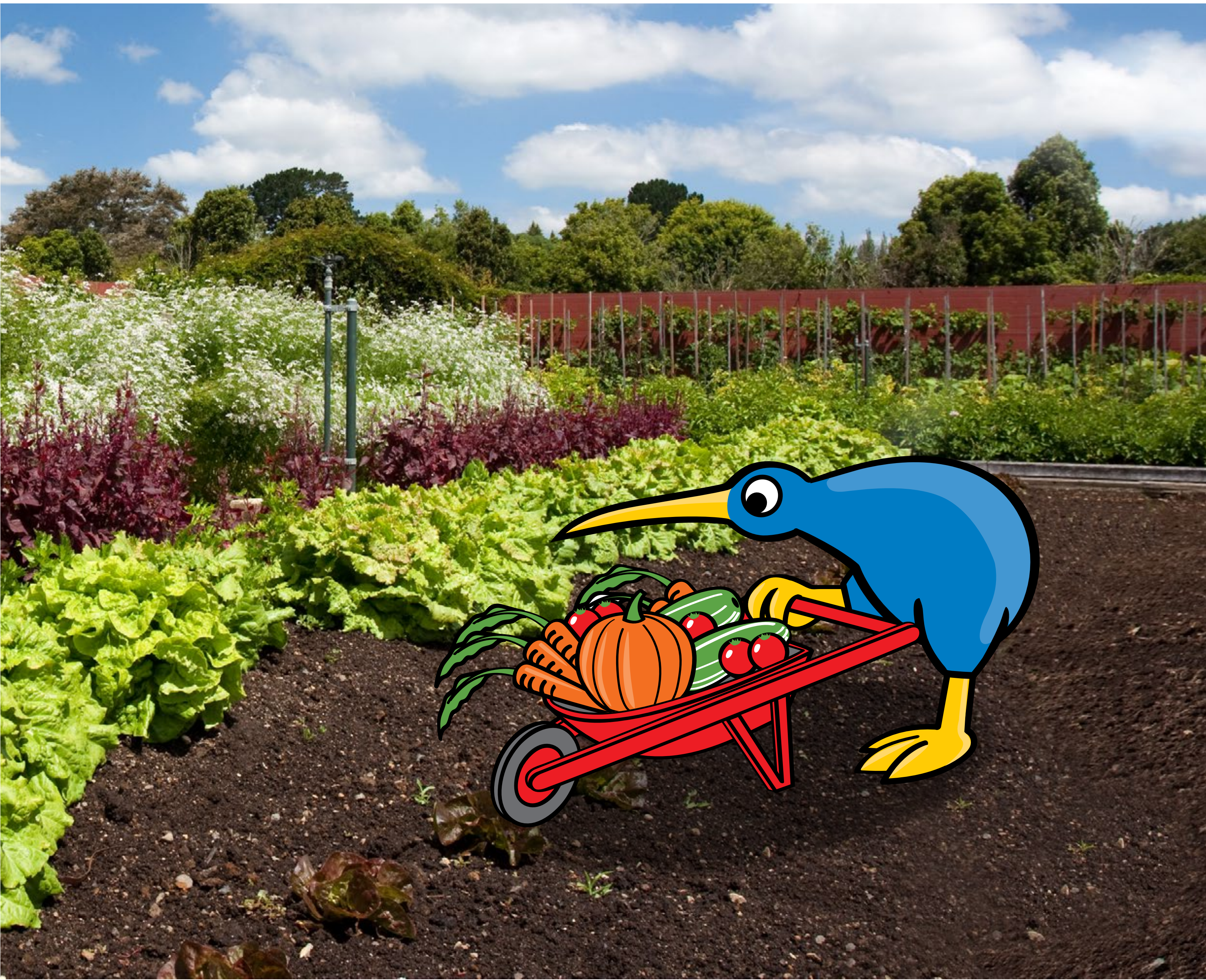
Trade Me Group Limited

Half Year Report

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014



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Highlights

Revenue was up 13% year-on-year to a record $96.9m, underpinned by strength in the Classifieds segment, where revenue was up 24% on HY14 to $47.7m.

EBITDA* for HY15 was $64.6m, up 7% year-on-year.

Earnings growth has continued with net profit after tax of $38.4m for HY15, up 1.1% year-on-year.

Earnings per share for HY15 was 9.69 cents, up from 9.59 cents in HY14.

A fully imputed interim dividend of 7.7 cents per share will be paid on 24 March 2015.

We've invested in Harmoney (a peer-to-peer lending business) and acquired both Paystation Group and Viewing Tracker.

We've made two new appointments to our executive team: Trent Mankelow and Stuart McLean.

On track for low double-digit revenue growth for F15 full year, but with subdued EBITDA growth due to our investment in the business.

*EBITDA (a non-GAAP measure) represents earnings before income taxes (a GAAP measure), excluding interest income, interest expense, depreciation and amortisation, as reported in the financial statements.

Commentary from the Chairman and CEO

Dear shareholders,

Thank you for your support as an investor in Trade Me. The company is progressing well and our HY15 results reflect this.

The numbers

For the six months to 31 December 2014, Trade Me delivered record revenue of $96.9m, up from $85.7m a year ago (+13%).

The company's net profit after tax was $38.4m, up 1.1 per cent on a year ago and reflecting the ongoing reinvestment.

Earnings per share increased to 9.69 cents, up from 9.59 cents a year ago.

We intend to pay a fully imputed interim dividend of 7.7 cents per share on 24 March 2015. The record date for the dividend is 13 March 2015.

Operating performance

Consistent with our guidance at our FY14 results and the shareholder meeting in October 2014, we are in the throes of an accelerated period of reinvestment in people, product development, marketing and sales/account management. We are building a better business and focused on delivering growth in the medium to long term.

Gross merchandise sales in our **General Items** marketplace has remained subdued and as a result both revenue (down 1.5%) and EBITDA (up 0.1%) have been largely flat. We've continued to improve the Trade Me experience for members including the release of a new image-heavy gallery across much of the site, an overhaul of the My Products seller tool and a revamp of our clothing category. We've also appointed Stuart McLean to run this business – he started at Trade Me last week having most recently been Xero's chief revenue officer.

The **Classifieds** businesses have delivered another excellent result, with revenue (up 24%) and EBITDA (up 14%) both growing strongly year-on-year. Trade Me Motors enjoyed a revenue boost from the contribution of the MotorWeb vehicle data business acquired in December 2013, and remains the most popular automotive website in New Zealand by a significant margin. Trade Me Jobs delivered a great result, off the back of a buoyant job market and a lot of hard work by the team. We recently saw Trade Me Jobs click past 90 per cent of its main competitor's listing inventory for the first time ever. Trade Me Property has bolstered its account management and presence in several regions as it continues to regain support from agents under the revised pricing structure.

In the unimaginatively titled **Other** category, we saw revenue increase substantially (up 18.2%) although EBITDA was unchanged. Revenue growth was underpinned by a strong six months for LifeDirect, Pay Now and our Travel businesses.

Our **expenses** were up 28 per cent year-on-year, reflecting our clearly signposted continued investment in Trade Me's future growth prospects. We are convinced this is the right approach and believe that investment now will result in stronger market positions and greater growth opportunities in the future.

Acquisitions and investments

In January 2015 we announced our investment in peer-to-peer lending platform, Harmoney. We acquired a 15 per cent stake for $7.7m. Harmoney is currently the only licensed peer-to-peer lender in New Zealand. We see Harmoney as a great fit for Trade Me, as it too is all about providing Kiwi consumers with a safe, trusted, scalable, efficient online platform to undertake a transaction.

In September 2014, we acquired Paystation Group, a Wellington-based online credit card processing and payments gateway founded in 2002. We see Paystation's expertise as complementary to Trade Me's core business and we think their nous can help us make trading on Trade Me faster and easier.

In December 2014 we acquired Viewing Tracker, a small Wellington company that minimises hassle for tenants and property managers making arrangements to view rental properties. Founder Aaron Clancy has joined the Trade Me Property team.

People

As at 1 February we had 424 staff (399 FTEs) at Trade Me. This is up from 355 staff (332 FTEs) six months ago. Our team in Auckland outgrew their Parnell premises and have now moved to a newly fitted out building in central Auckland.

We have two new faces on our Executive team. Trent Mankelow joined us as our inaugural chief product officer in October 2014. Trent is responsible for making sure we build the right things, and make them great. As noted above, Stuart McLean joined Trade Me in February 2015 and will run our marketplace business.

We have also reorganised our operations to position our product development teams within each of our business lines – a reflection of how important we view product development to Trade Me's future.

Outlook

We're pleased to deliver a result in line with our expectations, and consistent with our guidance in August and October 2014.

Looking ahead, we expect our full year results to deliver on the intentions we set in August 2014 – with low double-digit revenue growth, continuing investment, and therefore subdued EBITDA growth.

There is plenty to be optimistic about as we invest in disruptive models, new products, and site improvements. We are well-positioned as growth in mobile, the migration of advertising online and growth in ecommerce all evolve in our favour.

David Kirk
CHAIRMAN

Jon Macdonald
CEO

Interim consolidated statement of comprehensive income for the six months ended 31 December 2014

	Notes	Unaudited 31 December 2014 $000's	Unaudited 31 December 2013 $000's
General Items		32,144	32,629
Classifieds		47,660	38,563
Other		17,095	14,459
Revenue		**96,899**	**85,651**
Cost of sales		(5,336)	(3,352)
Employee benefit expense		(14,533)	(13,004)
Web infrastructure expense		(2,019)	(1,608)
Promotion expense		(4,085)	(3,206)
Other expenses		(6,295)	(4,050)
Total expenses		**(32,268)**	**(25,220)**
Earnings before interest, tax, depreciation and amortisation		**64,631**	**60,431**
Depreciation and amortisation		(7,435)	(5,339)
Earnings before interest and tax		**57,196**	**55,092**
Finance income		1,151	1,052
Finance costs		(4,867)	(3,068)
Profit before income tax		**53,480**	**53,076**
Tax expense		(15,040)	(15,056)
Profit and total comprehensive income for the period		**38,440**	**38,020**
Earnings per share			
Basic and diluted (cents per share)	4	9.69	9.59

The above statement should be read in conjunction with the accompanying notes

Interim consolidated statement of financial position as at 31 December 2014

	Notes	Unaudited 31 December 2014 $000's	Audited 30 June 2014 $000's
ASSETS			
Cash and cash equivalents		41,207	41,653
Trade and other receivables		10,891	11,775
Derivative financial instruments		32	101
Total current assets		**52,130**	**53,529**
Trade and other receivables		829	583
Derivative financial instruments		–	352
Property, plant and equipment		7,316	6,807
Intangible assets		806,743	804,515
Deferred tax asset		1,545	884
Investment	9	2,000	–
Total non–current assets		**818,433**	**813,141**
Total assets		**870,563**	**866,670**
LIABILITIES			
Trade and other payables		16,722	14,169
Derivative financial instruments		11	–
Income tax payable		3,104	7,659
Total current liabilities		**19,837**	**21,828**
Provisions		4,408	4,102
Derivative financial instruments		424	–
Interest bearing loans and borrowings	7	165,834	165,784
Other non–current liabilities		453	484
Total non–current liabilities		**171,119**	**170,370**
Total liabilities		**190,956**	**192,198**
EQUITY			
Contributed equity		1,069,814	1,069,814
Share based payment reserve		283	266
Other reserves		(485,745)	(485,737)
Retained earnings		95,255	90,129
Total equity attributable to owners of the Company		**679,607**	**674,472**
Total equity and liabilities		**870,563**	**866,670**

For and on behalf of the Board of Directors who authorised these interim financial statements for issue on 17 February 2015:

David Kirk
CHAIRMAN

Joanna Perry
CHAIR OF THE AUDIT AND
RISK MANAGEMENT COMMITTEE

The above statement should be read in conjunction with the accompanying notes

Interim consolidated statement of changes in equity for the six months ended 31 December 2014

	Notes	Ordinary shares $000's	Share based payment reserve $000's	Retained earnings $000's	Other reserves $000's	Total equity $000's
Balance at 1 July 2014		**1,069,814**	**266**	**90,129**	**(485,737)**	**674,472**
Profit and total comprehensive income		–	–	38,440	–	38,440
Exchange differences on translation of foreign operations		–	–	–	(8)	(8)
Dividends	5	–	–	(33,314)	–	(33,314)
Supplementary dividends		–	–	(4,454)	–	(4,454)
Tax credit on supplementary dividends		–	–	4,454	–	4,454
Share based payments		–	17	–	–	17
Balance at 31 December 2014 (unaudited)		**1,069,814**	**283**	**95,255**	**(485,745)**	**679,607**

	Notes	Ordinary shares $000's	Share based payment reserve $000's	Retained earnings $000's	Other reserves $000's	Total equity $000's
Balance at 1 July 2013		**1,069,196**	**557**	**73,050**	**(485,737)**	**657,066**
Profit and total comprehensive income		–	–	38,020	–	38,020
Dividends	5	–	–	(32,894)	–	(32,894)
Supplementary dividends		–	–	(4,217)	–	(4,217)
Tax credit on supplementary dividends		–	–	4,217	–	4,217
Share based payments		–	217	–	–	217
Balance at 31 December 2013 (unaudited)		**1,069,196**	**774**	**78,176**	**(485,737)**	**662,409**

The above statement should be read in conjunction with the accompanying notes

Interim consolidated statement of cash flows for the six months ended 31 December 2014

	Notes	Unaudited 31 December 2014 $000's	Unaudited 31 December 2013 $000's
Operating activities			
Profit before tax from continuing operations		53,480	53,076
Adjustments to reconcile profit before tax to net operating cash flows:			
Depreciation of property, plant and equipment		1,625	1,415
Amortisation of intangible assets		5,810	3,925
Share–based payment expense		(34)	462
Doubtful debts expense		255	130
(Gain)/Loss on disposal of property		(12)	29
Finance costs		4,867	3,068
Other		(48)	(702)
Working capital adjustments:			
Decrease/(Increase) in trade and other receivables and prepayments		1,042	(879)
Increase in trade and other payables		1,584	198
Income tax paid		(15,800)	(15,400)
Net cash flows from operating activities		**52,769**	**45,322**
Investing activities			
Purchase of property, plant and equipment		(1,827)	(1,010)
Payment for acquired and internally developed intangibles		(5,694)	(2,939)
Receipts from loan		–	150
Business acquisition	6	(2,000)	(23,500)
Investment	9	(2,000)	–
Net cash flows (used in) investing activities		**(11,521)**	**(27,299)**
Financing activities			
Dividends paid		(37,770)	(37,111)
Interest paid on borrowings (including facility fees)		(3,924)	(3,784)
Net cash flows (used in) financing activities		**(41,694)**	**(40,895)**
Net decrease in cash and cash equivalents		(446)	(22,872)
Cash and cash equivalents at beginning of period		41,653	48,857
Cash and cash equivalents at end of period		**41,207**	**25,985**

The above statement should be read in conjunction with the accompanying notes

Notes to the financial statements
for the six months ended 31 December 2014

1. General information

The interim consolidated financial statements presented are for Trade Me Group Limited (the "Company"), and its subsidiaries (together the "Group"), a company domiciled in New Zealand and registered under the Companies Act 1993.

The interim financial statements are for the six months ended 31 December 2014 and have been prepared in accordance with NZ GAAP. Trade Me Group Limited is a profit-oriented entity.

The nature of operations and principal activities of the Group are to provide online marketplaces that connect people to undertake a transaction or form a relationship. The Group's businesses include providing a new and used goods marketplace, classified advertising for motor vehicles, real estate and employment, online advertising services and other ancillary online businesses.

2. Basis of preparation and accounting policies

The accounting policies applied to the preparation of the consolidated 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.

These general purpose consolidated interim financial statements for the six months ended 31 December 2014 have been prepared in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting.

These consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report and should be read in conjunction with the audited financial statements of the Group for the year ended 30 June 2014.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000's).

3. Segment reporting

(a) Identification of reportable segments

The Group has determined its operating segments based on the reports reviewed by the Group's Chief Executive Officer to assess performance, allocate resources and make strategic decisions. The reportable segments are based on aggregating operating segments based on the similarity of the services provided.

The Group's reportable segments are as follows:

General Items

The General Items segment is our online marketplace business. Revenue is generated from listing fees, premium fees and success fees and performance is driven by both the number of completed transactions and the total sales value of completed transactions.

Classifieds

The Classifieds segment represents advertising revenue from each of our three classified advertising sites: Motors, Property and Jobs. Revenue is generated primarily from basic and premium listing fees.

Other

The Other segment reflects all other businesses, including advertising, travel, online dating, Pay Now, payment gateway and online insurance comparison.

(b) Segment revenues, EBITDA and reconciliation to overall result

The following is an analysis of the Group's revenue and EBITDA from continuing operations by reportable segment.

Reporting segments	Revenue 31 December 2014 $000's	Revenue 31 December 2013 $000's	EBITDA* 31 December 2014 $000's	EBITDA* 31 December 2013 $000's
General Items	32,144	32,629	24,511	24,478
Classifieds	47,660	38,563	32,780	28,643
Other	17,095	14,459	7,340	7,310
Total for continuing operations	**96,899**	**85,651**	**64,631**	**60,431**
Reconciliation to overall result				
Depreciation and amortisation			(7,435)	(5,339)
Finance income			1,151	1,052
Finance costs			(4,867)	(3,068)
Profit before Income Tax			**53,480**	**53,076**

*EBITDA (a non-GAAP measure) reflects earnings before interest, tax, depreciation and amortisation.

The accounting policies of the reportable segments are the same as the Group's accounting policies as outlined in the annual financial statements for the year ended 30 June 2014.

Segment revenue reported above represents revenue generated from external customers. Immaterial inter-segment revenues have been excluded from the above segment results (2013: Nil).

(c) Segment assets and liabilities

The assets and liabilities of the Group are reported to and reviewed by the Chief Executive Officer in total and are not allocated by operating segment. Therefore, operating segment assets and liabilities are not disclosed.

(d) Other information

Geographical

The Group operates almost entirely within New Zealand, and derived no material revenue from foreign countries for the six months ended 31 December 2014 (2013: Nil).

Information about major customers

No single customer contributed 10% or more to the Group's revenue for the six months ended 31 December 2014 (2013: Nil).

4. Earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	Unaudited 31 December 2014	Unaudited 31 December 2013
Earnings used for the calculation of basic and diluted earnings ($000's):	38,440	38,020
Weighted average number of shares on issue (000's)	396,730	396,434
Basic and diluted earnings per share (cents)	9.69	9.59

Basic earnings per share is calculated by dividing the Group profit for the six month period by the weighted average number of ordinary and restricted shares outstanding during the period. Diluted earnings per share equals basic earnings per share, since there are no potentially dilutive ordinary shares.

5. Dividends

	Unaudited 31 December 2014 $000's	Unaudited 31 December 2013 $000's
Fully imputed dividends: 8.4 cents per share (2013: 8.3 cents per share)	33,314	32,894
Dividends declared after reporting date, but not recorded as a liability in these financial statements: 7.7 cents per share (2013: 7.6 cents per share)	30,556	30,138

6. Business Combinations

The Group gained control over the following businesses during the six months ended 31 December 2014:

Business acquired	Principal activity	Acquisition date	Interest
Viewing Tracker	Online property management vacancy tracking system	15-Dec-14	100%
Face, Netspace Services & Paystation	Payment gateway, Colocation, Dedicated Servers, Managed Services, Web development and hosting	15-Sep-14	100%

The fair values of the identifiable assets and liabilities acquired for the acquisitions above, none of which were individually significant to the Group, were:

Assets and liabilities acquired at the date of acquisition:	$000's
Software	452
Fixed assets	295
Other liabilities	(53)
Goodwill	1,612
Total identifiable net assets and liabilities attributable to the Company	**2,306**
Satisfied by	
Cash paid on acquisition date	2,000
Fair value of contingent consideration to be paid in September 2015 and 2016.	306
Fair value of consideration paid	**2,306**

Goodwill reflects the value of the business that can't be attributed to separately identifiable assets such as the staff who joined on acquisition and future growth opportunities. None of the goodwill is expected to be deductible for tax purposes.

The fair value of the provision for contingent consideration has been determined using the present value of a weighted average range of possible earn out payments based on the Group's assessment of the probability of achieving each of the targets within the range. The discount rate used is 4.86%. The effects on the fair value of risk and uncertainty in the future cash flows are dealt with by adjusting the estimated cash flows rather than adjusting the discount rate.

If the probabilities of reaching the revenue targets in the upper half of the range of possible payment hurdles were increased by 5% and those in the lower half decreased by 5%, or if the converse was applied there would be an immaterial change to contingent consideration. The provision has been reassessed at reporting date and no change has been made as a result.

The consolidated statement of comprehensive income includes immaterial revenue and net profit for the six months ended 31 December 2014, as a result of acquisitions of business combinations made during the reporting period. If the acquisitions had occurred at the beginning of the reporting period, the consolidated income statement would have had no material change to revenue and profit for the period.

Acquisition-related costs included in other expenses in the statement of comprehensive income were immaterial.

7. Interest bearing liabilities

Lender	Maturity Date	Unaudited 31 December 2014 $000's	Audited 30 June 2014 $000's
Commonwealth Bank of Australia	11 September 2016	116,000	116,000
Westpac Banking Corporation	11 September 2016	50,000	50,000
Loan establishment costs		(166)	(216)
Total interest bearing liabilities		**165,834**	**165,784**

The covenants entered into by the Group require specific calculations of the Group's net debt to EBITDA, and interest cover.

There have been no covenant breaches.

The facility incurs interest based on market floating rates that are re-set every 90 days.

8. Financial instruments

Financial instruments included in these financial statements include cash and cash equivalents, trade and other receivables, trade and other payables, interest bearing loans and borrowings and derivative financial instruments. The carrying amounts of these financial instruments are a reasonable approximation of their fair values.

Derivative financial instruments and the liability for contingent consideration outlined in note 6 are both classified as "fair value through profit or loss" and are categorised into one of three levels based on the quality of inputs used to determine fair value:

- Level 1 - quoted prices 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 (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Derivative financial instruments are classified as level 2 and the liability for contingent consideration is classified as level 3.

The fair value of derivative financial instruments has been provided by the counterparty using observable market interest rate data as at balance date. The valuation of the liability for contingent consideration has been determined using the present value of a weighted average range of possible earn out payments.

9. Subsequent events

As outlined in note 5, on 17 February 2015, the directors declared a dividend of $30,556,000, which is not recorded as a liability in these interim financial statements.

On 12 January 2015, the Group acquired a 15 per cent stake in lending platform Harmoney (harmoney.com), New Zealand's first peer-to-peer lending company, for $7.7m of which $2.0m was paid as a deposit prior to balance date.

Chartered Accountants

Review Report to the Shareholders of Trade Me Group Limited ("the Company") and its subsidiaries together ("the Group")

We have reviewed the interim financial statements on pages 5 to 12, which comprise the statement of financial position of the Group as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the period ended on that date, and a summary of significant accounting policies and other explanatory information

This report is made solely to the Company's shareholders, as a body, in accordance with our engagement letter. Our review has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our review work, for this report, or for our findings.

Directors' Responsibilities

The directors are responsible for the preparation and fair presentation of interim financial statements which comply with generally accepted accounting practice in New Zealand as it relates to interim financial statements and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

Reviewer's 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, taken as a whole, are not prepared in all material respects, in accordance with generally accepted accounting practice in New Zealand ("NZ GAAP"). As the auditor of the Trade Me Group Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Basis of Statement

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.

Other than in our capacity as assurance practitioner we have no relationship with, or interests in, the Group.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial statements, set out on pages 5 to 12, do not present fairly, in all material respects, the financial position of the Group as at 31 December 2014 and its financial performance and cash flows for the six month period ended on that date in accordance with generally accepted accounting practice in New Zealand as it relates to interim financial statements.

Our review was completed on 17 February 2015 and our findings are expressed as at that date.

Ernst + Young

Ernst & Young

Wellington

Directory: Trade Me Group Limited

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Board of directors

David Kirk	Chairman
Gail Hambly	Non-Executive Director
Paul McCarney	Non-Executive Director
Sam Morgan	Non-Executive Director
Joanna Perry	Non-Executive Director

Executive team

Jon Macdonald	Chief Executive Officer
Jonathan Klouwens	Chief Financial Officer
Sarah Hard	Company Secretary
Fiona Ireland	Head of Human Resources
Nigel Jeffries	Head of Trade Me Property
Trent Mankelow	Chief Product Officer
Jimmy McGee	Chief Commercial Officer
Stuart McLean	Head of Marketplace
Dave Wasley	Head of Platform & Operations

Investor information
The Trade Me investor relations website is at:
http://investors.trademe.co.nz/

Share registrar
If you have a shareholder-related query, please contact our share registrar, Link Market Services Limited:

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