



MARKET RELEASE

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SPARK NEW ZEALAND FY17 RESULTS

Ongoing Spark transformation delivering positive financial results in line with targets

- **Improved customer experience on back of greater focus on digitisation and simplification**
- **Big operational moves and contract wins in FY17 improved long-term positioning of business for the future but added extra cost**

Spark New Zealand Chairman Mark Verbiest said today the financial results for the year ended 30 June 2017 were in line with expectations and mark further positive progress in its long-term digital transformation.

“It’s been another year of relentless focus on delivering for our customers in very competitive retail markets and on positioning Spark well for the digital future.”

Reported revenue growth for FY17 was solid at 3.3% taking revenue to \$3.614 billion, on the back of continued strong performances in IT services, up 19.0%, and mobile, up 5.6%. This top-line performance, together with a continued focus on cost, helped to drive overall earnings before interest, tax and depreciation (EBITDA) growth of 3.0%, to \$1.016 billion. Included in the FY17 EBITDA was a \$20 million gain from the sale of surplus land at Mayoral Drive in Auckland. The shareholder dividend for the full year was 25 cents per share.

Mr Verbiest said, “The increased EBITDA, combined with a reduction in depreciation, resulted in overall net earnings increasing a pleasing 13.0% to \$418 million. That said, costs were up on last year, reflecting higher short-term costs needed to successfully address customer service challenges experienced last winter and to manage the



workload arising from strong growth in Telecommunications-as-a-Service and IT service contract wins. In addition, there were costs related to the large-scale migration of customers off copper to wireless or fibre, and from Yahoo to SMX email.

“While we’re proud of what we have achieved so far, and we’ve continued to execute our long-term strategy well and deliver good financial results, there are signs that fresh impetus is needed for the next phase of our transformation.”

Spark Managing Director Simon Moutter said, “Operationally, we have made some big moves. The successful launch of our ‘Upgrade New Zealand’ programme saw wireless broadband connections grow to 84,000 (up 72,000), and fibre connections grow to 172,000 (up 73,000) –meaning around 37% of Spark’s broadband base is now off copper.

“We also successfully migrated 800,000 customer email accounts safely to New Zealand-based provider SMX, and entered new partnerships with Netflix and Spark Arena to complement our Lightbox and Spotify value add-ons.

“We have seen a strong take-up of Telecommunications-as-a-service offerings to Government with 100+ customers connected to solutions that contribute towards delivering more customer-centric public services. Importantly, we also made material improvements in key customer service metrics including call wait times.

“But we still have a long way to go. In an exponentially evolving digital world, where change is the new normal, the complexity of fast-changing technology has customers grappling with the pace of change. Meanwhile, customer preference is shifting rapidly to wireless, enabled by high-speed mobile coverage. In mobile and broadband particularly, commoditisation pressures mean more and more New Zealanders are buying their mobile or broadband services based primarily on price.

“Increasingly, the companies most likely to win are those that cut through complexity to deliver a highly automated and slick digital self-service customer experience, and who have a simpler proposition to sell, maintain and support than their competitors.

“These are the forces and trends driving Spark to target three new focus areas in its strategy. First, over the next few years, Spark will put even more resource into radically



digitising and simplifying our products and services to materially lower our cost of operating and put more power into the hands of customers.

“Our second new area of focus will be to better leverage all our brands, meeting the needs of all parts of the market - from those who want services packed with extra value, to the more price sensitive who want the basics done well with no frills.

“Our third new area of focus will be to meet the growing customer appetite for wireless technologies. We will increase our emphasis on investment in this area to deliver improved mobile and wireless broadband services. By 2020 we aim to have 85% of our broadband customers migrated away from copper onto fibre or wireless technologies.

“At the same time, we will not limit our investment in other areas, including our Optical Transport Network and associated fibre assets, our Cloud and data centre services and the migration from the old PSTN network to the new Converged Communications Network (CCN) that will enable us to deliver the IP-based voice services into the future.”

Mr Verbiest said the future looked bright for Spark. “Spark is in a great position to navigate the new digital era. We have a strong balance sheet. We have invested well in fibre and wireless data network leadership.

“Our aim is to accelerate change at Spark, and work hardest where we can make the biggest difference for our customers. It’s a straightforward game plan. By embracing simplicity and turning the complex into the easy, we believe we can deliver for our customers, our shareholders, our people and for New Zealand.”

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