

Market Release

21 August 2015

SPARK NEW ZEALAND FY15 RESULTS

Solid execution of strategy and a greater focus on customers leads to a return to sustainable EBITDA growth

Dividends increasing on the back of growing confidence

Spark New Zealand Chairman Mark Verbiest said the results for the financial year ended 30 June 2015 reflect years of hard work and confirm that the company is on track to deliver the Spark New Zealand turnaround story.

“A clear strategy with solid execution and a greater focus on customers has seen Spark New Zealand continue to gain customer numbers and return to sustainable EBITDA and free cash flow growth.

“We are generating positive market momentum, especially in mobile, despite a highly competitive market. We have strengthened our portfolio of digital services and related capabilities, reshaped our IT systems around our customers, invested in network leadership, and successfully focused on costs and capital management.

“The bold decision to rebrand as Spark New Zealand continues to be vindicated with the core Spark brands performing well, appealing to a broader customer base and registering big improvements in brand preference measures.

“Particularly pleasing is the significant underlying improvement in free cash flow which emerged in the second half of the year, demonstrating that the repositioning of the business is leading to better financial outcomes. This has provided the Board with the confidence to increase the dividend payment to shareholders from 17 cents per share in FY14 to 20 cents per share in FY15.

“The financial results support the Board’s view that a return to long-term, sustainable growth in free cash flow, revenue and earnings over the coming years is both realistic and achievable. As such, for FY16, Spark New Zealand anticipates paying an annual dividend of 22 cents per share and a special dividend of 3 cents per share as a means of returning excess capital, subject to there being no material adverse changes in operating outlook.”

Key Financial Results

Operating revenues and other gains from continuing operations were down 2.9%, to \$3,531 million, with growth in mobile and IT services revenues being moderated by the ongoing decline in calling and access revenue.

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) from continuing operations were up 2.8% for the full year.

Spark New Zealand's net earnings after tax from continuing operations for FY15 were \$375 million, up 16.1%. Net earnings including discontinued operations were down 18.5% compared to FY14, noting that financial year result included a gain on the sale of AAPT.

Mobile connections continued to grow, up 172,000 in the 12 months to 30 June 2015. We have closed the connection number gap on our largest competitor, Vodafone, to just over 150,000, having been around 600,000 behind them just three years ago.

Total mobile revenue share grew by 2% to 41% driven by excellent growth in consumer revenue, however the market remains very competitive, especially in the business market.

Broadband revenues returned to modest growth in FY15, driven by a focus on higher value plans. Broadband connections increased 1.6% despite intense competition, particularly at the entry-level end of the market.

IT services revenue rose 5.5%, underpinned by our investment in Cloud computing services through Revera and Appserv, and in data centre infrastructure, including new and expanded facilities in main centres.

Ongoing tight management of operating costs saw expenses from continuing operations reduce 5.0% to \$2,566 million. The Turnaround Programme was completed at the end of June 2015, delivering significant improvement in sustainable free cash flow. The principles of the programme have now been embedded into each part of the business.

Key Operational Results

Managing Director Simon Moutter said that the first phase of the Spark New Zealand strategy that commenced in 2013 is now complete.

"We have now stabilised and reset the business to reflect the fast-changing and increasingly digital world in which Spark New Zealand and our customers live.

"During that time we have reduced prices, cut costs, simplified products, overhauled IT platforms, rebuilt networks, established a new fast and competitive organisational culture and started winning in the market. We've also sold businesses that were no longer going to be part of Spark New Zealand's future, and invested in the new core Spark brands, together with brands and new businesses like Skinny, Bigpipe, Revera, Qrious, Lightbox and Morepork.

"The extent of the change the organisation has experienced over the last two years is profound. Customers are sensing the shift and responding positively with improved brand metrics and reputation measures across key customer segments.

"We've had sustained revenue and earnings growth in the Spark Home, Mobile & Business business unit for three halves now, driven by an excellent performance in the market.

"While the FY15 results for the Spark Digital business unit reflect the impact of market pressures, we have now finished repositioning the business model, and we're focused on closing high-quality sales and operating efficiency with a view to stabilising Spark Digital earnings in FY16.

"Investment in digital service growth options has continued, with Lightbox surpassing its first subscriber target, Qrious gaining a firm position in the emerging data analytics market, Cloud IT growing strongly and Morepork Smart Living beta-launched. Our end-to-end Cloud



computing capabilities have continued to expand with both Revera and Appserv exceeding performance expectations and attracting a significant number of new business customers.

“We believe our combined data network is second to none in New Zealand. This includes the quality and national reach of our 4G mobile network, our optical transport core network and our nationwide broadband and WiFi networks. We have accelerated our rollout of 4G mobile broadband services using the 700MHz spectrum to make the most of owning more spectrum in this band range than any other provider.

“Release 2 of the re-engineered IT systems has been delivered and our centralised Turnaround Programme to drive process and cost improvements has been completed, laying the foundation for future operational efficiency gains.

“All up, Spark New Zealand is in the best shape it’s been in for many years. We’re now shifting to the next phase of our strategy with even greater emphasis on digital self-service capability and leveraging our outstanding networks to create truly great customer experiences, and in turn generate sustainable margin and revenue growth.

“This is one of the key drivers behind our newly launched Digital First Programme. Digital First is the next step in transforming Spark New Zealand into a smarter, more agile, more efficient company, with great digital customer experiences at its heart.”

Mr Verbiest said, “The Board would like to acknowledge the people of Spark New Zealand. They have taken on the challenge of transforming this iconic New Zealand business and making a difference, and they have made massive strides towards that ambition.

“We are excited by the opportunity to build on the momentum created from the platform the Spark New Zealand team has developed over the past two years. We recognise the important and privileged role we have in helping New Zealanders and New Zealand businesses achieve their aspirations. We are determined to make a meaningful and sustainable contribution to New Zealand’s digital future.”

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