFRS 9 and completes the replacement of NZ IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard includes three areas of change:

1. Classification and measurement of financial instruments;
2. A single, forward-looking, 'expected loss' impairment model; and
3. Substantially reformed approach to hedge accounting.

1. Classification of financial instruments

Spark early adopted Part 1 of NZ IFRS 9 (2009) *Financial Instruments* from the year ended 30 June 2010 and adoption of the final NZ IFRS 9 standard has not required any changes to Spark's classification and measurement of financial assets or financial liabilities.

2. New impairment model

NZ IFRS 9 prescribes an 'expected credit loss' model instead of the previous incurred loss model, so it is no longer necessary for a trigger event to have occurred before recognising credit losses. NZ IFRS 9 requires Spark to now base the measurement of expected credit losses on forward-looking information, as well as current and historic information. This has resulted in an increase in provisioning for expected credit losses as losses are recognised earlier. Spark has applied the simplified approach to all balances, which requires the recognition of lifetime expected credit losses at all times. The cumulative impact of the change has been adjusted through opening retained earnings as shown in the statement of changes in equity.

Notes to the interim financial statements

NOTE 1 About this report (continued)

3. Hedge accounting

NZ IFRS 9 introduces a new hedge accounting framework which better aligns with Spark's risk management objectives and provides greater flexibility in achieving hedge accounting. This includes the introduction of an aggregate exposure concept, being the combination of an exposure and a derivative which, together, can be designated as a hedged item. NZ IFRS 9 also includes a more qualitative and forward-looking approach to assessing hedge effectiveness. There was no financial impact on adoption.

NOTE 2 Significant transactions and events for the current period

The following significant transactions and events affected the financial performance and financial position of Spark for the six month period to 31 December 2017:

Acquisitions

Spark made a number of acquisitions during the period, with payments totalling $46 million for the following:

- On 4 July 2017 Spark completed the acquisition of 100% of the ordinary shares in marketing automation provider Ubiquity Software Limited. The acquisition will blend the considerable marketing software strengths of Ubiquity together with the powerful smarts of Spark's big data and analytics software business Qrious Limited;
- On 22 November 2017 Spark completed the acquisition of 100% of the ordinary shares in Digital Island Limited, a New Zealand based business telecommunications provider; and
- During the period, Spark issued termination notices to third party licensees of 29 retail stores. Payments were made to licensees of 27 of those stores by 31 December 2017 with the remaining two stores expected to be completed in February 2018.

Debt programme

- On 31 August 2017 Spark increased its existing committed revolving facility with Westpac New Zealand Limited, maturing on 30 November 2020, by $75 million to $200 million.
- On 31 August 2017 Spark also established a new $125 million committed revolving facility with The Bank of Tokyo-Mitsubishi UFJ, Ltd to mature on the 30 November 2022.
- On 20 October 2017 Spark issued A$150 million of 10-year fixed rate bonds maturing on 20 October 2027. This was Spark's inaugural issue using its Australian debt issuance programme and first offshore long-term debt issuance since the demerger of Spark and Chorus in November 2011, adding diversification and tenor benefits to complement existing domestic funding programmes.

Capital expenditure

- Spark's additions to property, plant and equipment and intangible assets were $262 million, details of which are provided on page 15 of this half year report.

Dividends

- Dividends paid during the six month period ended 31 December 2017 in relation to the H2 FY17 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 2016 totalled $229 million or 12.5 cents per share.

Changes in revenue classifications

- Spark has updated its revenue classification to provide better information on the nature of our revenues. This changes are outlined in note 4.

Notes to the interim financial statements

NOTE 3 Segment information

The segment results disclosed are based on those reported to the Managing Director and are how Spark reviews its performance. Segment results are measured based on earnings before net finance expense, income tax expense and depreciation and amortisation (EBITDA). No excluded items are assessed on a segment basis by the Managing Director.

Comparative segment results

Spark has reclassified the comparative segment results to reflect changes in business unit structures and changes in accountabilities for managing revenues and costs. This includes the move of small to medium business customers from Spark Digital to Spark Home, Mobile & Business, the mobility business from Spark Digital to Spark Ventures & Wholesale and other minor changes between business units from transfers of revenues and expenses including mobile inbound roaming, interconnect and payphones. There is no change to the overall Spark reported result because of these changes and no other changes to Spark's segments from the 30 June 2017 annual financial statements.

Restated segment results for each half-year period of FY16 and FY17 are available in a separate detailed financials file on the investor section of our website at: investors.sparknz.co.nz/investor-centre.

SIX MONTHS ENDED 31 DECEMBER 2017	SPARK HOME, MOBILE & BUSINESS	SPARK DIGITAL	SPARK CONNECT & PLATFORMS	SPARK VENTURES & WHOLESALE	TOTAL
UNAUDITED	$M	$M	$M	$M	$M
Mobile	529	87	4	15	635
Voice	142	98	3	49	292
Broadband	327	13	–	1	341
Cloud, security and service management	5	176	–	–	181
Procurement and partners	2	181	–	–	183
Managed data and networks	2	77	–	17	96
Other operating revenue	27	–	20	19	66
Internal revenue	–	1	–	18	19
Total operating revenues	**1,034**	**633**	**27**	**119**	**1,813**
Segment result	**420**	**179**	**(174)**	**58**	**483**

Notes to the interim financial statements

NOTE 3 Segment information (continued)

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
Mobile	486	87	3	12	588
Voice	169	108	3	58	338
Broadband	330	14	–	–	344
Cloud, security and service management	4	150	–	–	154
Procurement and partners	3	173	–	–	176
Managed data and networks	3	81	–	21	105
Other operating revenue	24	–	18	11	53
Internal revenue	-	1	–	18	19
Total operating revenues	**1,019**	**614**	**24**	**120**	**1,777**
Segment result	**411**	**178**	**(179)**	**63**	**473**

Reconciliation from segment result to consolidated net earnings before income tax

SIX MONTHS ENDED 31 DECEMBER UNAUDITED	2017 $M	2016 $M
Segment result	483	473
Net result of corporate revenue and expenses	(20)	(2)
Depreciation and amortisation	(214)	(215)
Net finance expense	(14)	(13)
Net earnings before income tax	**235**	**243**

Notes to the interim financial statements

NOTE 4 Operating revenues

SIX MONTHS ENDED 31 DECEMBER UNAUDITED	2017 $M	2016 $M
Mobile	635	588
Voice	292	338
Broadband	341	344
Cloud, security and service management	181	154
Procurement and partners	183	176
Managed data and networks	96	105
Dividend income	28	35
Other operating revenue	66	53
Total operating revenues	**1,822**	**1,793**

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

Spark has revised the categories of operating revenues presented to provide more relevant information on the nature of the revenue. This has resulted in the disaggregation of the previously reported 'IT services' revenue category as outlined below:

REVENUE TYPE	PREVIOUS CATEGORY	NEW CATEGORY
Cloud, security and service management	IT services	Cloud, security and service management
Procurement and partners	IT services	Procurement and partners
Video conferencing	IT services	Voice
Networks	IT services	Managed data and networks
Mobility revenue	IT services	Other operating revenue

NOTE 5 Operating expenses

SIX MONTHS ENDED 31 DECEMBER UNAUDITED	2017 $M	2016 $M
Payments to telecommunications operators	328	351
Mobile acquisition, procurement and IT services	470	437
Labour	278	278
Other operating expenses		
Direct network costs	31	31
Computer costs	41	40
Accommodation costs	54	50
Advertising, promotions and communication	51	41
Bad debts	7	9
Impairments	1	2
Other	97	81
	282	254
Total operating expenses	**1,358**	**1,320**

Notes to the interim financial statements

NOTE 6 Debt

FACE VALUE	FACILITY	COUPON RATE	MATURITY	AS AT 31 DECEMBER 2017 UNAUDITED $M	AS AT 30 JUNE 2017 AUDITED $M
Short-term debt					
Short-term borrowings		Variable	< 1 month	50	6
Commercial paper		Variable	< 3 months	150	149
				200	155
Bank funding					
Bank of Tokyo-Mitsubishi UFJ	100 million NZD	Variable	13/03/2018	100	100
Bank of New Zealand	100 million NZD	Variable	31/10/2018	–	90
Westpac New Zealand Limited	200 million NZD	Variable	30/11/2020	15	–
Bank of Tokyo-Mitsubishi UFJ	125 million NZD	Variable	30/11/2022	50	–
				165	190
Domestic notes					
250 million NZD		5.25%	25/10/2019	250	250
100 million NZD		4.50%	25/03/2022	102	102
100 million NZD		4.51%	10/03/2023	103	102
125 million NZD		3.94%	07/09/2026	118	116
				573	570
Foreign currency Medium Term Notes					
Euro Medium Term Notes – 22 million GBP		5.63%	14/05/2018	42	40
Euro Medium Term Notes – 18 million GBP		5.75%	06/04/2020	34	32
Australian Medium Term Notes – 150 million AUD		4.00%	20/10/2027	166	–
				242	72
				1,180	**987**
Debt due within one year				342	295
Long-term debt				838	692

On 31 August 2017 Spark increased its existing committed revolving facility with Westpac New Zealand Limited, maturing on 30 November 2020, by $75 million to $200 million. On 31 August 2017 Spark also established a new $125 million committed revolving facility with The Bank of Tokyo-Mitsubishi UFJ, Ltd to mature on 30 November 2022. On 20 October 2017 Spark issued A$150 million of 10-year fixed rate bonds maturing on 20 October 2027.

There have been no other changes in Spark's short-term financing programmes or stand-by facilities since 30 June 2017.

Notes to the interim financial statements

NOTE 7 Long-term investments

	AS AT 30 DECEMBER 2017 UNAUDITED $M	AS AT 30 JUNE 2017 AUDITED $M
Shares in Hutchison	98	91
Investment in associates and joint ventures	11	13
Other long-term investments	10	4
	119	**108**

Spark 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 2017 the quoted price of Hutchison's shares on the ASX was A$0.066 (30 June 2017: A$0.064).

Investment in associates and joint ventures

Spark's investment in associates and joint ventures at 31 December 2017 consists of the following:

	TYPE	COUNTRY	OWNERSHIP	PRINCIPAL ACTIVITY
Feenix Communications Limited	Associate	New Zealand	30%	Supplier of network services
Lightbox Sport General Partner Limited	Joint Venture	New Zealand	50%	A holding company
NOW New Zealand Limited	Associate	New Zealand	37%	Internet service provider
Pacific Carriage Holdings Limited	Associate	Bermuda	50%	A holding company
Rural Connectivity Group Limited	Joint Venture	New Zealand	33%	Rural broadband
Southern Cross Cables Holdings Limited	Associate	Bermuda	50%	A holding company
TNAS Limited	Joint Venture	New Zealand	50%	Telecommunications development
Vigil Monitoring Limited (Jupl)	Associate	New Zealand	26%	Healthcare technology

NOTE 8 Significant events after balance date

Dividends

On 21 February 2018 the Board approved the payment of a first half ordinary dividend of 11.0 cents per share or approximately $202 million and a special dividend of 1.5 cents per share or approximately $28 million. The ordinary and special dividend will be 75% imputed in line with the corporate income tax rate. In addition, supplementary dividends totalling approximately $23 million will be payable to shareholders who are not resident in New Zealand. In accordance with the Income Tax Act 2007, Spark will receive a tax credit from Inland Revenue equivalent to the amount of supplementary dividends paid.

Independent Review Report

To the shareholders of Spark New Zealand Limited

Report on the interim financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements of Spark New Zealand Limited and its subsidiaries ("the group") on pages 23 to 34 do not:

i. present fairly in all material respects the group's financial position as at 31 December 2017 and its financial performance and cash flows for the 6 months ended on that date; and

ii. comply with NZ IAS 34 *Interim Financial Reporting*.

We have completed a review of the accompanying interim financial statements which comprise:

— the group's statement of financial position as at 31 December 2017;

— the group's statements of profit or loss and other comprehensive income, changes in equity and cash flows for the 6 months then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for conclusion

A review of interim financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

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.

Our firm has also provided other services to the group in relation to other assurance services and software license compliance review. 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.

Use of this Independent Review Report

This report is made solely to the shareholders as a body. Our review work has been undertaken so that we might state to the 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 shareholders as a body for our review work, this report, or any of the opinions we have formed.

KPMG

Responsibilities of the Directors for the interim financial statements

The Directors, on behalf of the group, are responsible for:

- the preparation and fair presentation of the interim financial statements in accordance Generally Accepted Accounting Practice in New Zealand;
- implementing necessary internal control to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the interim financial statements

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. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 *Interim Financial Reporting*.

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 these interim financial statements.

This description forms part of our Independent Review Report.

KPMG

KPMG
Wellington

21 February 2018

Contact details

Registered office

Level 2
Spark City
167 Victoria Street West
Auckland 1010
New Zealand
Ph +64 4 471 1638 or 0800 108 010

Principal administrative office in Australia

Level 8
61 Market Street
Sydney NSW 2000
Australia
Ph 1800 124 248

Company secretary

Silvana Roest

New Zealand registry

Link Market Services Limited
Level 11 Deloitte House
PO Box 91976
80 Queen Street
Auckland 1142
Ph +64 9 375 5998 (investor enquiries)
Fax +64 9 375 5990
enquiries@linkmarketservices.com
www.linkmarketservices.co.nz

Australian registry

Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000
Australia
Locked Bag A14
Sydney South NSW 1235
Australia
Ph +61 2 8280 7111 (investor enquiries)
Fax +61 2 9287 0303
registrars@linkmarketservices.com.au
www.linkmarketservices.com.au

United States registry

Computershare Investor Services
P.O. Box 505000
Louisville, KY 40233-5000
United States of America

Ph +1 888 BNY ADRS (+1 888 269 2377) or +1 201 680 6825 (from outside the United States)

shrrelations@cpushareownerservices.com

www.bnymellon.com/shareowner

For more information

For inquiries about Spark's operating and financial performance contact:

investor-info@spark.co.nz

Investor Relations
Spark New Zealand Limited
Private Bag 92028
Auckland 1142
New Zealand

investors.sparknz.co.nz

insightcreative.co.nz SPARK031 02/18

Spark nz

investors.sparknz.co.nz

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