

H1 FY15 Financial Results

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Spark New Zealand is continuing to execute a sound long-term growth strategy, centred on customers, in a highly competitive market

With the reset phase largely complete, the strategy now transitions into a phase aimed at creating value from the platform established

Half-year underlying performance is broadly in line with plan and we expect H2 earnings to grow compared with H1 FY15 and H2 FY14

H1 2015 Highlights

Maintaining central focus on customers and ongoing strategic execution and progress in a challenging market.

Long-term strategy on-track.

- Rebrand executed superbly and has driven 24% improvement in customer preference which will support market momentum
- Multi-brand strategy and focus on value continuing to build strong differentiating positions in major categories
- H1 FY15 EBITDA down 3.5%, impacted by rebranding costs and by higher reorganisation costs versus prior year
- Strong performance from Spark Home, Mobile & Business, while repositioning of Spark Digital still in progress
- Sustained growth in mobile connections but market remains very competitive, particularly in business
- Broadband position consolidating, with focus shifting to higher value end of market, and plans re-priced following impact of UBA/UCLL input cost decisions
- Lightbox TV successfully launched and market awareness building in competitive SVOD market. Strategic Lightbox Sport JV formed and Spark HMB bundled offer in line with digital service strategy and providing value in broadband market
- Turnaround benefits still flowing through, with centralised programme devolving to BAU and principles embedded
- Network investment continuing, with rapidly expanding 4G mobile network, new trans-Tasman cable announced, and re-engineering delivering benefits
- Revera (revenue growth of 42%) and Appserv both tracking well and supporting transition to Cloud
- Dividend of 9cps declared for H1, fully imputed
- Guidance maintained subject to final Commerce Commission decision on copper input costs and potential backdating

Results scorecard

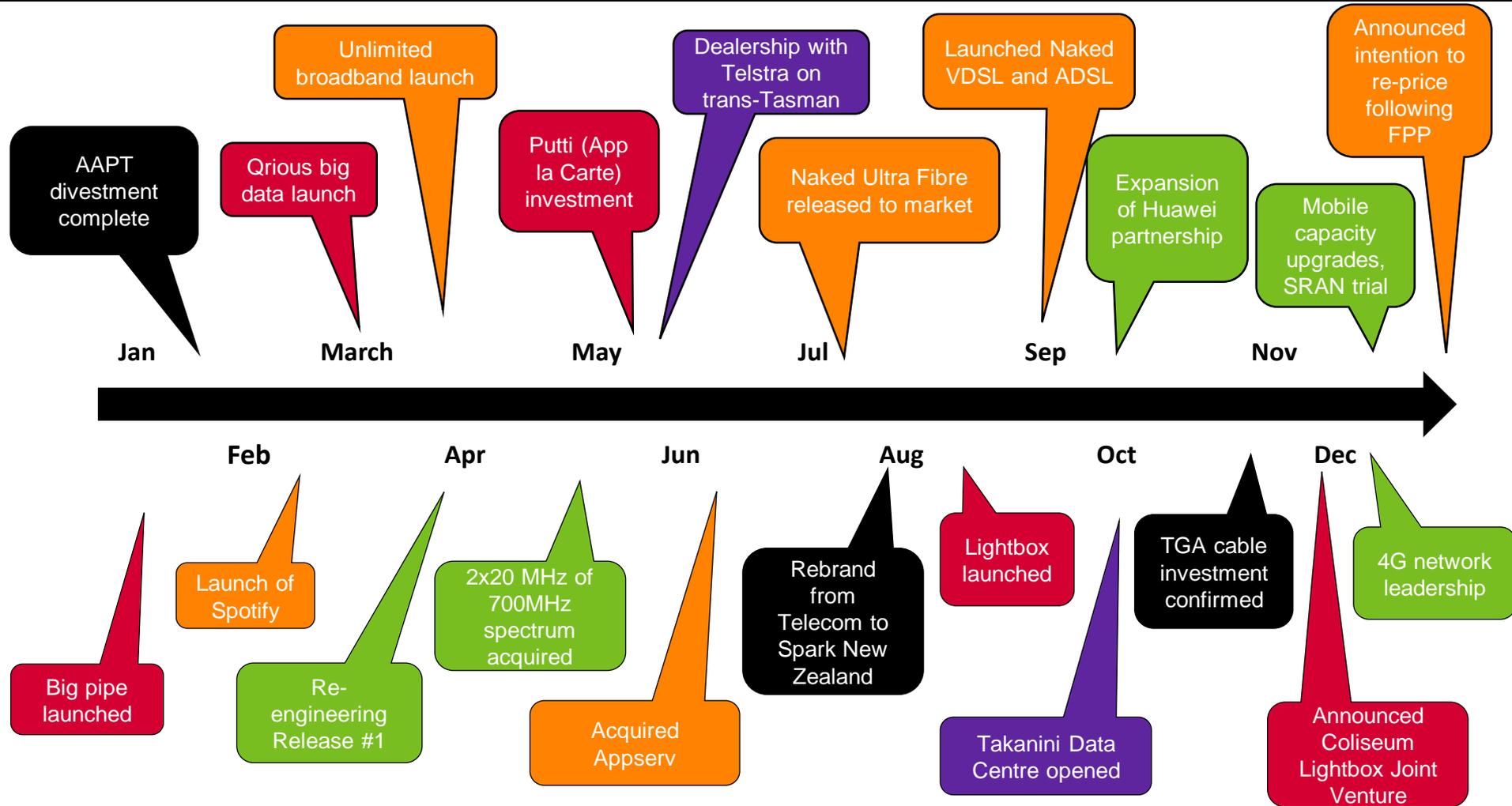
Key financials		Product revenue		Market share and connections		
	H1 FY15		H1 FY15 ⁽¹⁾		31 Dec 2014	Change vs 30 June 2014
Revenue Growth	-2.7% ⁽¹⁾	Mobile Revenue Growth	+2.4%	Mobile share (revenue)	40% ⁽²⁾	+1pp ⁽³⁾
				Mobile Customers	2,114,000	+5.4%
EBITDA Growth	-3.5% ⁽¹⁾	Broadband Revenue Growth	+0.6%	Broadband share (connections)	46.5% ⁽²⁾	-0.5pp ⁽³⁾
				Broadband customers	674,000	+0.7%
DPS	9.0cps	IT Revenue Growth	+6.9%	IT services share (revenue)	14.5% ⁽²⁾	+0.5pp ⁽³⁾

(1) Change vs H1 FY14

(2) Market share estimate

(3) Percentage Point estimate

More bold changes made in 2014



Maintaining strategic momentum

Ambition

At Spark, our ambition is to be a winning business, inspired by customers to unleash the potential in all New Zealanders

Goals

**#1 in mobility
#1 in data
#1 in effortless service and cost**

Strategic Programmes

Winning key markets

Turnaround

Spark Talent

Customer inspired

Spark brands

Foundation

New Zealand's best data network

To be replaced by Digital First

Meeting customer desires for digital experiences

Mobile Customers

- Leadership in Mobility with 4G, 700MHZ and Wi-Fi
- Loyalty with Spark Thanks digital offers
- Mobile content EPL/NBA
- Socialiser and Spotify digital services
- Smartphone app with 340,000 unique downloads since launch
- 92% of service interactions are digital

Home Customers

- Nationwide Fibre, Unlimited and Naked Broadband in portfolio
- Loyalty with Spark Thanks digital offers
- Lightbox 6000+ hours of high quality content
- 425,000 My Spark users and 484,000 e-bill users

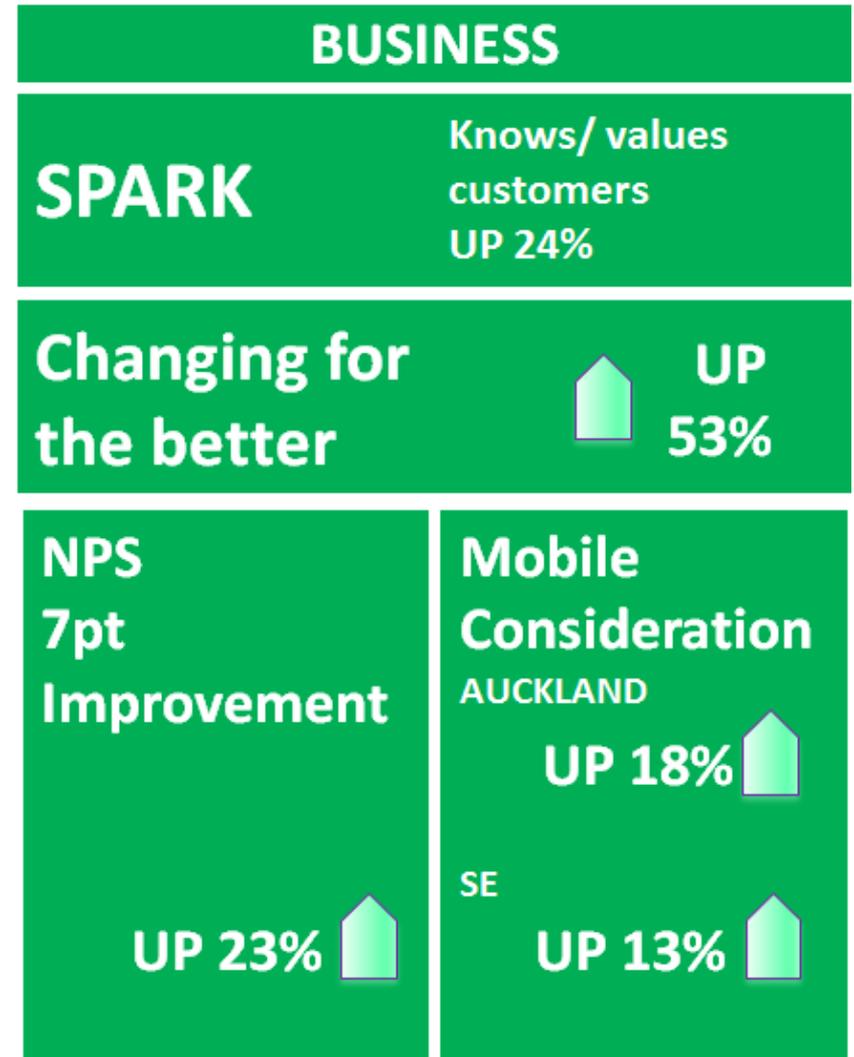
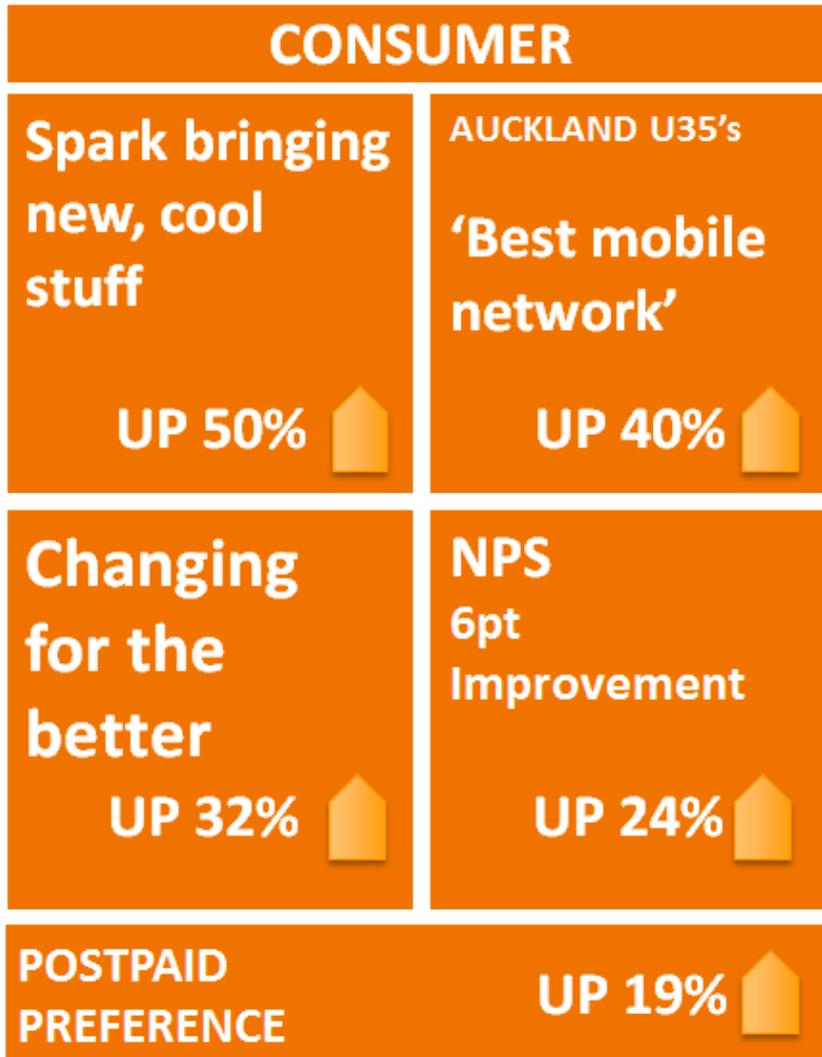
Small & Medium Business Customers

- Leadership in Mobility with 4G, 700MHZ and Wi-Fi
- Nationwide Fibre, Unlimited and Naked Broadband
- Putti, Appserve, Revera Optimiser, digital services
- My Spark, Smartphone app and e-bill uptake

Corporate and Enterprise Businesses

- Investing in Cloud and Data through Revera, Appserv and more Data Centre capability
- Data network leadership through Vocus/Connect 8, OTN completion, 4G network leadership, 700MHz spectrum, TGA
- Partnering with experts like Telstra, Qrious and others

Rebrand making positive difference



Strategic capability programmes contributing well

Turnaround

Bedding in as BAU
Benefits will continue
beyond FY15

Re-engineering

Release 2 in H2 FY15
Provides single customer
management system

Digital First

Driven by customer experience
Builds on re-engineering
New programme to accelerate
digitisation in set-up phase

Data network leadership strengthened



- Spark network delivering for customers
- Single RAN roadmap commenced, 70 sites already done
- Overtaking competitors on 4G mobile
- 700MHz advantage secures future 4G leadership
- First phase of re-engineering completed

Lightbox upping the ante



**HUSTLING
TO MAKE
ENDS MEET**

FROM THE CREATORS
OF BREAKING BAD

*BETTER
CALL
Saul*

A LIGHTBOX ORIGINAL
Express from the US

30 DAY FREE TRIAL LIGHTBOX .NZ

- Lightbox launched on time with product performing well and attracting great customer feedback
- 6000+ hours of high quality content
- More exclusive premium content acquired
- Announced Lightbox Sport joint venture with Coliseum
- FY15 investment increased to \$35 million

Financial Results



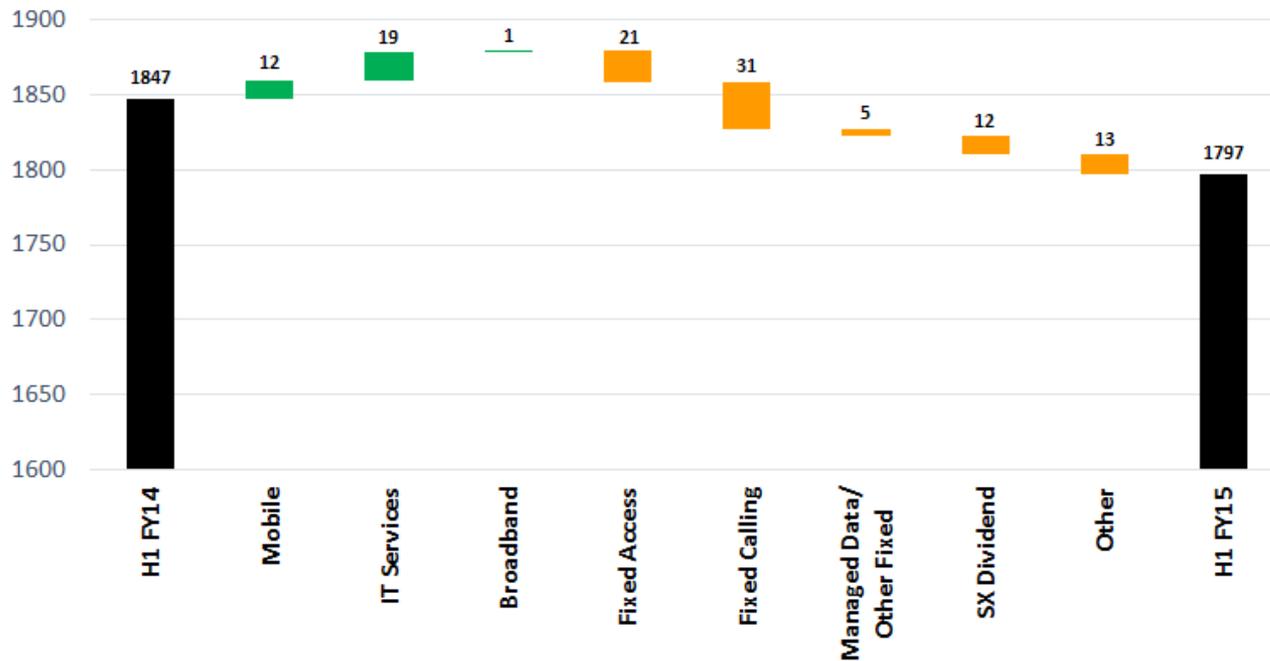
Group Profit & Loss

Reported Results⁽¹⁾	H1 FY15 \$M	H1 FY14 \$M	CHANGE %
Revenues	1,797	1,847	(2.7%)
Operating expenses	1,361	1,395	(2.4%)
EBITDA	436	452	(3.5%)
Depreciation & amortisation	224	227	(1.3%)
Net financing costs	12	17	(29.4%)
Tax expense	53	61	(13.1%)
Net earnings	147	147	-

(1) Continuing Operations

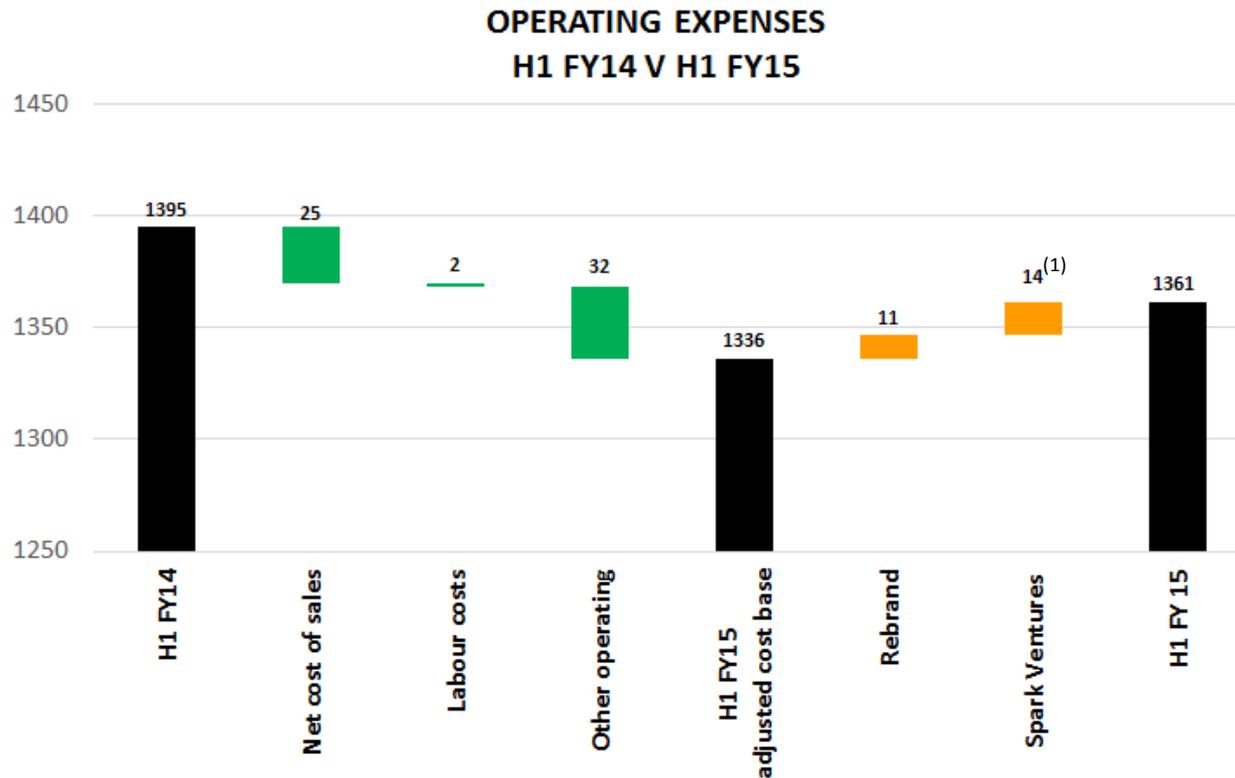
H1 FY15 Revenues

REVENUES H1 FY14 V H1 FY15



- Mobile and IT Services revenues up 2.4% and 6.9% respectively
- Rate of fixed revenue decline remained low at 5.8%
- Broadband market remained competitive
- Managed data impacted by the termination of wholesale backhaul contract
- Southern Cross dividend, insurance proceeds, gain on sale \$25m lower than H1 FY14

H1 FY15 Costs



- Cost movements include:
 - Growth in Mobile and IT Services cost of sales
 - Reduction in fixed input costs (UBA and PSTN resale)
 - Turnaround benefits realised across all cost categories
 - ALU insourcing of network operations
 - Higher reorganisation costs than prior year
 - One-off Spark rebranding
 - Increased Spark Ventures investment in growth (Lightbox, Qrious)

(1) Spark Ventures excluding Skinny and Bigpipe

Spark Home Mobile & Business

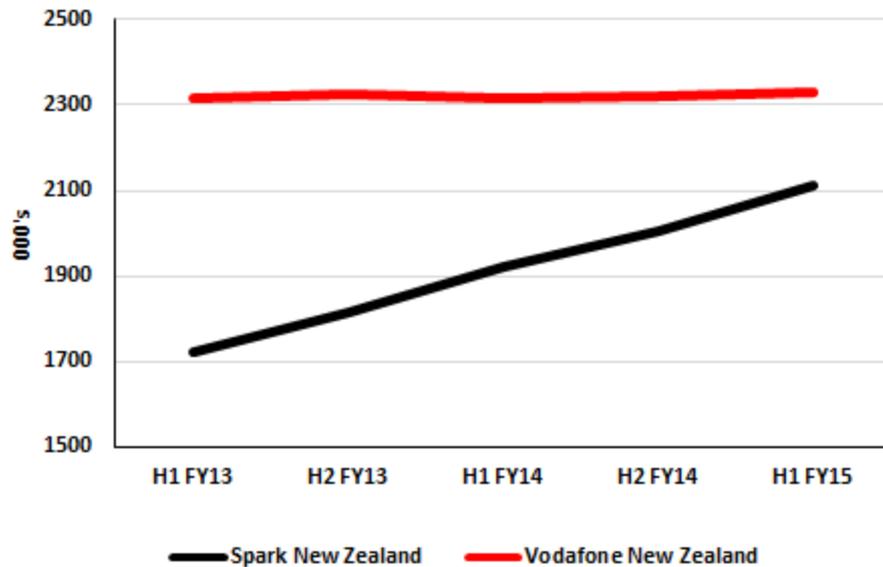
Results include Spark Ventures

	H1 FY15 \$M	H1 FY14 \$M	CHANGE %
Revenues	912	901	1.2%
Fixed	501	516	(2.9%)
Mobile	391	372	5.1%
IT Services & Other	20	13	53.8%
Costs	581	573	1.4%
EBITDA	331	328	0.9%

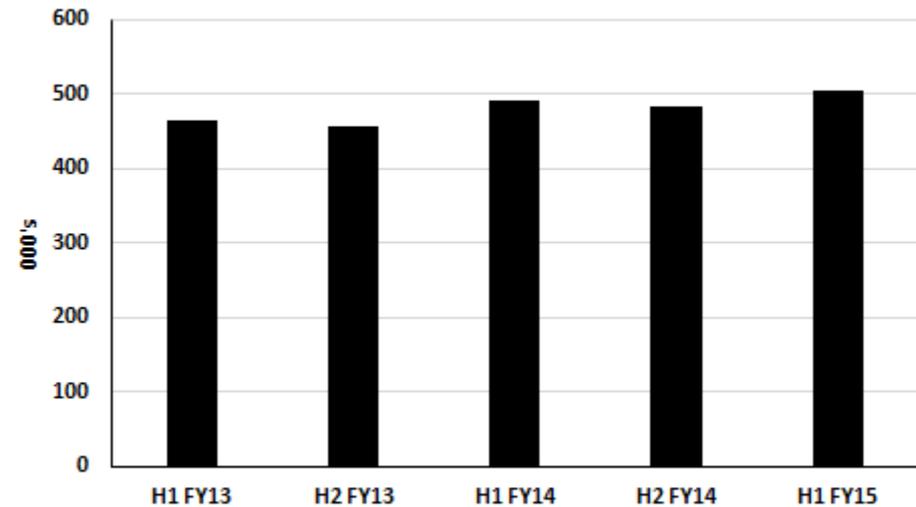
- Excellent performance from Spark HMB with revenue and EBITDA growth achieved for second half in succession
- Growth in brand preference has increased the net number of mobile and broadband customers, by over 100,000 in H1 FY15
- Fixed revenue decline halved with broadband back in growth and focus on value
- Strong Christmas sales campaign, especially in post-paid mobile
- Appserv acquisition contributing to IT Services revenue growth
- EBITDA up 4% and cost down 2% when \$11m increase in Spark Ventures investment is excluded

Continuing to close the gap in mobile

Mobile Connections



Total Mobile Revenue

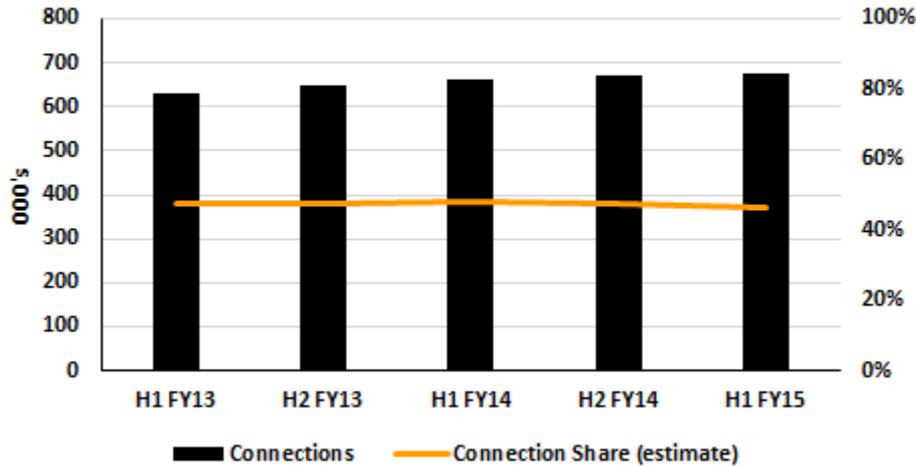


Continued good gains in mobile connections however market price pressures making it tough to realise revenue growth

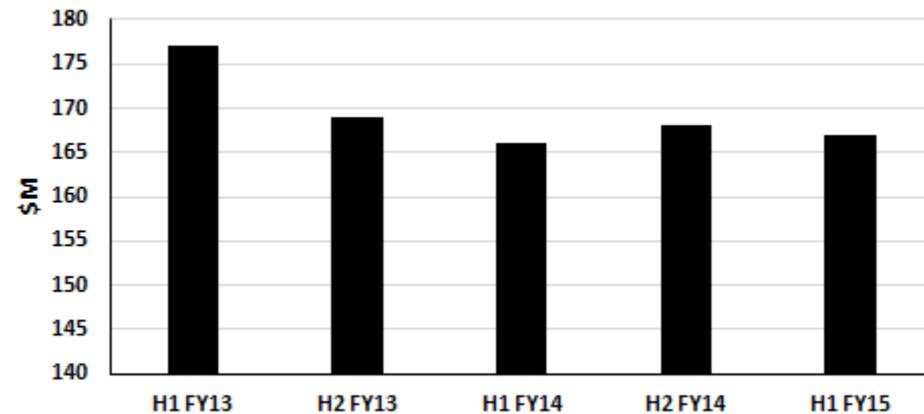
Graphs reflect Spark HMB, Skinny and Spark Digital performance

Shift in broadband strategy

Broadband Connections



Broadband Revenues



Shifting market strategy from absolute connection share to overall share of revenue by targeting higher value broadband customers

Graphs reflect Spark HMB, Bigpipe and Spark Digital performance

Spark Digital

	H1 FY15 \$M	H1 FY14 \$M	CHANGE %
Revenues	622	643	(3.3%)
Fixed	211	229	(7.9%)
Mobile	107	115	(7.0%)
IT Services ⁽¹⁾	165	159	3.8%
IT Procurement & Other	139	140	(0.7%)
Costs	440	450	(2.2%)
EBITDA	182	193	(5.7%)

- Strategic shift to platform-centric ICT services continues, leveraging Cloud capabilities and core infrastructure assets
- Strong market share position maintained, but intense price-based competition has continued to impact Telco revenues
- Mobile revenue decline reflects flow-through of price reductions in prior year, with connection share unchanged
- IT Services revenues reflect Revera's strong performance (42% revenue growth), partially offset by unwinding of legacy IT Services contracts

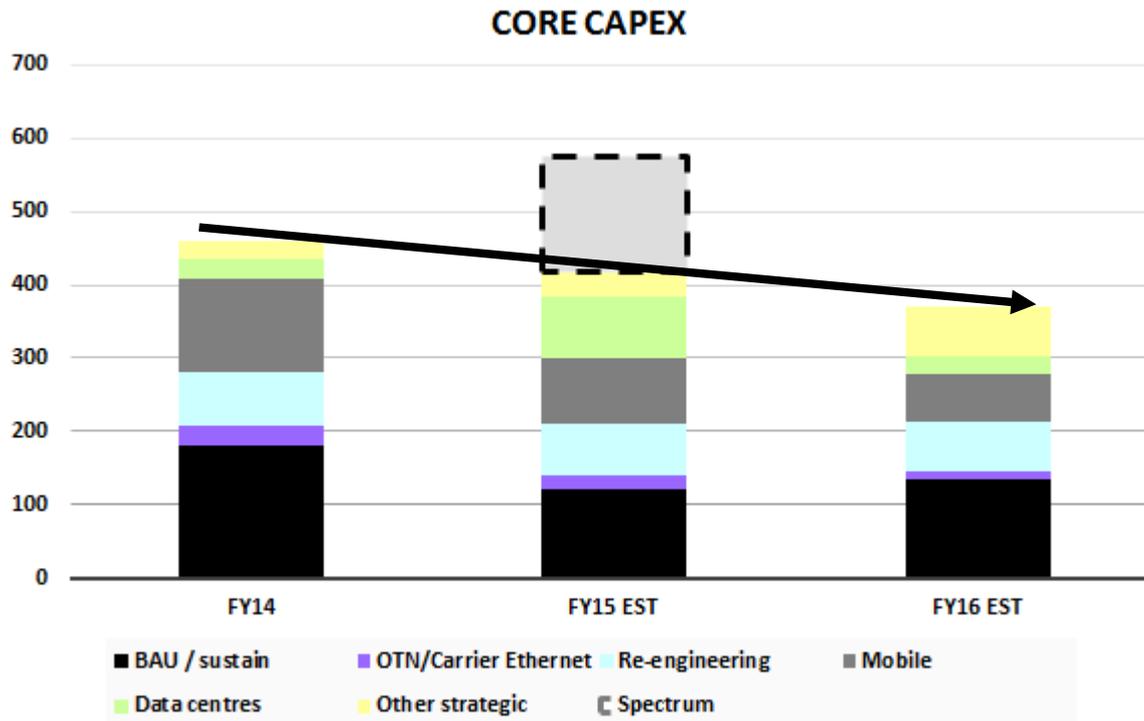
(1) Excludes IT procurement revenue

Transition to Cloud and Data ongoing



- State-of-the-art Takanini data centre strengthens Spark Digital's position as New Zealand's No.1 provider of hosting infrastructure services
- Cloud computing and ICT services strategy leverages key strategic investments in:
 - Revera and Appserv
 - Takanini data centre
 - Christchurch data centre
 - Dunedin data centre upgrade and
 - Completion of a third Wellington facility

Capital Expenditure



- Continued investment in 4G and mobile network technology
- 2x20 MHz of 700MHz spectrum purchased in August 2014 \$158m
- Takanini data centre opened October 2014
- Re-engineering investment in customer releases for H2
- Targeting sustainable long term Capex of below \$400m per annum

Capital Management

Principles	<p>Return business to sustainable growth</p> <p>Reposition business portfolio in line with strategy</p> <p>Remain committed to conservative capital structure and single 'A Band' Credit Rating</p> <p>Preferred method of shareholder distributions is to sustainably grow ordinary dividends over time</p>
Outcomes	<p>Significant free cash flow generated from Turnaround Programme & divestments enabling:</p> <ul style="list-style-type: none">• Investment in business growth• Strategic investments including spectrum• H1 FY15 dividend of 9 cps, fully imputed

Regulatory Update

- On 1 December 2014, regulated broadband input costs reduced in line with the Commerce Commission's Initial Pricing Principle (IPP) decision. This change reduces input costs by ~\$85m on an annualised basis (based on current volumes). This reduction was signalled well in advance and has already been reflected in retail pricing
- On 2 December 2014 the Commerce Commission released its draft regulated input prices (for both the copper loop and broadband) based on its Final Pricing Principle (FPP)
- If the draft FPP prices are implemented, Spark New Zealand would face an unexpected increase in copper loop costs of ~\$60m on an annualised basis (based on current volumes)
- The Commerce Commission's Final FPP pricing decision is due in H1 FY16 and current indications are the decision may be backdated to 1 December 2014. If backdating was to occur, the impact for the 7 months ending 30 June 2015 would be ~\$35m. Any catch up payment in relation to FY15 would likely fall in H1 FY16 and is not reflected in FY15 earnings guidance
- Spark New Zealand has adjusted retail prices effective 1 February 2015 to partially offset the impact of the potential increase in copper loop prices. We expect these price changes to increase revenues by ~\$15m for the 5 months ending 30 June 2015

FY15 Guidance

	FY14 Actuals	FY15 guidance⁽¹⁾
Total Revenue	\$3.6bn	low single digit decline
Adjusted EBITDA	\$936m	low single digit growth
Capex (excl spectrum)	\$459m	around \$420m
Spectrum	nil	\$158m
DPS	17.0cps partially imputed	18.0cps ⁽²⁾ fully imputed

(1) Relative to FY14 continuing operations. Results are still expected to be within the range provided, however this is subject to timing and value of FPP decisions and associated accounting treatments. Guidance excludes rebranding costs.

(2) Subject to no adverse change in operating outlook

We said our FY15 performance should be measured by:

Measure	Progress
A winning culture which is inspired by customers, performance driven and highly competitive	On track
Spark brands programme driving greater brand differentiation, leadership, cut through and preference in key markets	On track
Successful deployment of 4G using 700 MHz spectrum supporting mobile market revenue share growth of 1.0 - 1.5pp ⁽¹⁾	On track
Broadband revenue market share maintained	On track. Shift to value focus underway
High single digit revenue growth from networked ICT (including Cloud)	On track
Successful introduction of Lightbox, with 70k paying subscribers by 30 June 2015	Update to be provided at full year
Deliver Release 2 of the re-engineered IT stack	On track for Q3
Complete the Turnaround Programme and embed the methodologies to business as usual	On track
Return to EBITDA and net profit growth	On track – subject to ComCom decisions

⁽¹⁾ Percentage Point

At our investor day in May 2013 we set out a bold strategy to transform the company, in two clear phases

FY14 & FY15: Stabilise revenue/margin and reduce costs

FY16 & beyond: Drive market revenue/margin growth with continuing improvement in unit costs

With the 'reset' phase largely complete, the strategy now transitions into the second phase

Disclaimer

This announcement may include forward-looking statements regarding future events and the future financial performance of Spark New Zealand. Such forward-looking statements are based on the beliefs of management as well as on assumptions made by and information currently available at the time such statements were made.

These forward-looking statements may be identified by words such as 'anticipate', 'believe', 'estimate', 'expect', 'intend', 'will', 'plan', 'may', 'could' and similar expressions. Any statements in this announcement that are not historical facts are forward-looking statements. These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond Spark New Zealand's control, and which may cause actual results to differ materially from those projected in the forward-looking statements contained in this announcement. Factors that could cause actual results or performance to differ materially from those expressed or implied in the forward-looking statements are discussed herein and also include Spark New Zealand's anticipated growth strategies, Spark New Zealand's future results of operations and financial condition, economic conditions and the regulatory environment in New Zealand; competition in the markets in which Spark New Zealand operates; risks related to the sharing arrangements with Chorus, other factors or trends affecting the telecommunications industry generally and Spark New Zealand's financial condition in particular and risks detailed in Spark New Zealand's filings with NZX and ASX. Except as required by law or the listing rules of the stock exchanges on which Spark New Zealand is listed, Spark New Zealand undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.



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