

INTERIM REPORT

TEAMTALK 2018

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OUR CUSTOMER DECLARATION

We're not textbook, but our team will do "whatever it takes" to deliver on our promises to you. We know that to improve means making sure we hear what you tell us. We're constantly looking for new technologies and better ways to do things, so that our services are what you want. We're on a journey to earn your trust by being accurate, helpful, and dependable.

FROM THE CHAIRMAN & CHIEF EXECUTIVE



TeamTalk is continuing to head in the right direction with its transformation as demonstrated by the recently announced result for the six months ended 31 December 2017, the first half result for the 2018 financial year. Profit after tax was up 59% to \$2.147m from \$1.349m for the same period last year.

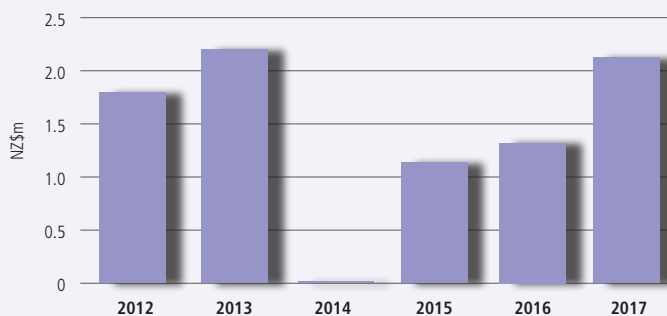
Within our five-year plan the initial focus was on debt reduction so we are pleased to announce a further reduction in debt of 7.8% in the last six months to a net position of \$20.22m from \$21.93m as at 30 June 2017. This achievement means total debt reduction in the last 18 months has been 43% from \$35.47m as at June 2016.

Now into the second year of the plan we are ready to move to the next phase - reinvestment into our infrastructure. The first programme will be the rollout of a new nationwide digital radio network which will commence within the next few months. The second major programme we will be commencing later this year, of which phase one has been completed but phase two is the larger component, is the undergrounding of our fibre network within Wellington CBD. The target date for completion of the majority of these two programmes is June 2020.

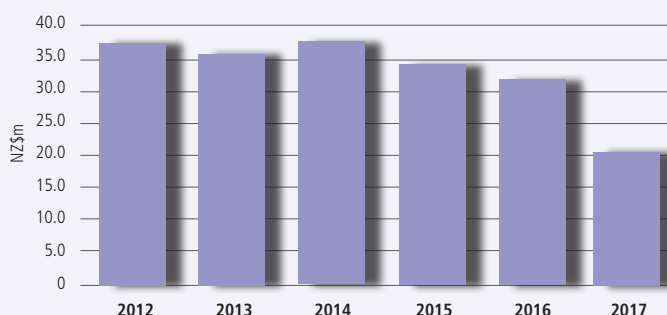
RADIO DELIVERING RESILIENT COMMUNICATIONS

From our market analysis we believe there is still a demand for radio in ensuring the delivery of mission critical communications to our customers. The new digital network will open other opportunities beyond our existing customer base and the recent published report by the Minister of Civil Defence: "Better responses to natural disasters and other emergencies" highlights areas where radio could be better utilised. We also see potential opportunities across the emergency services beyond St. John, a customer for many years. Besides offering new services and solutions that will enable TeamTalk to grow its revenues and profitability, the digital network will also enable us to offer solutions to private ageing analogue networks to entities such as local authorities and utilities who need a secure, resilient network. For these entities, we can offer radio-as-a-service thereby reducing their capital requirements but still enabling them to have their "own network layer" which sits across our network.

PROFIT FOR 6 MONTHS ENDED DECEMBER



NET DEBT AS AT DECEMBER





Our announcement in December that we have selected Tait Communications as our partner reinvigorates a long partnership going back decades. Whilst a new digital network is exciting, it is the roadmap of further integrated services that will be released over the next few years that really excites us about this investment. Our partnership with Tait Communications and other integrators will allow us to be at the forefront of new developments and enable New Zealand to gain access to these leading technologies and solutions quickly.

INTERNAL INFRASTRUCTURE

We are also improving our internal systems which have been under invested in for many years. One such example of this is where we identified requirements of both Operations and IT that could be satisfied with one common solution. The outcome of the investment will be faster more resilient connectivity for both customers and staff alike. The solution will deliver computing power as required by dynamically allocating resources. Devices will replicate data in real time with seamless fall-over resulting in higher availability and much lower reliance on business continuity strategies.

PEOPLE

We are also investing in our most important assets – our people. In December we held a staff day at the refurbished Ponoka rugby club and was the first time that the whole staff from across the country were gathered in one location. Besides meeting some colleagues for the first time there was also discussion on strategy and our plan along with various team building exercises and workshops which focused on what we needed to do better. The day was rounded off with staff awards and our Christmas dinner and the whole event was considered a resounding success with a lot of positive feedback received from staff.

GOVERNANCE

Following on from The AGM we are pleased to welcome both James Sclater and Susan Freeman-Greene on to the Board. This change in the Board ensures a continuous evolution in our governance model that is a vital component of an organisation. As part of this evolution, Geoff Davis will step down from the Board at the end of this month and we would like to take this opportunity to thank Geoff for his service over the last 15 years.



SUSAN FREEMAN-GREENE

INDEPENDENT DIRECTOR

Susan is currently Chief Executive of Engineering New Zealand (formerly IPENZ) where she has been since February 2015. She is leading a transformation agenda to meet the challenges of supporting and promoting the engineering profession in a world of rapid change. With 20,000 members and a team of 65 that's been a significant undertaking. Susan was formerly Chief Executive of the Broadcasting Standards Authority and before that was a senior leader and Chief Mediator with the Human Rights Commission. Her professional background is in law (she still holds a Practising Certificate) and she practised for many years as a lawyer before adding to her repertoire by undertaking further training and practising as a mediator. She has had over 25 years' experience across the public and private sector in law (including in the commercial and employment areas) and in mediation. Her broad experience in many sectors, combined with the analytical skills of a lawyer and the influencing skills of a mediator, have given her a wide perspective and a broad set of skills to bring to leadership and governance.



OUTLOOK AND GUIDANCE

We are pleased to say that our results demonstrate consistent improvement and that we are on track to meet our guidance. We are excited about moving into the next phase of our five-year plan as we reinvest into our infrastructure which is critical in producing better results for our shareholders. The aim of the company once these capital programmes are completed is to move to a dividend policy of paying around 50 – 70% of net profit after tax.

The company is on track for a resumption of dividends along with reinstatement of the dividend reinvestment option at the end of financial year 2018.

Yours sincerely

ROGER SOWRY
Chairman

ANDREW MILLER
Chief Executive



JAMES SCLATER

INDEPENDENT DIRECTOR

James Sclater is a professional company director and trustee acting for a number of companies and investment trusts, including ProCare Health, Homecare Medical and Damar Industries. James is a chartered accountant and a member of Chartered Accountants Australia and New Zealand and the New Zealand Institute of Directors. Prior to 2009, James was chairman of Grant Thornton Auckland, where he was a business advisory services director for 18 years, specialising in small-to-medium enterprise accounting, taxation and management advice.



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

| Group | NOTE | SIX MONTHS ENDED 31 DECEMBER | | YEAR ENDED 30 JUNE |
|--|------|---------------------------------|--|------------------------------|
| | | 2017 (Unaudited) \$000's | 2016 Restated* (Unaudited) \$000's | 2017 (Audited) \$000's |
| Revenue | | 17,088 | 17,302 | 34,047 |
| Operating costs | | (7,368) | (7,751) | (15,256) |
| Gross profit | | 9,720 | 9,551 | 18,791 |
| Other income | | 344 | 353 | 719 |
| Administrative expenses | | (5,908) | (6,111) | (12,153) |
| Results from operating activities | | 4,156 | 3,793 | 7,357 |
| Finance income | 9 | 120 | 494 | 544 |
| Finance expenses | 9 | (873) | (978) | (2,145) |
| Net finance costs | | (753) | (484) | (1,601) |
| Share of Profit/(Loss) of equity accounted investees, net of tax | | (297) | - | (48) |
| Profit/(Loss) before income tax | | 3,106 | 3,309 | 5,708 |
| Income tax (expense)/credit | | (959) | (567) | (408) |
| Profit from Continuing Operations | | 2,147 | 2,742 | 5,300 |
| Profit/(Loss) from discontinued operations, net of tax | | - | (1,393) | (3,150) |
| Gain on Sale of Discontinued Operations | | - | - | 2,968 |
| Profit/(Loss) | | 2,147 | 1,349 | 5,118 |
| Attributable to: | | | | |
| Equity holders of the Company | | 2,147 | 1,349 | 5,118 |
| Non-controlling interests | | - | - | - |
| | | 2,147 | 1,349 | 5,118 |
| Earnings per share | | | | |
| Basic earnings per share | 10 | \$0.076 | \$0.048 | \$0.180 |
| Diluted earnings per share | 10 | \$0.076 | \$0.048 | \$0.180 |

*Comparative amounts in the statement of comprehensive income has been restated as a result of BayCity Communications Limited being classified as a discontinued operation in the prior year (see note 7)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

| Group | NOTE | SHARE CAPITAL \$000's | RETAINED EARNINGS & OTHER RESERVES \$000's | TOTAL EQUITY \$000's |
|---|------|---------------------------------|---|--------------------------------|
| Balance at 1 July 2016 | | 60,266 | (40,057) | 20,209 |
| Profit for the period | | - | 1,349 | 1,349 |
| Total recognised income and expense for the period | | - | 1,349 | 1,349 |
| Dividends to equity holders | 8 | - | - | - |
| Total transactions with owners | | - | - | - |
| Balance at 31 December 2016 (Unaudited) | | 60,266 | (38,708) | 21,558 |
| Balance at 1 July 2016 | | 60,266 | (40,057) | 20,209 |
| Profit for the period | | - | 5,118 | 5,118 |
| Total recognised income and expense for the period | | - | 5,118 | 5,118 |
| Dividends to equity holders | 8 | - | - | - |
| Total transactions with owners | | - | - | - |
| Balance at 30 June 2017 (Audited) | | 60,266 | (34,939) | 25,327 |
| Balance at 1 July 2017 | | 60,266 | (34,939) | 25,327 |
| Profit for the period | | - | 2,147 | 2,147 |
| Total recognised income and expense for the period | | - | 2,147 | 2,147 |
| Dividends to equity holders | 8 | - | - | - |
| Total transactions with owners | | - | - | - |
| Balance at 31 December 2017 (Unaudited) | | 60,266 | (32,792) | 27,474 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

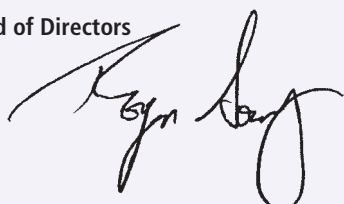
AS AT 31 DECEMBER 2017

| Group | NOTE | AS AT 31 DECEMBER | | AS AT 30 JUNE |
|--------------------------------------|------|--------------------------------|--------------------------------|------------------------------|
| | | 2017 (Unaudited) \$000's | 2016 (Unaudited) \$000's | 2017 (Audited) \$000's |
| Non-current assets | | | | |
| Property, plant and equipment | | 33,449 | 39,227 | 34,162 |
| Goodwill | | 17,038 | 19,796 | 17,038 |
| Intangibles | | - | 1,404 | - |
| Finance lease receivable | | 367 | 247 | 229 |
| Prepayments | | 320 | 213 | 377 |
| Derivatives | | 520 | - | 520 |
| Equity Accounted Investees | 14 | 2,255 | - | 2,552 |
| Deferred tax assets | | - | 1,420 | - |
| Total non-current assets | | 53,949 | 62,307 | 54,878 |
| Current assets | | | | |
| Trade and other receivables | | 4,406 | 6,044 | 4,301 |
| Finance lease receivable | | 295 | 181 | 235 |
| Prepayments | | 1,092 | 1,076 | 619 |
| Inventory | | 1,718 | 1,383 | 1,575 |
| Cash and cash equivalents | | 3,776 | 1,340 | 2,071 |
| Total current assets | | 11,287 | 10,024 | 8,802 |
| Total assets | | 65,236 | 72,331 | 63,681 |
| Equity | | | | |
| Ordinary share capital | 8 | 60,266 | 60,266 | 60,266 |
| Retained earnings & Other Reserves | | (32,792) | (38,708) | (34,939) |
| Total equity | | 27,474 | 21,558 | 25,327 |
| Non-current liabilities | | | | |
| Loans and borrowings | | 19,500 | - | 21,000 |
| Deferred income | | 186 | 1,088 | 920 |
| Deferred tax liabilities | | 1,943 | - | 1,918 |
| Total non-current liabilities | | 21,629 | 1,088 | 23,838 |
| Current liabilities | | | | |
| Loans and borrowings | | 4,500 | 33,893 | 3,000 |
| Trade and other payables | | 6,845 | 10,177 | 8,068 |
| Current Tax Payable | | 469 | 722 | 44 |
| Deferred income | | 4,120 | 4,644 | 3,140 |
| Derivatives | | 199 | 249 | 264 |
| Total current liabilities | | 16,133 | 49,685 | 14,516 |
| Total equity and liabilities | | 65,236 | 72,331 | 63,681 |

On behalf of the Board of Directors


Director

22 February 2018



Director

22 February 2018



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

| Group | NOTE | SIX MONTHS ENDED 31 DECEMBER | | YEAR ENDED 30 JUNE |
|---|-----------|---------------------------------|--|------------------------------|
| | | 2017 (Unaudited) \$000's | 2016 Restated* (Unaudited) \$000's | 2017 (Audited) \$000's |
| Cash flows from operating activities | | | | |
| Cash provided from: | | | | |
| Receipts from customers | | 18,055 | 17,642 | 34,548 |
| Net GST receipts/(payments) | | 302 | (89) | (26) |
| | | 18,356 | 17,553 | 34,522 |
| Cash applied to: | | | | |
| Payments to suppliers and employees | | (12,934) | (11,945) | (23,464) |
| Interest expense paid (net of realised FX (gain)/loss) | | (679) | (978) | (2,347) |
| Income tax paid | | (495) | (685) | (1,590) |
| | | (14,108) | (13,607) | (27,401) |
| Net cash flows from operating activities | 11 | 4,248 | 3,946 | 7,121 |
| Cash flows from investing activities | | | | |
| Cash provided from: | | | | |
| Interest income received | | 16 | - | 7 |
| Finance lease interest income received | | 40 | 37 | 79 |
| Repayment of finance lease receivables | | 136 | 101 | 201 |
| | | 192 | 138 | 287 |
| Cash applied to: | | | | |
| Acquisition of property, plant and equipment | | (2,398) | (1,528) | (2,983) |
| Acquisition of goods provided on finance leases as lessor | | (337) | (195) | (331) |
| | | (2,735) | (1,723) | (3,314) |
| Net cash flows from investing activities | | (2,543) | (1,585) | (3,027) |
| Cash flows from financing activities | | | | |
| Cash provided from: | | | | |
| Proceeds from Sale of subsidiary | | - | - | 10,000 |
| Proceeds from borrowings | | - | 10,265 | - |
| | | - | 10,265 | 10,000 |
| Cash applied to: | | | | |
| Repayment of borrowings | | - | (10,058) | (9,500) |
| Dividends paid | | - | - | - |
| | | - | (10,058) | (9,500) |
| Net cash flows from financing activities | | - | 207 | 500 |
| Impact of Discontinued Operations on Continuing Operations | | - | (1,750) | (3,046) |
| Net increase/(decrease) in cash and cash equivalents | | 1,705 | 818 | 1,548 |
| Cash and cash equivalents at beginning of period | | 2,071 | 522 | 522 |
| Cash and cash equivalents at end of period | | 3,776 | 1,340 | 2,071 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

1 Reporting entity

TeamTalk Limited ("the Company") is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange ("NZX"). The Company is a FMC Reporting Entity in terms of Part 7 of the Financial Markets Conduct Act 2013.

The condensed consolidated interim financial statements of the Company as at, and for the six months ended, 31 December 2017 are unaudited and comprise the Company and its subsidiaries (together referred to as "the Group").

The Group is a profit oriented entity primarily involved in the provision of mobile radio networks and high speed broadband services in New Zealand.

2 Statement of compliance and basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting. They do not include all of the information required for full financial statements and should be read in conjunction with the consolidated financial statements of the Group as at, and for the year ended, 30 June 2017.

These condensed consolidated interim financial statements of the Group have been prepared in accordance with the New Zealand Companies Act 1993 and the Financial Markets Conduct Act 2013.

These condensed consolidated interim financial statements were approved by the Board of Directors on 22 February 2018.

The condensed consolidated interim financial statements are presented in New Zealand dollars (NZD), which is the Group's functional currency and are rounded to the nearest thousand.

The comparative Statement of Comprehensive Income and Statement of Cashflows have been represented to record the recognition of BayCity Communications as a Discontinued Operation as described in Note 7.

3 Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its annual financial statements as at, and for the year ended, 30 June 2017.

4 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, and for which discrete financial information is available. All operating segments' operating results are reviewed regularly by the Group's Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance.

5 Estimates

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual financial statements as at, and for the year ended, 30 June 2017.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

6 Operating Segments

| Group for the six months ended 31 December 2017 | MOBILE RADIO \$000'S | BROADBAND NETWORKS \$000'S | ISP (DISCONTINUED OPERATION) \$000'S | UNALLOCATED \$000'S | TOTAL \$000'S |
|--|----------------------------|----------------------------------|---|------------------------|------------------|
| Operating revenue & other income | | | | | |
| - Sales to customers outside the Group | 10,248 | 7,184 | - | - | 17,432 |
| Total revenue | 10,248 | 7,184 | - | - | 17,432 |
| Costs | | | | | |
| - Costs paid to suppliers outside the Group | (8,150) | (2,922) | - | - | (11,072) |
| Total costs | (8,150) | (2,922) | - | - | (11,072) |
| EBITDA | 2,098 | 4,262 | - | - | 6,360 |
| Depreciation and amortisation | (1,257) | (947) | - | - | (2,204) |
| Impairment of fixed assets and inventory | - | - | - | - | - |
| EBIT | 841 | 3,314 | - | - | 4,156 |
| Share of Profit/(Loss) of equity accounted investees, net of tax | | | | (297) | (297) |
| Finance income | | | | | 120 |
| Finance expense | | | | | (873) |
| Net interest | | | | | (753) |
| Profit before income tax | | | | | 3,106 |
| Income tax expense | | | | | (959) |
| Profit/(Loss) for the period | | | | | 2,147 |
| Capital expenditure | 1,505 | 664 | | | 2,169 |
| Total assets | 25,152 | 37,829 | | 2,255 | 65,236 |
| Total liabilities | 8,582 | 5,180 | | 24,000 | 37,762 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

6 Operating Segments (continued)

| Group for the six months ended 31 December 2016 | MOBILE RADIO \$000'S | BROADBAND NETWORKS \$000'S | ISP (DISCONTINUED OPERATION) \$000'S | UNALLOCATED \$000'S | TOTAL \$000'S |
|--|----------------------------|----------------------------------|---|------------------------|------------------|
| Operating revenue & other income | | | | | |
| - Sales to customers outside the Group | 10,430 | 7,225 | - | - | 17,655 |
| Total revenue | 10,430 | 7,225 | - | - | 17,655 |
| Costs | | | | | |
| - Costs paid to suppliers outside the Group | (8,279) | (3,386) | - | - | (11,665) |
| Total costs | (8,279) | (3,386) | - | - | (11,665) |
| EBITDA | 2,151 | 3,839 | - | - | 5,990 |
| Depreciation and amortisation | (1,225) | (973) | - | - | (2,198) |
| Impairment of fixed assets and inventory | - | - | - | - | - |
| EBIT | 926 | 2,866 | - | - | 3,793 |
| Share of Profit/(Loss) of equity accounted investees, net of tax | | | | | - |
| Finance income | | | | | 494 |
| Finance expense | | | | | (978) |
| Net interest | | | | | (484) |
| Profit before income tax | | | | | 3,309 |
| Income tax expense | | | | | (567) |
| Profit from Operations | | | | | 2,742 |
| Profit/(Loss) from discontinued operations, net of tax | | | (1,393) | | (1,393) |
| Profit/(Loss) for the period | | | | | 1,349 |
| Capital expenditure | 1,716 | 684 | | - | 2,400 |
| Total assets | 22,062 | 35,090 | | - | 57,152 |
| Total liabilities | 8,603 | 3,660 | | 33,800 | 46,063 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

6 Operating Segments (continued)

| Group for the twelve months ended 30 June 2017 | MOBILE RADIO \$000'S | BROADBAND NETWORKS \$000'S | ISP (DISCONTINUED OPERATION) \$000'S | UNALLOCATED \$000'S | TOTAL \$000'S |
|--|----------------------------|----------------------------------|---|------------------------|------------------|
| Operating revenue & other income | | | | | |
| - Sales to customers outside the Group | 20,167 | 14,599 | - | - | 34,766 |
| Total revenue | 20,167 | 14,599 | - | - | 34,766 |
| Costs | | | | | |
| - Costs paid to suppliers outside the Group | (16,474) | (6,699) | - | - | (23,173) |
| Total costs | (16,474) | (6,699) | - | - | (23,173) |
| EBITDA | 3,693 | 7,900 | - | - | 11,593 |
| Depreciation and amortisation | (2,338) | (1,898) | - | - | (4,236) |
| Impairment of fixed assets and inventory | - | - | - | - | - |
| EBIT | 1,355 | 6,002 | - | - | 7,357 |
| Share of Profit/(Loss) of equity accounted investees, net of tax | | | | | (48) |
| Finance income | | | | | 544 |
| Finance expense | | | | | (2,145) |
| Net interest | | | | | (1,601) |
| Profit before income tax | | | | | 5,708 |
| Income tax expense | | | | | (408) |
| Profit from Operations | | | | | 5,300 |
| Profit/(Loss) from discontinued operations, net of tax | | | (182) | | (182) |
| Profit/(Loss) for the period | | | | | 5,118 |
| Capital expenditure | 2,504 | 1,406 | - | - | 3,910 |
| Total assets | 25,397 | 35,731 | - | 2,552 | 63,681 |
| Total liabilities | 9,394 | 4,960 | - | 24,000 | 38,354 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

7 Discontinued Operation

In June 2017, the Group sold 70% of its interest in BayCity Communications Limited (trading as Farmside). Management reached an agreement to sell and this agreement was ratified by Shareholders at a Special meeting held on the 12th April 2017.

Subsequent to the transaction, the Group has continued to purchase from, and provide services to the discontinued operation. Intra-group transactions have been fully eliminated in the consolidated financial results. Post the sale, transactions between the entities are treated as external to the Group

| A) RESULTS FROM DISCONTINUED OPERATIONS | 11 MONTHS TO 01 JUNE 2017 \$000'S | 6 MONTHS TO 31 DECEMBER 2016 \$000'S |
|---|---|--|
| Revenue | 19,817 | 12,013 |
| Elimination of inter-segment revenue | (128) | (728) |
| External Revenue | 19,689 | 11,285 |
| Expenses | (22,933) | (13,309) |
| Elimination of expenses related to inter-segment sales | 650 | 570 |
| External expenses | (22,283) | (12,740) |
| Results from Operating Activities | (2,594) | (1,455) |
| Income Tax | (556) | 62 |
| Results from Operating Activities, Net of Tax | (3,150) | (1,393) |
| Gain on Sale of Discontinued Operation | 2,968 | - |
| Income Tax on Gain on Sale | - | - |
| Profit (Loss) from Discontinued Operations, Net of Tax | (182) | (1,393) |
| Ordinary and Diluted (Loss) per share | (\$0.04) | (\$0.31) |

| B) EFFECT OF DISPOSAL ON THE FINANCIAL POSITION OF THE GROUP | YEAR ENDED 30 JUNE 2017 \$000's |
|--|------------------------------------|
| Property, Plant and Equipment | (3,971) |
| Goodwill and Intangibles | (4,048) |
| Inventory | (789) |
| Trade and Other Receivables | (2,169) |
| Cash and Cash Equivalents | 99 |
| Current and Deferred Tax Asset | (2,893) |
| Trade and Other Payables | 3,619 |
| Net Assets and Liabilities | (10,152) |
| Consideration Received, Satisfied in Cash | |
| Net Cash Inflows | 10,000 |
| Net Derivatives | 520 |
| Equity accounted investees | 2,600 |
| Gain on Sale of Discontinued Operation | 2,968 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

7 Discontinued Operation (cont)

| C) CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS | 11 MONTHS TO 01 JUNE 2017 \$000'S | 6 MONTHS TO 31 DECEMBER 2016 \$000'S |
|--|---|--|
| Cash inflows from operating activities | 20,164 | 11,082 |
| Cash applied to operating activities | (18,903) | (10,830) |
| Net Cash used in operating activities | 1,261 | 252 |
| Cash inflows from investing activities | 6 | - |
| Cash applied to investing activities | (4,497) | (1,458) |
| Net Cash from investing activities | (4,492) | (1,458) |
| Cash funding received from Continuing Operations | 3,046 | 1,750 |
| Cash applied to funding activities | - | - |
| Net Cash from funding activities | 3,046 | 1,750 |
| Net cash flows for the year | (185) | 544 |

8 Capital and reserves

SHARE CAPITAL

The Company has 28,368,994 fully paid no par value shares on issue at balance date (Interim Dec 2016: 28,368,994; Full Year Jun 2017: 28,368,994). All shares have equal rights and rank equally with regard to the Company's residual assets.

DIVIDENDS

The following dividends were declared and paid by the Group for the period ended 31 December 2017:

| Group | SIX MONTHS ENDED 31 DECEMBER 2017 \$000's | 2016 \$000's | YEAR ENDED 30 JUNE 2017 \$000's |
|--|--|-----------------|--|
| | - | - | - |
| Nil Interim Dividend For 2018 financial year. Nil Final dividend for prior year. | - | - | - |
| | - | - | - |

9 Finance costs

| Group | SIX MONTHS ENDED 31 DECEMBER 2017 \$000's | 2016 \$000's | YEAR ENDED 30 JUNE 2017 \$000's |
|---|--|-----------------|--|
| Interest expense on external borrowings | (873) | (978) | (2,145) |
| Interest income | 55 | 38 | 87 |
| Net unrealised (loss)/gain on fair value of derivatives | 65 | 456 | 457 |
| Net finance costs | (753) | (484) | (1,601) |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

10 Earnings per share

BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2017 was based on the profit attributable to ordinary shareholders of \$2,147,000 and a weighted average number of ordinary shares outstanding of 28,368,994 calculated as follows:

| Group | SIX MONTHS ENDED 31 DECEMBER | | YEAR ENDED 30 JUNE |
|--|---------------------------------|-------------------|-----------------------|
| | 2017 \$000's | 2016 \$000's | 2017 \$000's |
| Profit attributable to ordinary shareholders | 2,147 | 1,349 | 5,118 |
| | 2017 IN SHARES | | 2017 IN SHARES |
| | | | |
| Weighted average number of ordinary shares | | | |
| Issued ordinary shares at start of period | 28,368,994 | 28,368,994 | 28,368,994 |
| Shares issued during the period | - | - | - |
| Issued ordinary shares at close of period | 28,368,994 | 28,368,994 | 28,368,994 |
| Weighted average number of ordinary shares for the period | 28,368,994 | 28,368,994 | 28,368,994 |
| Basic earnings per share (\$) | 0.076 | 0.048 | 0.180 |
| Diluted earnings per share (\$) | 0.076 | 0.048 | 0.180 |

11 Commitments

(a) Operating lease commitments

Leases as lessee

Commitments under non cancellable operating leases are:

| Group | SIX MONTHS ENDED 31 DECEMBER | | YEAR ENDED 30 JUNE |
|---------------------------|---------------------------------|-----------------|-----------------------|
| | 2017 \$000's | 2016 \$000's | 2017 \$000's |
| Less than one year | 947 | 1,018 | 901 |
| Between one to two years | 617 | 805 | 748 |
| Between two to five years | 562 | 742 | 746 |
| | 2,126 | 2,565 | 2,395 |

The Group leases a number of premises and vehicles under operating leases.

Premises leases operate under various differing terms, but typically are based around an initial lease period, with 1 or 2 further right of renewal periods. Some premises are leased on an annual basis and others are subject to monthly terms (storage units). Premises leases typically include rent uprates every 2-3 years with such increases reflecting revised valuations of the premises and changes in market conditions.

The vehicle leases typically run for a period of 3 years, with the vehicles returned to the lessor at the end of term.

(b) Capital commitments

At balance date the Group had capital commitments payable within one year of \$1,304,000 (Dec 2016: \$218,950, Jun 2017: \$1,117,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

12 Reconciliation of the profit for the period with the net cash flow from operating activities

| Group | SIX MONTHS ENDED 31 DECEMBER | | YEAR ENDED 30 JUNE |
|--|---------------------------------|-----------------|-----------------------|
| | 2017 \$000's | 2016 \$000's | 2017 \$000's |
| Profit for the period and total comprehensive income after tax (Continuing Operations) | 2,147 | 2,742 | 5,300 |
| Adjustments for: | | | |
| Depreciation, amortisation and impairment | 2,201 | 2,198 | 4,236 |
| (Decrease)/increase in bad debt provision | 75 | (62) | (97) |
| Loss/(Gain) on derivatives | (65) | (456) | (457) |
| Share of (Profit)/Loss of Equity Accounted Investees | 297 | - | 48 |
| Prepaid services utilisation/(additions) | 51 | 1,266 | (148) |
| Interest income received | (56) | (37) | (86) |
| Deferred income | (96) | (565) | (282) |
| Deferred tax movement | - | (172) | (58) |
| | 2,407 | 2,172 | 3,156 |
| Decrease/(increase) in prepayments | (471) | (125) | 234 |
| Decrease/(increase) in trade and other receivables | 747 | 691 | (621) |
| (Decrease)/increase in income tax payable & deferred tax | 464 | 55 | (955) |
| Decrease/(increase) in inventory | (143) | (280) | 12 |
| (Decrease)/ increase in trade and other payables | (909) | (1,314) | (428) |
| Decrease/(increase) in deferred expenses (incl. prepaid IRU) | 6 | 6 | 423 |
| | (306) | (967) | (1,335) |
| Net cash from operating activities | 4,248 | 3,946 | 7,121 |

13 Related party transactions

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel compensation

Key Group management personnel compensation comprised short-term employee benefits of \$951,707 for the six months ended 31 December 2017 (Interim Dec 2016: \$719,423; Full Year Jun 2017: \$1,829,541). This excludes directors' fees of \$128,846 (Interim Dec 2016: \$104,369; Full Year Jun 2017: \$218,000).

Other transactions with key management personnel

Directors of Group Companies control 0.2% of the voting shares of the Company (Interim Dec 2016: 0.2%; Full Year Jun 2017: 0.2%).

Transactions and balances with related parties

The aggregate value of transactions relating to key management personnel and entities over which they have control or significant influence were as follows:

Directors of the subsidiary companies received no directors fees during the period (Interim Dec 2016: nil; Full Year Jun 2016: nil)

Elected directors conduct business with the Group in the normal course of their business activities.

There are no outstanding balances with key management personnel at 31 December 2017 (Interim Dec 2016: nil; Full Year Jun 2017: nil).

| Group entities Significant subsidiaries | COUNTRY OF INCORPORATION | OWNERSHIP INTEREST (%) | |
|--|-----------------------------|------------------------|------|
| | | 2017 | 2016 |
| CityLink Limited | New Zealand | 100% | 100% |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

14 Investment in Associate

| | SIX MONTHS ENDED 31 DECEMBER | | YEAR ENDED 30 JUNE |
|---|---------------------------------|-----------------|-----------------------|
| | 2017 \$000's | 2016 \$000's | 2017 \$000's |
| Interests in associates | 2,552 | - | 2,600 |
| Share of profit of equity accounted investees, net of tax | (297) | - | (48) |
| Balance as at 30 June | 2,225 | - | 2,552 |

On 1 June 2017, the Group's equity interest in its subsidiary BayCity Communications decreased from 100% to 30%, and BayCity became an associate from that date. The investment in BayCity is treated as an equity accounted investment.

The initial carrying value of the investment at 1 June 2017 was the fair value. To value this the market value of the equity stake was assessed with reference to the BayCity sale transaction and subsequently adjusted using assumptions such as acquisition synergies, control premiums, discounts for a non-controlling interest & risk.

The subsequent carrying value is supported by both the Group's share of net assets and the options that were entered into as part of the sale transaction

The following table summarises the financial information of BayCity Communications. The information includes the results of BayCity Communications only for the period 1 June 2017 to 30 June 2017, because BayCity became an associate on 1 June 2017.

| | SIX MONTHS ENDED 31 DECEMBER | | YEAR ENDED 30 JUNE |
|--|---------------------------------|-----------------|-----------------------|
| | 2017 \$000's | 2016 \$000's | 2017 \$000's |
| Non-Current Assets | 5,488 | - | 7,044 |
| Current Assets | 5,300 | - | 3,151 |
| Non-Current Liabilities | (1,153) | - | (757) |
| Current Liabilities | (4,973) | - | (3,748) |
| Net Assets | 4,662 | - | 5,690 |
| Group's Share of Net Assets (30%) | 1,399 | - | 1,707 |
| Revenue | 9,688 | - | 1,695 |
| Profit from continuing operations (100%) | (991) | - | (223) |
| Other comprehensive income (100%) | - | - | 61 |
| Total comprehensive income (100%) | (991) | - | (162) |
| Total comprehensive income (30%) | (297) | - | (48) |

14 Subsequent Event

There have been no subsequent events.

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