MARKET RELEASE

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Spark New Zealand H1 FY18 Results

- **Strong performance in mobile, cloud, security and service management.**
- **Good progress in bold transformation programme; albeit as previously indicated, planned change costs incurred.**
- **Focus on digitisation and simplification driving improved customer satisfaction and reducing cost-to-serve.**
- **New Lightbox media platform to launch in April; will offer pay-per-view movies and events**

Spark New Zealand Chair Justine Smyth said today the financial results for the half year to 31 December 2017 show Spark has made good progress on its bold transformation strategy.

"We are beginning to see the results of progress against our three strategic focus areas: an emphasis on wireless technologies; better serving price sensitive customers; and radically simplifying, automating and digitising our business – to reduce cost while maintaining the high-quality experience our customers rightly expect. These underpin the next phase of our transformation, and are intended to seek out growth in a very challenging market and operating environment.

"Over the half, Spark maintained top-line revenue growth, with H1 FY18 revenues up 1.6%, to $1.82 billion, despite intense competition in all our markets. This is on the back of continued strong performance in mobile, up 8.0%, together with cloud, security and service management, up 17.5%.

"As indicated at the end of the previous financial year, the transformation programme has associated costs of change, and revenue growth over the half was partially offset by $13 million of such costs. As a result, earnings before interest, taxation, depreciation and amortisation (EBITDA) over the period declined by $8 million to $463 million."

Spark Managing Director Simon Moutter said, "We were pleased to see strong growth in mobile connections, revenue and margin. The launch of our unlimited mobile data plan, which set a new benchmark for value in the market, and growth in the online-only Skinny Direct product helped grow mobile margins at both ends of the market and saw us return to overall mobile ARPU growth for the first time in two years.

"Our cloud, security and service management revenue also continued to grow, on the back of customer demand for "as a service" products. Mobile and cloud growth continue to more than offset the declines in voice, managed data and networks.

"The Upgrade New Zealand programme progressed well over the period, with wireless broadband now in 104,000 premises and large numbers of our customers migrating from copper to fibre. We now have 45% of our customers on these newer technologies, keeping us on track to be mostly ex-copper by 2020. This shift improves the customer experience, and is also delivering around $46 million annually in reduced access costs.

"At the more price-sensitive end of the market, Spark's sub-brands Big Pipe and Skinny have continued to resonate well with price-sensitive customers, securing the majority of our broadband connection growth in the half year, alongside the growth of Skinny Direct's mobile service.

"Skinny has continued to win awards for customer satisfaction, and this month was named the winner of Consumer NZ's People's Choice award for the third consecutive year. As a company that was "born digital" Skinny has been showing the way for Spark as we ramp up our digitisation and simplification initiatives.

"In the six months to 31 December 2017, we have migrated more than 166,000 Spark consumer customers on to new fit-for-purpose plans, offering better value and digital self-service options. Spark Digital has stopped further sales of more than 5,000 outdated managed data plan variants, setting up for a simplified and standardised future.

"Our digitisation of the business has continued at pace. We have 35 "bots" performing automated and sometimes very complex tasks, from managing security functions to proactively resolving broadband faults, and we've improved our customer self-service tools with enhancements to the Spark App, the MySpark self-service platform and the simplification of our online "Help" section. As a result, we've seen an increase in customer satisfaction, alongside an 18% reduction of calls into our customer care centres."

Mr Moutter said Spark's partnerships with Spotify and Netflix continued, together with Lightbox, to be valuable means of customer growth and retention.

“Lightbox now has more than 300,000 subscribers and we are excited to announce today that it will upgrade its video media platform, with the new Brightcove platform to launch in April. This will expand the range of content available and add an additional revenue stream with ‘pay-per-view’ movies. “The momentum of our transformation programme has given us confidence to be bolder in pursuing our ambitions and we have been looking at how adopting an Agile way of working may help us reach our targets for customer satisfaction and company culture. While we have previously planned to “scale up” to Agile ways of working, we now see significant benefit in adopting Agile ways of working across the whole organisation and are in the process of working out how to get there.

Ms Smyth added that based on the results from the first half, the Board was affirming full-year EBITDA guidance of 0-2% growth versus FY17 actual EBITDA (excluding net gain from sale of Mayoral Drive Carpark), and supported a total H1 FY18 dividend per share of 12.5c, made up of a 75% imputed ordinary dividend per share of 11.0c and a 75% imputed special dividend per share of 1.5c.

“We note however that we are considering accelerating our business transformation to strengthen the FY19 result. No decision has yet been made, but if the programme is accelerated, then FY18 guidance may reduce due to the associated costs of change. We will update the market if appropriate.,” says Ms Smyth.

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