Focused.

Spark New Zealand | Half Year Report 2015

Progressing. Connecting. Inspiring.

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ARBN 050 611 277

KEY DATES

Half-year results announcement
19 February 2015

Financial year-end
30 June 2015

This report is dated 19 February 2015 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

Progressing.

By investing in the areas that our customers most value, now and in the future, we're growing our share in the markets that matter most and making best use of our capabilities.

We're developing businesses in the digital services that our customers see as priorities: including internet TV, Cloud computing services and data analytics.

Our customers are enjoying more value and ongoing investment in the technologies they demand thanks to our Turnaround Programme.

Connecting.

By making sure we know New Zealanders better than anyone else, we're continuing to provide our customers with digital services they never thought possible.

Our customers benefit from the best performing, lowest cost per GB data network in the country.

To help our customers navigate the many changes yet to come, we've set ourselves the challenge of keeping up with the blistering pace of change.

Inspiring.

We want our customers' worlds to be diverse, global and exciting.

Our customers want to unleash their potential in all sorts of ways: by living great lives, by building New Zealand businesses, by inspiring, reshaping, succeeding, doing good and by being respected.

We intend to help our customers achieve their potential through the amazing technology and digital services we provide.

Performance snapshot

MOBILE CONNECTIONS

2.1M

▲ **5.4%** UP 108,000 SINCE 30 JUNE 2014

Net earnings* $

147M

Flat year on year

EBITDA* $

436M

▼ **3.5%**

Operating revenues and other gains* $

1,797M

▼ **2.7%**

Dividends per share $

9cents

▲ **12.5%**

CAPEX* $

407M

▲ **53.0%** INCLUDES $158M ON 700 MHZ SPECTRUM

*** From Continuing Operations**

Successful rebrand to Spark New Zealand completed

Rapid expansion of 4G mobile network coverage

674,000 total broadband connections – up 5,000 since 30 June 2014

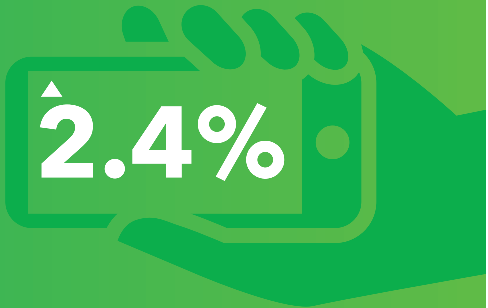
$61M Takanini data centre facility opened – providing New Zealand's premier data centre facility for our clients

Completed Appserv acquisition in July 2014

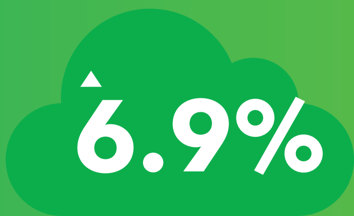
Launched Lightbox and announced Lightbox Sport joint venture with Coliseum

Introduced mobile data packs for popular social media via Socialiser

Confirmed intention to build new trans-Tasman cable with Vodafone and Telstra



Mobile revenues up 2.4%



IT Services revenue up 6.9% on the back of continued strong growth in Revera

Momentum.

Mark Verbiest
Chairman

Simon Moutter
Managing Director

During the six months ended 31 December 2014, we continued to deliver against the milestones set out in our long-term growth strategy.

More than two years ago, we made the decision to build our business around a digital services future inspired by the needs of our customers in a rapidly changing world.

At the time, we outlined a two-phase approach: first, resetting the business by stabilising revenue and margins and reducing costs; and subsequently moving to create value by driving market revenue and margin growth, with continuing improvement in unit costs.

The first half of the 2015 financial year saw Spark New Zealand remaining on-plan as we near the end of this first phase of repositioning. The decline in core retail product revenues, evident in recent reporting periods, due to lower demand for legacy and fixed voice services and sharp declines in broadband pricing, showed further signs of moderating, while net earnings were flat compared with the corresponding period in the previous financial year.

The rebrand from Telecom to Spark New Zealand in August 2014 was executed superbly and is already making a difference to online and store traffic, to increased customer preference and consideration and to our market share momentum.

An emphasis on delivering a range of additional services that consumers value, such as Spotify, Lightbox, nationwide WiFi, Socialiser and many others, has enabled the Spark New Zealand brand to build differentiation in mobile and broadband. This has been supported by our multi-brand strategy, which has seen Skinny mobile and Bigpipe broadband improve their market presence.

Business customers have benefited from the ongoing repositioning into Cloud computing and data centres and from our network leadership of nationwide fibre services, a completed optical transport network and our rapidly expanding 4G mobile network in New Zealand.

We have also upped the ante in the emerging online TV market in New Zealand with Lightbox TV, which launched on-time in August, well ahead of competition, to very positive customer feedback. Lightbox also formed a strategic joint venture with online sports company Coliseum, which has rights to PGA Golf, French Rugby and the English Premier League, to form Lightbox Sport.

Lightbox is just one example of the digital services future we envisage for New Zealand. We are determined to connect our customers to a future of unbounded possibilities and we are confident we are on the right path to become a winning business, inspired by customers to unleash the potential in all New Zealanders.

A focus on delivering a range of additional services that consumers will value, such as Spotify, Lightbox, nationwide WiFi, Socialiser and many others, has enabled the Spark New Zealand brand to build differentiated positions in several major categories, especially mobile and broadband.

Results

Operating revenues from continuing operations declined 2.7%, to $1,797 million, largely as a result of the ongoing and historical decline in consumer use of legacy fixed and voice products.

There has been sustained growth in good quality mobile connections, up another 108,000 this period since 30 June 2014, as Spark New Zealand continues to close the gap on the competition. Total mobile revenues grew by 2.4%. However, the market remains very competitive, particularly in the business segment where revenues have declined on the back of continuing price reductions and data bundle expansion.

Our performance in the broadband market also reflected the competitiveness of the market, with Spark New Zealand's share of connections declining slightly. That said, gains were made in broadband revenue and profitability as we weighted our efforts toward higher-value customers through the introduction of higher-end products and the provision of valued broadband services for Spark New Zealand customers, such as Lightbox.

Our IT services revenue rose 6.9%, underpinned by the ongoing repositioning of Spark Digital (formerly Gen-i) and our investment in Cloud computing, through Revera and Appserv, and in data centres, including new and expanded facilities.

The tight management of operating costs remained, with expenses from continuing operations reducing 2.4% to $1,361 million, reflecting the ongoing flow-through benefits from the Turnaround Programme.

Earnings before interest, tax expense, depreciation and amortisation (EBITDA) from continuing operations were down 3.5%. This includes the impact of non-recurring rebrand costs and the higher reorganisation costs versus the prior year. Taking these items into account, operating earnings were broadly flat.

Spark New Zealand's net earnings from continuing operations after tax for H1 FY15 were $147 million, unchanged from H1 FY14.

Operational highlights

Our Spark Home, Mobile & Business division maintained its growth momentum, driven by an excellent performance in mobile and by a significant commitment to marketing and sales capability, the Spark New Zealand rebrand, digital service enhancements, people culture, cost reduction and product innovation.

New consumer products launched include Unlimited broadband and Socialiser, which offers free data to Spark New Zealand mobile customers for popular social media use, as well as a nationwide customer thanks programme called Spark Thanks.

In our major consumer categories we continued to differentiate through partnerships, such as free Spotify for mobile customers and Lightbox 'on us' for 12 months for broadband customers. For businesses we introduced Optimiser mobile payment and Putti app solutions, as well as completed the acquisition of Appserv to provide Cloud services for smaller sized businesses.

In December 2014, changes made to Chorus wholesale broadband input charges by the Commerce Commission left us with little choice but to review our prices to fairly reflect the new Chorus costs. Repricing took effect on 1 February 2015, resulting in modest price rises for many home phone only and broadband plans in order to partially offset the unexpected increase in Chorus copper loop costs previously communicated to the market by the Commerce Commission.

New Zealand Prime Minister John Key and Communications Minister Amy Adams at the opening of the Takanini Data Centre in October 2014.

Spark Digital has continued to reposition itself as a provider of Cloud infrastructure, mobility, managed ICT and platform-as-a-service. This includes the opening in October of one of New Zealand's safest, most secure buildings in the $61 million Takanini Data Centre and an expansion of data centre capacity in other centres.

Revenues and earnings for Spark Digital declined, reflecting the intensity of mobile competition, a decline in fixed telecommunications services and the longer time cycles associated with large business customer sales processes. Offsetting that, there has been good growth in IT services and the full benefits of the focus on costs are yet to flow through. Revera has also been a standout performer, with 40% year on year revenue growth.

Spark Ventures has continued to rapidly develop and grow a portfolio of new and disruptive businesses, most notably the commercial launching of Lightbox in August 2014 and the launch of the data analysis business, Qrious, earlier in the 2014 calendar year. Skinny continued to develop as a leader in the mobile value-seeker market, while Bigpipe has now established itself as a high-performing digitally centric ISP in a highly competitive market.

Spark Connect has been busy building New Zealand's best performing network, including rolling out an extensive 4G mobile network, re-engineering the IT platform that underpins customer service and launching nationwide fibre services, as well as significantly boosting mobile coverage in popular holiday spots for the summer.

We now believe that Spark New Zealand is overtaking its competitors in 4G, with 4G mobile services now available in more than 70 cities, towns and other locations around New Zealand, covering over two-thirds of the population. And with more 700MHz spectrum than any other mobile operator, our network leadership and performance will only strengthen in coming years.

The next stage of our IT platform re-engineering programme, which will enable Spark New Zealand to better serve customers, is well under way and is expected to be delivered within a few months. This programme is a critical enabler of the next phase of Spark New Zealand's reinvention, progressively making possible better digital services and putting more control in the hands of customers.

In addition, in December 2014 Spark New Zealand, Vodafone and Telstra confirmed their intention to invest approximately US $70 million on the new Tasman Global Access (TGA) cable, which will significantly improve New Zealand's international broadband connectivity and resilience.

And through the Spark Foundation's ownership of Givealittle, we've been using digital technology to revolutionise the New Zealand charity and giving sector. Dramatic growth over the last six months has taken total donations made on Givealittle to over $20 million, providing compelling evidence of New Zealanders' increased willingness to make donations online and of the impact that digital services can have.

$20M

Dramatic growth over the last six months has taken total donations made on Givealittle to over $20 million.

Industry health

Comparatively, New Zealand is well served for digital services, in both fixed and mobile. Intense competition has kept margins low and prices competitive, while the quality of the services belies the challenges of New Zealand's geography and population density. And over recent years the collective industry has been in a position to invest billions in New Zealand's digital services infrastructure.

More for less has been great for consumers but it presents challenges for us as an industry in the future. Prices for communications dropped 5.6% in the last year according to December's CPI. For FY14, the combined profits of the five largest telecommunications companies was around half that achieved in New Zealand by the smallest of the Australian-owned 'big four' banks.

In today's digitally-driven economy, the quality of fixed and mobile internet and telecommunications services is becoming ever more crucial and will require ongoing capital and operational investment by industry players. It is important that we have a profitable, sustainable telecommunications industry to ensure healthy levels of investment and innovation continue into the future, to help New Zealand take advantage of the exciting opportunities presented by a digital world.

We'll be engaging with all our stakeholders on these issues over the next twelve months.

Outlook

Our focus during the second half of the financial year will be on maintaining intensity of execution, reflecting our determination to build on the firm foundation that is setting up the Company for growth.

One important element of this process will be integrating the Turnaround Programme into the business so that the disciplined performance improvement mindset becomes business-as-usual by June 2015. The Turnaround Programme has succeeded in creating financial headroom needed to reinvest into new digital growth areas.

With the Turnaround Programme coming to an end, a new strategic programme – 'Digital First' – will be set up over the next few months to architect and accelerate the digital transformation of our business, in conjunction with the increased internal IT systems capabilities delivered by our re-engineering programme. Our aim will be to create New Zealand's leading digital services platform and suite of digital applications.

In August 2014 we provided guidance of low single digit growth in EBITDA and low single digit decline in revenue. However, it is still uncertain as to the date the new Chorus charges will take effect, with the possibility of backdating.

Subject to a final Commerce Commission decision on backdating, we remain on track for this guidance with, as we saw in the 2014 financial year, more of the benefits of our actions expected to show through in the second half.

This is partly due to seasonal sales factors and the different copper input charges relative to the prior period, partly due to centralised turnaround benefits continuing to show through and partly due to the impact of the introduction of new products and services.

Our overall confidence around continuing solid market performance and cash generation has enabled the Directors to declare a half-year dividend of 9 cents per share.

In late January 2015, Maury Leyland announced her resignation from the Board of Directors to focus on other commitments, effective 28 February 2015. Maury has made a significant contribution to Spark New Zealand, helping govern the Company through a bold repositioning strategy, including the recent rebrand. Maury's skills and experience have played a big part in our positive progress to date.

The Board is undertaking an extensive search for a replacement, with a focus on ensuring the appointee has a skill-set and experience that would complement the existing Board, challenge organisational thinking about business and customers in the digital age and contribute to Spark New Zealand's strategic ambitions.

In other leadership changes, Chris Quin, the CEO of Spark Home, Mobile & Business and a long-serving leader within the business, has signalled his intention to leave the business at the end of FY15 to attain his next leadership opportunity. Chris has done a consistently terrific job in a range of executive roles at Spark New Zealand and he leaves with our appreciation for a job well done. Chris will be succeeded by Jason Paris, General Manager Home, Mobile & Business.

More than a million New Zealanders have an ownership stake in Spark New Zealand, either directly as shareholders or indirectly through KiwiSaver investments. And with an ever-growing dependence on high-quality connectivity and services for consumers and businesses alike, Spark New Zealand has an important role to play in our country's future progress. That's a responsibility that helps drive our ambitions.

Mark Verbiest
Chairman

Simon Moutter
Managing Director

Key performance indicators

Amounts are for Spark New Zealand's continuing operations, representing the ongoing business.

CONTINUING OPERATIONS		H1 FY15	H1 FY14	% CHANGE
Operating revenues and other gains	$M	1,797	1,847	(2.7)%
Operating expenses	$M	1,361	1,395	(2.4)%
EBITDA[1]	$M	436	452	(3.5)%
Depreciation and amortisation expense	$M	224	227	(1.3)%
Net earnings	$M	147	147	–
Capital expenditure[2]	$M	407	266	53.0%
Total mobile connections[3]	(000)s	2,114	1,923	9.9%
Broadband connections[3, 4]	(000)s	674	661	2.0%
Employee numbers[5] (FTE, including contractors)		5,618	5,769	(2.6)%

1 Spark New Zealand calculates EBITDA by adding back depreciation, amortisation, finance expenses and taxation expense to net earnings less finance income. EBITDA is a non-Generally Accepted Accounting Principles (GAAP) measure and is not comparable to the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) measure of performance.

2 Excludes capital expenditure related to discontinued operations of $27 million in H1 FY14 and includes capital expenditure related to the rebranding of Spark New Zealand and $158 million on 700 MHz spectrum.

3 Measure as at 31 December.

4 Measure relates to fixed access lines in the Home, Mobile & Business and Digital reporting segments.

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

Group result overview

Spark New Zealand's net earnings from continuing operations after tax for H1 FY15 were $147 million, unchanged from H1 FY14. The H1 FY15 financial results reflect a continuation of the significant changes we have been making in our business and the traction gained in the execution of our strategy to stabilise revenues and margins and reduce costs.

In line with our strategy, we grew mobile revenues by $12 million, or 2.4%, in a very competitive market, with 108,000 additional connections, as customers chose to be with Spark New Zealand.

Our IT services revenue grew by $19 million, or 6.9%, in line with the growing trend towards Cloud computing and supported by our investment in data centres and the acquisition of Appserv in July 2014. The opening of the Takanini Data Centre in October 2014 will further enhance our capability and capacity in this market going forward.

The good performance in mobile and growth in IT services helped mitigate the decline in fixed revenue driven by the long-term industry trend away from fixed legacy products. The rate of fixed revenue decline slowed to 5.8% in H1 FY15, continuing the trend seen in H2 FY14. This compares with historical rates of fixed revenue decline in excess of 10%.

Other operating revenues and other gains declined by $25 million, or 22.7%, in H1 FY15 primarily resulting from $12 million lower Southern Cross dividends in H1 FY15 and non–recurring other gains from insurance proceeds of $5 million and business sales of $3 million in H1 FY14.

As a result of the fixed revenue declines our operating revenues from continuing operations declined by $50 million, or 2.7%, to $1,797 million.

Operating expenses from continuing operations reduced by $34 million, or 2.4%, to $1,361 million. The H1 FY15 operating expenses included $11 million of non-recurring costs associated with the successful rebrand to Spark New Zealand. Excluding these non-recurring costs, underlying operating expenses reduced by $45 million or 3.2%. The reduction in operating expenses reflects the benefits from the successful execution of our Turnaround Programme, resulting in lower staff levels, efficiency improvements in the consumption of input services from Chorus and overall procurement efficiencies. These have been partly offset by higher mobile acquisition costs associated with the strong growth in our customer base and costs associated with the investment in our start-up enterprises, such as Lightbox and Qrious.

The depreciation and amortisation expense decreased by $3 million, or 1.3%, to $224 million in H1 FY15. This reduction is a result of lower levels of capital spend in the last two financial years compared with historic levels.

Net finance expenses reduced by $5 million, or 29.4%, to $12 million in H1 FY15. This was due to a combination of maturing debt being replaced by debt at lower interest rates and lower overall debt levels following the sale of the AAPT business in February 2014 for $506 million, offset by the payment of $158 million in relation to 700 MHz radio spectrum in August 2014.

The income tax expense decreased by $8 million, or 13.1%, to $53 million in H1 FY15 due to a combination of lower net earnings and the impact of prior period adjustments in H1 FY14.

A summary of the results of Spark New Zealand's key business units are outlined in the following section. Further details of H1 FY15 and historical performance are available in a separate financials file on the investor section of Spark New Zealand's website.

Spark Home, Mobile & Business

Financials

SIX MONTHS ENDED 31 DECEMBER	2014 $M	2013 $M	CHANGE %
Operating revenues and other gains	912	901	1.2%
Operating expenses	(581)	(573)	1.4%
EBITDA	**331**	**328**	**0.9%**

The financial results above include those for Spark Ventures.

Spark Home, Mobile & Business achieved both revenue and EBITDA growth in H1 FY15 as we continue to successfully execute performance improvement initiatives in this business, supported by the rebranding to Spark and rising customer preference.

Mobile revenue growth of:

5.1%

Mobile revenue increased by $19 million, or 5.1%, in H1 FY15 to $391 million due largely to strong connection growth driving increases in both usage revenue and handset sales. This was partly offset by reduced market pricing, especially in mobile data. Complementing the uptake of open smartphone plans were deferred handset payments resulting in increased handset sales. This demonstrates the value of the handset to the consumer outside of a traditional bundled plan.

Fixed revenues declined by $15 million, or 2.9%, in H1 FY15 to $501 million resulting from a combination of lower calling revenues due to price competition, a lower access line base, substitution of fixed to mobile calling and uptake of naked broadband. When compared with H1 FY14 the fixed rate of decline has almost halved as customers increased usage and consumed higher-value plans. As at 31 December 2014 the number of access lines decreased by 29,000, or 3.2%, from 894,000 at 30 June 2014 due to increased competition across the market, in particular new broadband competitors and technology migration. Broadband revenue improved $4 million, or 2.8%, to $145 million in H1 FY15 as the product mix of customers tended towards higher-value propositions.

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Lightbox internet TV available for 12 months to all our broadband customers, on us

Overall operating expenses increased by $8 million, or 1.4%, reflecting the increased investment in the launch of new ventures, such as Lightbox and Qrious, the acquisition of Appserv and higher mobile acquisition costs in line with the growing customer base, offsetting the savings generated from the Turnaround Programme.

Spark Home, Mobile & Business operational highlights:

- Successful launch of Spark New Zealand brand, lifting preference 24%, ensuring we have a compelling brand and offering in the market for our consumer and small enterprise customers.
- Second half in a row of revenue and EBITDA growth, while investing in new ventures.
- Furthered our market differentiation and increased our customer preference through offerings such as Socialiser plans (free data when using popular social networking apps), prepaid music plans and unlimited naked broadband plans.
- Brand commitment delivered to loyal customers through our Spark Thanks programme and enhanced offers.
- Partnered with Swipe and Putti to deliver mobile payments and apps for our business customers.
- Included Lightbox internet TV for all our broadband customers for 12 months.
- Completed the acquisition of Appserv to provide ICT and Cloud offerings in the small business market.

Spark Ventures

Spark Ventures operational highlights:

- Strong performance establishing Skinny as a leader in the mobile market for value-focused customers, with growth in connections and average revenue per user (ARPU).
- Successful commercial launch of Lightbox, with continued expansion of content and devices and the product performing well. Entered into a new partnership with Colesium to establish Lightbox Sport.
- Commercially launched Qrious, providing data analytics as a service to a number of customers.
- Continued establishment of Bigpipe as a digitally-centric broadband service provider, with Bigpipe consistently rating as one of New Zealand's best performing ISPs in independent performance tests.

Spark Digital

Financials

SIX MONTHS ENDED 31 DECEMBER	2014 $M	2013 $M	CHANGE %
Operating revenues and other gains	622	643	(3.3)%
Operating expenses	(440)	(450)	(2.2)%
EBITDA	**182**	**193**	**(5.7)%**

Spark Digital revenues decreased by $21 million, or 3.3%, to $622 million for H1 FY15 due to continued decline in fixed voice and data products and competitive market pricing for mobile, offset by growth in IT services and data centres.

Takanini Data Centre opened in October 2014 providing best in New Zealand, reliable, secure, connected data facilities for our clients.

Spark Digital EBITDA declined by $11 million, or 5.7%, to $182 million for H1 FY15 driven mainly by the reduction in higher margin fixed telecommunications products and competitive market pricing for mobile. This was partially offset by growth in Revera, benefits realised through our Turnaround Programme and cost savings in Australia, following the announcement last year that we will be focusing principally on our New Zealand operations.

Spark Digital operational highlights:

- Successful launch of the Spark Digital brand.
- Opened the Takanini Data Centre in October 2014, providing New Zealand's premier data centre facility.
- Delivered strong revenue growth in Revera through winning customers in a growing market.
- Successfully rolling out the Network for Learning project, with 1,230 schools now connected.
- Commenced the transition process of our Australian customers to the new dealership model with Telstra.

Spark Connect

Financials

SIX MONTHS ENDED 31 DECEMBER	2014 $M	2013 $M	CHANGE %
Operating revenues and other gains	267	294	(9.2)%
Operating expenses	(327)	(358)	(8.7)%
EBITDA	**(60)**	**(64)**	**6.3%**

Spark Connect revenues decreased by $27 million, or 9.2%, to $267 million in H1 FY15 primarily due to a $20 million decline in wholesale fixed access and calling revenues resulting from the continued downward trend in access lines and calling minutes.

A further $7 million decline was due to the 1 December 2014 change to the Telecommunications Act 2001, whereby unbundled bitstream access (UBA) became the primary service purchased from Chorus. This results in Chorus now charging our Spark Wholesale customers directly for the layer 1 copper access, where the Wholesale customers bundle the voice service sold by Spark Wholesale with a broadband service to their customers. The reduction in revenue to Spark Wholesale is almost completely offset by a similar reduction in the cost of sale charge from Chorus.

Operating expenses reduced by $31 million, or 8.7%, due to reductions in Chorus costs, driven by lower access lines, the change in primary service costs described above and improvements in the way Spark New Zealand consumes services from Chorus. Other operating expenses contributed a further reduction of $9 million due to the insourcing of the network operations and mobile engineering teams and continuing reductions in third party IT support and maintenance services. This was partially offset by an increase in labour costs from insourcing activity and the costs of completing the recent restructure, where most of the people left the business in January 2015.

Spark Connect operational highlights:

- Expanded the 4G mobile network to the point where Spark New Zealand is overtaking its competitors and following the successful trial of the mobile network using the newly acquired 700MHz spectrum, we have begun deployment in the upper North Island with excellent results.
- Responded to customers' needs by making improvements to Spark New Zealand's self-serve channels through the IT re-engineering programme.
- Successfully insourced network operations and mobile engineering teams, as well as continued improvements in IT procurement.
- The first service provider in New Zealand to be able to offer fibre services to customers in all ultrafast broadband (UFB) areas that have been made available by local fibre companies.
- Extended the Optical Transport Network (OTN), offering high speed resilient transport services for customers, as well as Spark New Zealand's core network and data centres.

Capital management and dividends

Cash flows

The following table sets out information regarding Spark New Zealand's cash flows:

SIX MONTHS ENDED 31 DECEMBER	2014 $M	2013 $M	CHANGE %
Net cash flows from operating activities	230	202	13.9%
Net cash flows from investing activities	(427)	(277)	54.2%
Net cash flows from financing activities	77	116	(33.6)%
Foreign exchange movement	1	(4)	NM
Net (decrease)/increase in cash	**(119)**	**37**	**NM**

NM = Not meaningful

Net cash flows from operating activities

The net cash inflow from operating activities was $230 million in H1 FY15, compared with an inflow of $202 million in H1 FY14, an increase of 13.9%. The major drivers of this change were:

- Reduced payments to suppliers and employees as a result of the cash savings from our Turnaround Programme, combined with the impact of one additional Chorus payment in the previous year of $76 million; partly offset by:
  - Lower receipts from customers resulting from reduced operating revenues.
  - A $26 million reduction in Southern Cross dividend cash receipts.

Net cash flows from investing activities

The net cash outflow from investing activities was $427 million in H1 FY15, compared with an outflow of $277 million in H1 FY14. The major driver of this change was an increase in capital expenditure primarily due to the non-recurring $158 million paid for 700 MHz radio spectrum in August 2014.

Net cash flows from financing activities

The net cash inflow from financing activities was $77 million in H1 FY15, compared with a net inflow of $116 million in H1 FY14. The major drivers of this change were:

- A net increase in short and long-term debt of $206 million compared with a $236 million increase in H1 FY14.
- An increase in dividend payments of $13 million in H1 FY15 to $148 million, reflecting the increase in dividend from 8 cents per share to 9 cents per share.

Capital expenditure

The capital expenditure for Spark New Zealand is shown in the table below.

SIX MONTHS ENDED 31 DECEMBER	2014 $M	2013 $M	CHANGE %
Major Programmes			
OTN & carrier Ethernet	6	22	(72.7)%
Re-engineering	29	44	(34.1)%
Mobile network	57	89	(36.0)%
Mobile spectrum	158	–	NM
Takanini Data Centre	61	–	NM
Total major programmes	**311**	**155**	**100.6%**
Operating capital expenditure			
Southern Cross	5	10	(50.0)%
Customer growth and retention	91	101	(9.9)%
Total operating capital expenditure	**96**	**111**	**(13.5)%**
Total relating to continuing operations	**407**	**266**	**53.0%**
Discontinued operation – AAPT	–	27	NM
Total capital expenditure	**407**	**293**	**38.9%**

NM = Not meaningful

Capital expenditure for H1 FY15 was $407 million, an increase of $114 million or 38.9% on H1 FY14. This was primarily due to a $158 million investment in 700 MHz spectrum purchased at auction during FY14.

Major programmes

- Investment in the OTN and Carrier Ethernet programme decreased in H1 FY15 to $6 million from $22 million in H1 FY14. OTN was deployed with significant capacity in FY14; FY15 investment reflects the extension of the network.
- The IT re-engineering programme is in its second year, with $29 million invested in H1 FY15 in simplifying Spark New Zealand's technology and processes. The major releases will take place in H2 FY15.
- $57 million has been invested in Spark New Zealand's mobile network, with the rollout of the single radio access network (SRAN) and LTE sites well ahead of H1 FY15 targets. Investment in SRAN is a more cost-effective option than the previously separated 3G and 4G rollouts.
- Spark New Zealand invested $158 million in purchasing 2 x 20 MHz of 700 MHz spectrum in H1 FY15, increasing the speed, capacity and coverage of Spark New Zealand's 4G mobile network, providing significant benefits to customers.
- Spark New Zealand invested $61 million in the Takanini Data Centre in October 2014, providing New Zealand's premier data centre facility for our clients.

Operating capital expenditure

- Spark New Zealand continues to invest in Southern Cross international cable capacity, with a further tranche purchased for $5 million in H1 FY15. Additional capacity can be purchased as and when required to meet upward trends in customer demand for data.
- Customer retention and growth capital expenditure of $91 million was broadly in line with H1 FY15.

Discontinued operation

- The AAPT business was sold in February 2014. H1 FY14 capital expenditure was $27 million.

Liquidity and capital resources

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

Spark New Zealand continues to be committed to maintaining an 'A Band' credit rating and its capital management policies are designed to ensure this objective is met. Relevant factors include Spark New Zealand's debt profile, operating outlook, cash flow and cost of capital. As part of this commitment, Spark New Zealand intends to manage its debt levels to ensure that the ratio of net interest-bearing debt (inclusive of associated derivatives) to EBITDA does not materially exceed 1.0 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 2014, Spark New Zealand had been assigned a long-term credit rating of A-/stable by Standard & Poor's. On 1 December 2014, Spark New Zealand announced that it had ceased to formally engage Moody's Investors Service Pty Limited (Moody's). On 15 December 2014, Moody's affirmed and withdrew its A3/ stable credit rating of Spark New Zealand.

FY15 ordinary dividends

Spark New Zealand pays dividends on a semi-annual basis. A dividend of 9 cents per share has been declared for H1 FY15. The dividend is fully imputed at a rate of 3.5000 imputation credits per share. A supplementary dividend of 1.5882 cents per share will be paid to non-resident shareholders.

	H1 FY15 ORDINARY DIVIDENDS
Ordinary shares	9.0 cents
American Depositary Shares	33.40 US cents[1]
'Ex' dividend dates	
New Zealand Stock Exchange	25 March 2015
Australian Securities Exchange	25 March 2015
American Depositary Shares	24 March 2015
Record dates	
New Zealand Stock Exchange	27 March 2015
Australian Securities Exchange	27 March 2015
American Depositary Shares	26 March 2015
Payment dates	
New Zealand and Australia	10 April 2015
American Depositary Shares	17 April 2015

1 Based on the exchange rate at 13 February 2015 of NZ$1 to US$0.7423 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.

For FY15, subject to there being no material adverse changes in circumstances or operating outlook, Spark New Zealand's intention is to pay annual dividends of 18.0 cents per share. It is currently anticipated that the H2 FY15 dividend will also be fully imputed, subject to there being no material adverse changes.

Dividend reinvestment plan

The dividend reinvestment plan has been retained for the H1 FY15 dividend. Shares issued under the dividend reinvestment plan are issued at or around the prevailing market price of ordinary shares. The last date for shareholders to elect to participate in the dividend reinvestment plan for the H1 FY15 dividend is 30 March 2015.

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 include:

1. EBITDA. Spark New Zealand calculates EBITDA by adding back depreciation, amortisation, finance expenses and taxation expense to net earnings less finance income.
2. Capital expenditure. Capital expenditure is the additions to property, plant and equipment and intangible assets (including software, capacity and spectrum licenses), excluding goodwill and other non-cash additions that may be required by NZ IFRS.
3. Average Revenue per User (ARPU). Spark New Zealand calculates ARPU as revenue for the period (for mobile this is only voice and data) divided by an average number of customers.

Spark New Zealand believes that these non-GAAP financial measures provide useful information to readers to assist in the understanding of the operating performance, financial position or returns of Spark New Zealand but that 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 New Zealand are not uniformly defined or utilised by all companies in the telecommunications industry. Accordingly, these measures may not be comparable with similarly titled measures used by other companies.

Condensed interim financial statements

Condensed interim income statement

FOR THE SIX MONTHS ENDED 31 DECEMBER

	NOTES	2014 UNAUDITED $M	2013 UNAUDITED $M
Continuing operations			
Operating revenues and other gains	3	1,797	1,847
Operating expenses	4	(1,361)	(1,395)
Earnings before interest, income tax, depreciation and amortisation		436	452
Depreciation		(126)	(129)
Amortisation		(98)	(98)
Earnings before interest and income tax		212	225
Finance income		14	15
Finance expense		(26)	(32)
Net earnings before income tax		**200**	**208**
Income tax expense		(53)	(61)
Net earnings for the period from continuing operations		**147**	**147**
Discontinued operation			
Net earnings for the period from discontinued operation		–	20
Net earnings for the period		**147**	**167**
Attributable to:			
Equity holders of the Company		145	166
Non-controlling interests		2	1
		147	167
Earnings per share			
Basic and diluted earnings per share (cents)		8	9
Basic and diluted earnings per share from continuing operations (cents)		8	8
Basic and diluted earnings per share from discontinued operation (cents)		–	1
Weighted average ordinary shares (millions)		1,831	1,820
Weighted average ordinary shares and options (millions)		1,835	1,823

See accompanying notes to the condensed interim financial statements.

Condensed interim statement of comprehensive income

FOR THE SIX MONTHS ENDED 31 DECEMBER

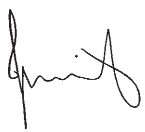
	2014 UNAUDITED $M	2013 UNAUDITED $M
Net earnings for the period	147	167
Other comprehensive income[1]		
Items that will not be reclassified to profit or loss:		
Revaluation of long-term investments designated at fair value through other comprehensive income[2]	(14)	51
Items that may be reclassified to profit or loss:		
Translation of foreign operations	5	(30)
Cash flow hedges	(8)	4
Other comprehensive (loss)/income for the period	(17)	25
Total comprehensive income for the period	**130**	**192**
Attributable to:		
Equity holders of the Company	128	191
Non-controlling interests	2	1
	130	192
Total comprehensive income attributable to equity holders of the Company arises from:		
Continuing operations	128	171
Discontinued operation	–	20
	128	191

See accompanying notes to the condensed interim financial statements.

1 Other comprehensive income/(loss) components are shown net of tax.

2 Revaluation of long-term investments relates to changes in the share price of the Group's investment in Hutchison Telecommunications Australia Limited.

On behalf of the Board



Mark Verbiest, Chairman

Simon Moutter, Managing Director

Authorised for issue on 19 February 2015

Condensed interim statement of financial position

	NOTES	AS AT 31 DECEMBER 2014 UNAUDITED $M	AS AT 30 JUNE 2014 AUDITED $M
Current assets			
Cash		89	208
Short-term derivative assets		1	–
Receivables and prepayments		564	560
Taxation recoverable		13	2
Inventories		60	50
Assets classified as held for sale		22	21
Total current assets		749	841
Non-current assets			
Long-term investments		93	105
Long-term receivables and prepayments		200	199
Long-term derivative assets		1	5
Property, plant and equipment	5	1,059	1,101
Intangible assets	5	1,258	992
Total non-current assets		2,611	2,402
Total assets		**3,360**	**3,243**
Current liabilities			
Short-term payables and accruals		570	609
Taxation payable		3	23
Short-term derivative liabilities		4	2
Short-term provisions		10	21
Debt due within one year	6	320	113
Liabilities classified as held for sale		3	5
Total current liabilities		910	773
Non-current liabilities			
Deferred tax liabilities		118	127
Long-term derivative liabilities		31	26
Long-term payables and accruals		19	19
Long-term provisions		10	13
Long-term debt	6	580	577
Total non-current liabilities		758	762
Total liabilities		**1,668**	**1,535**
Equity			
Share capital		936	920
Reserves		(411)	(397)
Retained earnings		1,159	1,179
Total equity attributable to equity holders of the Company		**1,684**	**1,702**
Non-controlling interests		8	6
Total equity		1,692	1,708
Total liabilities and equity		**3,360**	**3,243**

See accompanying notes to the condensed interim financial statements.

Condensed interim statement of changes in equity

SIX MONTHS ENDED 31 DECEMBER 2014 UNAUDITED	SHARE CAPITAL $M	RETAINED EARNINGS $M	HEDGE RESERVE $M	SHARE-BASED COMPENSATION RESERVE $M	REVALUATION RESERVE $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	TOTAL EQUITY HOLDERS OF THE COMPANY $M	NON-CONTROLLING INTERESTS $M	TOTAL $M
Balance at 1 July 2014	**920**	**1,179**	**-**	**5**	**(366)**	**(36)**	**1,702**	**6**	**1,708**
Net earnings for the period	–	145	–	–	–	–	145	2	147
Other comprehensive income/(loss)	–	–	(8)	–	(14)	5	(17)	–	(17)
Total comprehensive income/(loss) for the period	**-**	**145**	**(8)**	**-**	**(14)**	**5**	**128**	**2**	**130**
Contributions by, and distributions to, owners:									
Dividends	–	(165)	–	–	–	–	(165)	–	(165)
Supplementary dividends	–	(22)	–	–	–	–	(22)	–	(22)
Tax credit on supplementary dividends	–	22	–	–	–	–	22	–	22
Dividend reinvestment plan	16	–	–	–	–	–	16	–	16
Issuance of shares under share scheme	–	–	–	3	–	–	3	–	3
Total transactions with owners	**16**	**(165)**	**-**	**3**	**-**	**-**	**(146)**	**-**	**(146)**
Balance at 31 December 2014	**936**	**1,159**	**(8)**	**8**	**(380)**	**(31)**	**1,684**	**8**	**1,692**

SIX MONTHS ENDED 31 DECEMBER 2013	SHARE CAPITAL $M	RETAINED EARNINGS $M	HEDGE RESERVE $M	SHARE-BASED COMPENSATION RESERVE $M	REVALUATION RESERVE $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	TOTAL EQUITY HOLDERS OF THE COMPANY $M	NON-CONTROLLING INTERESTS $M	TOTAL $M
Balance at 1 July 2013	**899**	**1,012**	**-**	**2**	**(391)**	**(115)**	**1,407**	**6**	**1,413**
Net earnings for the period	–	166	–	–	–	–	166	1	167
Other comprehensive income/(loss)	–	–	4	–	51	(30)	25	–	25
Total comprehensive income/(loss) for the period	**-**	**166**	**4**	**-**	**51**	**(30)**	**191**	**1**	**192**
Contributions by, and distributions to, owners:									
Dividends	–	(145)	–	–	–	–	(145)	–	(145)
Supplementary dividends	–	(13)	–	–	–	–	(13)	–	(13)
Tax credit on supplementary dividends	–	13	–	–	–	–	13	–	13
Dividend reinvestment plan	10	–	–	–	–	–	10	–	10
Issuance of shares under share scheme	–	–	–	1	–	–	1	–	1
Total transactions with owners	**10**	**(145)**	**-**	**1**	**-**	**-**	**(134)**	**-**	**(134)**
Balance at 31 December 2013	**909**	**1,033**	**4**	**3**	**(340)**	**(145)**	**1,464**	**7**	**1,471**

See accompanying notes to the condensed interim financial statements.

Condensed interim statement of cash flows

FOR THE SIX MONTHS ENDED 31 DECEMBER

	NOTE	2014 UNAUDITED $M	2013 UNAUDITED $M
Cash flows from operating activities			
Cash received from customers		1,767	1,964
Interest income		13	13
Dividend income		31	57
Payments to suppliers and employees		(1,468)	(1,727)
Income tax paid		(90)	(77)
Interest expense		(23)	(28)
Net cash flows from operating activities	8	**230**	**202**
Cash flows from investing activities			
Sale of property, plant and equipment		–	1
Insurance proceeds		–	8
Sale of business net of transaction fees		–	3
Purchase of long-term investments		(19)	(3)
Purchase of property, plant and equipment and intangibles		(405)	(283)
Capitalised interest paid		(3)	(3)
Net cash flows from investing activities		**(427)**	**(277)**
Cash flows from financing activities			
Proceeds from derivatives		–	2
Proceeds from long-term debt		300	390
Repayment of long-term debt		(235)	(253)
Proceeds from short-term debt		460	565
Repayment of short-term debt		(319)	(466)
Dividends paid		(148)	(135)
Payments on finance leases		(1)	(2)
Receipts on finance leases		20	15
Net cash flows from financing activities		**77**	**116**
Net cash flow		**(120)**	**41**
Opening cash position		208	118
Foreign exchange movements		1	(4)
Closing cash position		**89**	**155**
Comprising:			
Cash held by discontinued operation		–	31
Cash held by continuing operations		**89**	**124**
Closing cash position		**89**	**155**

See accompanying notes to the condensed interim financial statements.

Notes to the condensed interim financial statements

Note 1 General information

These condensed interim financial statements are for Spark New Zealand Limited (the Company) and its subsidiaries (together the Group) for the six months ended 31 December 2014.

The Group is a major supplier of telecommunications and digital services predominantly in New Zealand. The Group provides a full range of telecommunications and information and communications technology products and services, including: local, national, international and value-added telephone services; mobile services, data networks, broadband services, internet TV; IT services and procurement; equipment sales; and installation services.

The Company is incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Main Board equity security market and the Australian Securities Exchange. The address of its registered office is Spark City, 167 Victoria Street West, Auckland 1010, New Zealand.

These condensed interim financial statements were approved by the Board of Directors on 19 February 2015 and have been reviewed, not audited.

Basis of preparation and accounting policies

The interim condensed financial statements for the six months ended 31 December 2014 have been prepared in accordance with the New Zealand equivalent to International Accounting Standard 34: *Interim Financial Reporting* and do not include all the information and disclosures required in the annual financial statements so should be read in conjunction with the Group's annual financial statements for the year ended 30 June 2014.

The accounting policies adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2014. The preparation of the condensed 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 2014. Critical accounting policies are the same as those set out in the annual financial statements for the year ended 30 June 2014.

The presentation currency of these condensed interim financial statements is New Zealand dollars, which is also the Company's functional currency. All financial information has been rounded to the nearest million, unless otherwise stated.

The Group is in active discussions for the sale of its 60% shareholding in Telecom Cook Islands Limited. The sale was considered highly probable at 31 December 2014. Accordingly, the assets and liabilities of Telecom Cook Islands are classified separately as held for sale on the statement of financial position.

The Group acquired 100% of the share capital of Appserv Limited, a business Cloud services specialist for cash consideration of $17 million on 1 July 2014.

Note 2 Segment information

The Group's segments comprise Spark Home, Mobile & Business, Spark Digital and Spark Connect and are unchanged from the 30 June 2014 annual financial statements. The segment results disclosed are based on those reported to the Managing Director and are how the Group analyses its business results. Segment results reflect adjusted EBITDA and are measured based on net earnings before depreciation, amortisation, finance income and expenses and income taxation 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.

The financial information of each segment is set out below:

SIX MONTHS ENDED 31 DECEMBER 2014 UNAUDITED	SPARK HOME, MOBILE & BUSINESS $M	SPARK DIGITAL $M	SPARK CONNECT $M	TOTAL $M
Fixed	501	211	201	913
Mobile	391	107	6	504
IT Services	5	286	3	294
Other operating revenue	13	3	33	49
Internal revenue	2	15	24	41
Total operating revenue and other gains	**912**	**622**	**267**	**1,801**
Segment result	**331**	**182**	**(60)**	**453**

SIX MONTHS ENDED 31 DECEMBER 2013 UNAUDITED	SPARK HOME, MOBILE & BUSINESS $M	SPARK DIGITAL $M	SPARK CONNECT $M	TOTAL $M
Fixed	516	229	224	969
Mobile	372	115	5	492
IT Services	1	273	1	275
Other operating revenue	12	3	40	55
Other gains	–	3	–	3
Internal revenue	–	20	24	44
Total operating revenue and other gains	**901**	**643**	**294**	**1,838**
Segment result	**328**	**193**	**(64)**	**457**

Reconciliation from segment result to consolidated net earnings before income tax

	SIX MONTHS ENDED 31 DECEMBER	
	2014 UNAUDITED $M	2013 UNAUDITED $M
Segment result	453	457
Net result of corporate revenue and expenses	(17)	(5)
Depreciation	(126)	(129)
Amortisation	(98)	(98)
Finance income	14	15
Finance expense	(26)	(32)
Net earnings before income tax (continuing operations)	**200**	**208**

Notes to the condensed interim financial statements

Note 3 Operating revenues and other gains

	SIX MONTHS ENDED 31 DECEMBER	
	2014 UNAUDITED $M	**2013** UNAUDITED $M
Operating revenues		
Fixed		
Access	378	399
Voice/Calling	241	272
Broadband	167	166
Data	110	117
Other	17	15
	913	969
Mobile	504	492
IT Services	295	276
Sale of equipment	2	3
Dividend income	31	43
Miscellaneous other	52	56
	1,797	1,839
Other gains		
Gain on sale	–	3
Settlement on insurances	–	5
	–	8
Total operating revenues and other gains	**1,797**	**1,847**

Dividend income includes dividends received from Pacific Carriage Holdings Limited and Southern Cross Cables Holdings Limited which are related parties by way of the Group's 50% shareholding in these companies.

A 1 December 2014 change to the Telecommunications Act 2001 resulted in unbundled bitstream access (UBA) becoming the primary service purchased from Chorus, resulting in Chorus now charging our Spark Wholesale customers directly for layer 1 copper access, where they bundle the voice service sold by Spark Wholesale with a broadband service to their customers. This means Spark New Zealand will no longer recognise the revenue or costs associated with access charges for these Wholesale customers. This resulted in a $7 million reduction of access revenue in the month of December 2014.

Note 4 Operating expenses

	SIX MONTHS ENDED 31 DECEMBER	
	2014 UNAUDITED $M	2013 UNAUDITED $M
Payments to telecommunications operators	453	492
Mobile acquisition, procurement and IT services	368	354
Labour	271	266
Other operating expenses		
Direct network costs	31	44
Computer costs	37	38
Accommodation and co-location	48	43
Advertising, promotions and communication	46	44
Bad debts	7	16
Other	100	98
	269	283
Total operating expenses	**1,361**	**1,395**

Note 5 Property, plant and equipment and intangible assets

There were additions of $407 million to property, plant and equipment and intangible assets for the six months ended 31 December 2014 ($293 million for the six months ended 31 December 2013).

Note 6 Debt

	AS AT 31 DECEMBER 2014 UNAUDITED $M	AS AT 30 JUNE 2014 AUDITED $M
Short-term debt	183	40
Euro Medium Term Notes	80	78
TeleBonds	223	223
Domestic notes	250	250
Bank funding	165	100
	901	**691**
Less unamortised discount	(1)	(1)
Total debt	**900**	**690**
Debt due within one year	320	113
Debt due greater than one year	580	577
	900	**690**

See note 19 of the Group's annual financial statements for the year ended 30 June 2014 for further details on the Group's other debt facilities, the material terms of which are unchanged at 31 December 2014.

Notes to the condensed interim financial statements

Note 7 Dividends and equity

Dividends declared and provided by the Company are as follows:

	SIX MONTHS ENDED 31 DECEMBER	
	2014 UNAUDITED $M	2013 UNAUDITED $M
Previous year second half dividend paid	165	145
Supplementary dividend	22	13
	187	**158**
First half year dividend declared subsequent to period end not provided for (see note 12)	186	160
Dividends per share paid in the period (excluding supplementary dividends)	$0.09	$0.08

Dividend reinvestment plan

The Company has a dividend reinvestment plan. Under the plan shareholders can elect to receive dividends in additional shares. For the six months ended 31 December 2014, 5,484,086 shares with a total value of $16 million (31 December 2013: 4,334,617 shares with a total value of $10 million) were issued in lieu of dividends. During the six months ended 31 December 2014 no shares were repurchased and cancelled to neutralise the dilution effect of the dividend reinvestment plan to non-participants. Shares issued in lieu of dividends are excluded from dividends paid in the condensed interim statement of cash flows.

Note 8 Reconciliation of net earnings to net cash flows from operating activities

	SIX MONTHS ENDED 31 DECEMBER	
	2014 UNAUDITED $M	2013 UNAUDITED $M
Net earnings for the period	147	167
Adjustments to reconcile net earnings to net cash flows from operating activities		
Depreciation and amortisation	224	263
Bad and doubtful accounts	8	17
Deferred income tax	(6)	(16)
Net insurance proceeds	–	(8)
Other	3	6
Changes in assets and liabilities net of effects of non-cash and investing and financing activities		
Movement in accounts receivable and related items	(37)	(18)
Movement in inventories	(10)	(20)
Movement in current taxation	(31)	–
Movement in accounts payable and related items	(68)	(189)
Net cash flows from operating activities	**230**	**202**

Note 9 Financial instruments

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.

The table below categorises the Group's financial assets and liabilities that are measured at fair value, by valuation method. The different levels are defined as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

AS AT 31 DECEMBER 2014 UNAUDITED	LEVEL 1 $M	LEVEL 2 $M	LEVEL 3 $M	TOTAL $M
Financial assets				
Short-term derivative assets	–	1	–	1
Long-term derivative assets	–	1	–	1
Long-term investments	85	–	1	86
	85	**2**	**1**	**88**
Financial liabilities				
Short-term derivative liabilities	–	(4)	–	(4)
Long-term derivative liabilities	–	(31)	–	(31)
	-	**(35)**	**-**	**(35)**

There were no transfers between levels during the six months ended 31 December 2014.

AS AT 30 JUNE 2014 AUDITED	LEVEL 1 $M	LEVEL 2 $M	LEVEL 3 $M	TOTAL $M
Financial assets				
Short-term derivative assets	–	–	–	–
Long-term derivative assets	–	5	–	5
Long-term investments	99	–	2	101
	99	**5**	**2**	**106**
Financial liabilities				
Short-term derivative liabilities	–	(2)	–	(2)
Long-term derivative liabilities	–	(26)	–	(26)
	-	**(28)**	**-**	**(28)**

There were no transfers between levels during the year ended 30 June 2014.

There were no changes in valuation techniques during the period. The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined by using valuation techniques that maximise the use of observable market data where it is available. 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. Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Long-term investments held within Level 3 relate to the Group's holding of TMT Ventures (TMT) and the movement during the period comprises $1 million of capital investment return. The fair value of the Group's investment in TMT is determined based on the latest available fund manager's report and any sensitivity around the valuation inputs is considered to be immaterial.

Notes to the condensed interim financial statements

Note 10 Contingencies and commitments

Effect of outstanding claims

The Group has ongoing claims, investigations and inquiries, none of which it currently believes are expected to have significant effect on the financial position or profitability of the Group. However, the Group cannot reasonably estimate the adverse effect (if any) on the Group if any of the foregoing outstanding claims or inquiries are ultimately resolved against the Group's interests. There can be no assurance that such cases will not have a significant effect on the Group's business, financial condition, position, results of operations or profitability.

Unbundled Copper Local and Unbundled Bitstream Access price review

The Commerce Commission is currently undertaking Final Pricing Principle reviews of the costs for the regulated Unbundled Copper Local Loop (UCLL) and Unbundled Bitstream Access (UBA) services. On 2 December 2014 it released draft determinations for each service, with draft costs of $28.22 for UCLL and $10.17 for UBA. These compare with the Commission's Initial Pricing Principle costs for these services of $23.46 (for UCLL) and $10.92 (for UBA). The Commission has indicated it expects to issue final determinations for these costs, following a consultation process, in September 2015. Its preliminary view is that the costs set in the final determination will take effect from 1 December 2014. Any increase in costs when the final determinations are announced may have a material impact on the Group, particularly if backdated.

Capital commitments

At 31 December 2014, capital expenditure amounting to $112 million (31 December 2013: $82 million) had been committed under contractual arrangements. The capital expenditure commitments principally relate to telecommunications network equipment and the Tasman Global Access cable.

Note 11 Investment in associates and joint ventures

The Group's investment in associates and joint ventures consists of:

	COUNTRY	OWNERSHIP	PRINCIPAL ACTIVITY
Pacific Carriage Holdings Limited	Bermuda	50%	A holding company
Southern Cross Cables Holdings Limited	Bermuda	50%	A holding company
Vigil Monitoring Limited	New Zealand	26%	Healthcare technology
TSM NZ Limited	New Zealand	22%	Mobile payments
App La Carte Limited	New Zealand	20%	Mobile applications

During the six months ended 31 December 2014, the Group increased its investments in the associates and joint ventures Vigil Monitoring Limited, TSM NZ Limited (Semble) and App La Carte Limited (Putti) by $3 million (six months ended 31 December 2013: $3 million in Vigil Monitoring Limited and TSM NZ Limited).

Note 12 Significant events after balance date

Dividends

On 19 February 2015 the Board approved the payment of a first half dividend of 9 cents per share, or approximately $165 million. The dividend will be fully imputed in line with the corporate income tax rate. In addition, supplementary dividends totalling approximately $21 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

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 2014, 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.

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

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 give a true and fair view of the financial position of the Group as at 31 December 2014, and of its financial performance and its cash flows for the six month period ended on that date, in accordance with Generally Accepted Accounting Practice in New Zealand.

KPMG

19 February 2015

KPMG

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For more information

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