

Market Release

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SPARK NEW ZEALAND H1 FY16 RESULTS

Spark New Zealand earnings up on back of strong mobile and IT services performance and continued productivity gains

Spark New Zealand Chairman Mark Verbiest said today the financial results for the six months to 31 December 2015 reflect the positive impact of the Company's investment in New Zealand's digital future.

"Notably, for the first time in many years, mobile and IT services revenue growth, excluding divestments and regulatory changes, has more than offset ongoing decline in landline voice and legacy data products, demonstrating a successful rebalancing of the company's focus."

"Each day, more and more New Zealanders are choosing Spark. And we're working harder than ever to help make their lives just a little better, every day. That is in turn leading to improved financial performance.

"We've established an outstanding network and digital services platform. We have improved our executional capability and our focus on understanding customer needs. We've got stronger and more relevant brands. This is all making us a more agile, more competitive and more resilient business, with a greater capacity to create options for the future.

Total operating revenue and other gains decreased by 4.1% to \$1,723 million in H1 FY16. After re-basing for changes arising from earlier divestments, changes to the way regulated access charges for Spark Wholesale are billed and the acquisition of CCL Group, the underlying total operating revenues and other gains have increased by \$27 million, or 1.6%.

The return in FY15 to earnings before interest, tax expense, depreciation and amortisation (EBITDA) growth was reinforced for H1 FY16, with EBITDA up 4.4% to \$455 million, while net earnings were up 7.5% to \$158 million.

There has been continued growth in good quality mobile connections, up 4.6%, while, reflecting the strategic shift in focus to higher value customers and plans, mobile revenues grew by \$59 million, or 11.7%. Re-based IT services revenue grew by \$23 million, or 7.8%, resulting from growth in platform IT services and IT procurement revenues, partially offset by a slight decline in traditional IT service revenues. Broadband revenues grew by \$15 million, or 4.6%, as a focus on higher value plans and existing customers continued.

The tight management of operating costs, along with the temporarily lower copper access charges and earlier divestments, meant operating expenses were broadly flat after allowing for the impact of divestments and the regulated changes to Wholesale access charges.

Spark New Zealand Managing Director Simon Moutter said that the Spark New Zealand transformation remains on-plan, despite competitive and fast-changing markets.

“The half-year to 31 December 2015 was another big six months. We are in good shape, with positive sales momentum and more customers choosing us as their digital services provider. Operationally, we have continued to execute at pace in a world where demand for digital services and data is increasing exponentially.

“The Spark Home, Mobile & Business division had an excellent six months, with a greater focus on customers leading to better commercial outcomes. In particular, a strategic shift of emphasis towards existing customers and all-of-life services across mobile, broadband and value-add service needs has delivered positive results.

“The performance in mobile has been particularly strong, with a focus on driving value rather than connections continuing to lift mobile revenue, and our value-add and multi-brand strategies helping to differentiate from the competition.

“In broadband, Spark is focused on holding its market share at the higher-value end of the market, but work is needed to shore up a decline in share at the lower value end, with aggressive price-based competition fuelling high rates of churn across the industry.

“Demand for fibre is booming, with Spark performing well in new orders. However, a poor industry-wide fibre provisioning process is impacting customers, driving an increase in complex queries involving multiple parties and placing pressure across our contact centres. A dedicated effort on a number of fronts is underway to improve the customer experience.

“The half-year saw the lengthy Commerce Commission process to determine the regulated charge for access to the copper network finally draw to a close, with material fluctuations between the draft determinations in 2014 and 2015 and the final determination in December 2015. This unfortunately has led to unexpected and significant increases to the costs to ISPs, and in turn to retail prices for our customers.

“Spark Digital continues to transition to a platform IT provider. This is showing up in terms of improved quality of the business, with more repeatable platform IT services helping generate benefits.

“Our Cloud and data centres strategy execution was highlighted by an excellent performance from Revera, and reinforced by the acquisition of South Island market leader CCL Group in December 2015. There’s also been a significant number of new enterprise and Government customer wins achieved during the period.

“The Spark Ventures innovation team has continued to be a critical innovation engine, creating a portfolio of growth options. The digital capability created by Ventures is now being deployed to drive benefits across the entire company.

“Spark is committed to providing customers with great internet delivered video entertainment, particularly given video is now more than two-thirds of our total network traffic and growing fast. So we’ll continue investing in media, evolving towards a more open platform approach as we respond to the rapidly changing market forces and trends. The market is already very different to when we launched Lightbox 18 months ago, and we expect that pace of change to continue.”

“And finally, within the Spark Connect division, the operational model continues to shift to a Digital First focus. We’ve significantly increased our network capacity, resilience and performance to accommodate the massive growth in demand for video, while our re-engineered IT stack is now a key enabler for digital services.”

Mr Verbiest said, “For shareholders, we remain pleased with the continued underlying improvement in free cash flow and the improving financial performance of the business. For FY16, the Board’s intention is still to pay annual dividends of 22 cents per share and special



dividends of 3 cents per share, subject to no material change in outlook. We anticipate the special dividends could continue into FY17 subject to no significant business changes.

“We’re looking forward to the rest of the FY16 year. Technology will have an increasingly powerful role to play for our country, and Spark New Zealand is absolutely committed to enabling New Zealanders and New Zealand businesses make the most of it.”

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