H1 FY25 INVESTOR CALL TRANSCRIPTION

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Duration: **1h 17m 2s**

[START OF TRANSCRIPT]

Operator: Thank you for standing by, and welcome to the Spark New Zealand HY '25 Results Call. All participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad.

I would now like to hand the conference over to Jolie Hodson, CEO of Spark. Please go ahead.

Jolie Hodson: Good morning, everyone. Thank you for joining us today for Spark's half year results for the period ended 31 December 2024. This morning, I'll provide an overview of our results and I'll then hand over to our CFO, Stewart Taylor, who's recently joined the business to speak to our financial performance in more detail before we move to Q&A.

So before we turn to the first half results, as you would have seen from our market disclosures this morning, we have updated FY '25 EBITDAI guidance. So I'll start by providing some context regarding this change. So when we updated the market in October, we outlined that we're experiencing one of the longest and deepest recessionary periods in recent history.

Since that time, we've seen no improvement in these conditions. And while there has been movement on monetary policy, this is yet to flow through to any meaningful change in consumer or business spending.

As a result, we've seen further deterioration in the performance of our Enterprise and Government division, which has been impacted by spending cuts, mobile fleet reductions across government and businesses, changes in product mix and aggressive price competition in mobile.

This has resulted in us reducing FY '25 adjusted EBITDAI guidance to $1.04 billion to $1.1 billion. This excludes the anticipated benefit from the gain on the sale of Connexa of $66 million and the FY '25 non-recurring transformation costs of approximately $45 million to $50 million.

We know our shareholders will be rightly concerned about the ongoing headwinds we are facing. We're taking decisive action to improve that performance, and I'll spend time this morning outlining these plans and our progress to date in some more detail.

Before I do that, I will first focus on Slides 3 and 4 [of the H1 25 results presentation] to summarise our H1 performance. Reported revenue declined 1.9% to $1.93 billion, driven by mobile, IT services and the continued decline of legacy voice and partially offset by growth in mobile devices, cloud, data centers and IoT.

Reported EBITDAI declined 20.9% to $419 million, driven by lower IT services project activity, the mix shift from private to public cloud and the supply cost inflation. Reported NPAT declined 77.7% to $35 million due to lower EBITDAI and the higher depreciation and amortisation costs. In FY '25, we will recognise a non-recurring cost of transformation of $45 million to $50 million, with $29 million reported in the half one results related to the net labour and opex benefits we will deliver in FY '25 to '26.

Normalising for this non-recurring cost, adjusted EBITDAI declined 15.5% to $448 million and adjusted NPAT declined 64.3% to $56 million. Free cash flow increased 67.4% to $77 million. When including working capital and growth capex, free cash flow improved further against the prior year by $163 million as we're disciplined on that capital expenditure, which was down 12% year-on-year and we saw a working capital benefit.

The Board declared an H1 '25 dividend of $0.125 per share consistent with FY '25 total dividend guidance of $0.25 per share and in recognition of the receipt of the Connexa proceeds that are due in Q3 FY '25.

Turning now to the action we are taking to improve performance, which is summarised on Slide 5. As we shared in October, we have four strategic priorities that will not only improve Spark's underlying performance in the short term, but deliver sustainable competitive advantage in future years. We're firmly focused on driving momentum in our telco core, simplifying our portfolio, transforming our cost base and creating long-term shareholder value through our data center strategy.

I'm going to talk to each of these priorities in more detail now. So we start with our telco core in our priority market of mobile, as outlined on Slide 6. It's important to first set the market context for the H1 period. Mobile service revenue across the total market was broadly flat over the last six months.

Spark's mobile service revenue declined 3.7% to $491 million, and there are a few different drivers of this. The predominant driver was a 17.7% decline in mobile service revenue within Enterprise and Government. Our teams have done well to hold customers within a challenging and highly competitive market, but with high market share in the segment, we're more exposed to rapidly shrinking mobile fleets as customers have reduced headcount or sought cost efficiencies, for example, within government.

When looking at our connection loss in H1 '25 versus H1 '24, approximately 80% was driven by shrinking of fleets versus losing business to competitors. We then also saw the ongoing impact of aggressive competitive pricing, which is driving down the value of contract re-signings and new business wins, and that impacted our service revenue share.

The step now to Consumer and SME, we saw a 2.3% decrease in mobile service revenue, and that was predominantly driven by our decision to discontinue a Spark-owned mobile insurance product, which reduced ARPU. Outside of this, pay monthly connection growth continued with acquisitions up 1.1% year-on-year.

The prepaid market was tougher with mobile service revenues across the total prepaid market declining versus the second half of last financial year. While we saw connections decline, around 70% of this loss was attributable to casual users with low or no spend, meaning our prepaid ARPU increased. Of these casual users, over 80% of connection loss was due NA listers movement to competitors.

Overall, we saw a 0.7 percentage point decline in our total mobile service revenue market share with about 0.2 points of that attributable to the change in mobile insurance. Despite this, we remain the market leader by some distance in that category.

While the mobile market was challenging during the half, we have built strong momentum that will flow into H2, as outlined on Slide 7. In Consumer and SME, we refreshed our pay monthly plans at the end of October, introducing big data caps for our customers.

The response has been very positive with acquisitions over November and December up 7% versus the same period in H1 '24 and acquisition ARPU also up $1.40. We then completed a refresh in prepaid in December, which has improved our competitive positioning, and the early data shows a good uptick in acquisition going into the second half.

We implemented price increases across our pay monthly and prepaid base in December, offering customers more data for dollars, which will deliver further benefits in H2, equating to around 3% of expected service revenues.

In Enterprise and Government, we're pleased to see the rate of mobile fleet shrinkage slowing in the first half to around half the rate of what it was in the second half of '24. We are focused on retaining connection share through proactive re-signing and competitive bids to enable future organic growth.

We are balancing this with mitigating ARPU impacts from aggressive competitive pricing through targeted product bundling and enhanced service offerings to deliver more for our customers. With mobile core to our growth aspirations, we continue to allocate capital accordingly.

45% of capex was invested in our mobile network, which is supporting product innovations such as our new data caps and our network quality with Spark awarded the number 1 mobile network for coverage and reliability by Open Signal in September 2024. We will further expand coverage in early -- in 2026 off the back of a new partnership we have entered into with another U.S. based satellite provider to offer customers satellite to mobile services.

We now move to Slide 8. Broadband revenue declined 2.3% to $302 million as connections reduced and price competition intensified and cost of living pressures saw customers trade down to lower price plans. Overall, we saw a 0.7 percentage point reduction in connection share. As many of you are aware, that's a mature and more commoditised market with consistently lower levels of overall market growth.

Within that context, our strategy remains focused on continuing to offer our customers a range of broadband products, improving margins by passing through the fiber company cost increases and expanding the addressable market for wireless broadband as our 5G rollout continues and capacity and speeds increase. Wireless broadband continued to grow and makes up approximately 32% of our broadband base.

Total IT revenues declined 1.5% to $336 million, while IT products grew 1.1% to $264 million off the back of strong growth in public cloud. This change in mix contributed to a 10% margin reduction. Reduced IT services project activity across government and businesses saw revenues declined 10% to $72 million, while high-tech revenues grew 17% to $41 million as IoT connections increased 25% to over $2.2 million.

We turn now to Slide 9 and our second strategic focus area of simplifying our portfolio. This includes our review of non-core assets to further strengthen our balance sheet and product simplification to support our focus on our telco core. As we shared in December, we have reached agreement to sell the remaining 17% of our stake in mobile towers business Connexa to CDPQ.

We now expect around $310 million of proceeds and a gain on sale of around $66 million in reported EBITDAI. All regulatory approvals required have now been received and we expect completion in Q3. We're continuing to progress our broader review to identify further opportunities to realise value in the medium-term.

In Enterprise and Government, our operating model transformation has been completed with our subsidiaries now fully integrated into Spark. This paves the way for further product rationalisation and legacy product migrations to simplify our business and improve customer experience.

Also reviewing where we focused on the IT services market based on the evolving demand and margin profiles we're experiencing. Finally, we've agreed to the sale of Digital Island, excluding its mobile business, which we will retain. Beyond mobile, Digital Island provides collaboration and cloud contact center services to small and medium business and this divestment will further support focus on our telco core in Enterprise and Government.

I'm now going to speak to our third focus, which is transforming our cost base, outlined across Slides 10 to 12. In October, we shared that we're on track to deliver our $50 million net labour cost reduction and we will continue to make progress towards our net opex target of $30 million.

We also shared our intention to expand the SPK-26 Operate Programme to deliver more transformative change across the business, which will deliver higher benefits over a multi-year period. Today, we share the details of that expanded programme. And that programme has not been approached with just a simplistic cost out focus alone, we have instead taken the time to redesign how we operate while delivering greater efficiency and more for our customers.

Our operating model focused in FY '24 and the first half of FY '25 for changes across several areas of our business and included the transformation of our Enterprise and Government division. As a result of these changes, approximately 900 people have left our business over this 12-month period. It is never easy to make changes that impact our people and we don't do so lightly. But to deliver a leaner, more competitive business, we have made tough but necessary choices that will set Spark up for the future.

Transforming our cost base does not start and end with our operating model, but also how we run our technology and our networks. Alongside labour, IT and network costs, they make up the largest proportion of our cost base. When we look at peers in global markets, many have moved to new models for technology delivery that leverage strategic partnerships.

So our intention is to establish several partnerships across IT, cloud and networks to access the global scale, capability and innovation these partners bring and accelerate our existing strategic focus on AI and automation to deliver better customer outcomes at lower costs. This is expected to deliver an overall cost efficiency of around 20%.

We will protect and enhance Spark's competitive advantage by retaining overall strategic decision-making, critical operations, intellectual property and systems. We're in the final stages of agreeing an IT infrastructure and services partnership, which will deliver accelerated automation and efficiencies and a material reduction in annualised IT costs.

We're also pleased to announce a new strategic partnership with Microsoft that will improve our overall cloud economics. Finally, we have a Heads of Agreement in place to explore network operations partnership that will enable us to accelerate AI and automation, deliver greater efficiency and enable access to global capability and innovation. We expect to be able to share further detail on this partnership in coming months.

When we combine our focus on our operating model and our technology delivery model, we will deliver a transformation of our cost base that will not only support profitability during the short-term economic pressures, but create a stronger, more competitive business that can continue to compete and win in the future. This includes a net labor and opex cost reduction of $80 million to $100 million in FY '25, which increases to $90 million to $110 million on an annualised basis by the end of the financial year.

This will be funded by a non-recurring transformation charge of $45 million to $50 million in FY '25 with $29 million recognised in the first half. Additional annualised benefits of $20 million to $30 million commenced from FY '26 to FY '27, meaning the overall expanded program is forecast to deliver $110 million to $140 million of annualised benefits by FY '27.

Our fourth focus area is long-term value creation for our shareholders through our data center strategy. During the half, Spark's data center revenue increased 13.6% to $25 million as billing of our 22 megawatts of capacity increased. Our developments, as outlined on Slide 14, are progressing to plan with land settlements for our new North Shore site targeted for early '26. We remain committed to building out our 118 megawatt development pipeline. And we are continuing to target an IRR of around 10% to 15%.

As we've previously shared, we are exploring capital partnerships that will enable co-investment and help us accelerate this growth opportunity. We've made strong progress establishing a dedicated data center business in preparation for external investment. We commenced a process to explore interest from prospective partners in a preferred investment vehicle. We will continue to keep the market informed as material developments occur.

So to conclude my summary, I note our continued focus on maturing our ESG practices, evidenced through our ongoing investment in 5G connectivity across the country, the continued growth of our not-for-profit broadband product in Skinny Jump and the commencement of our renewable energy partnership with Genesis Energy on the 1st of January.

I'm now going to hand over to Stewart to talk you through our financial performance in more detail. Thank you, Stewart.

Stewart Taylor: Thanks very much, Jolie, and good morning to all of you on the call. It's great to be here with Jolie and present my first set of results since joining Spark in December.

So I'm going to start with Slide 17, talk to the results in the table we've presented here whilst referencing the comments we've also made on Slide 18. So first of all, you'll notice that the financial results for the prior comparable period in H1 '24 were not adjusted for any items, so both reported and adjusted figures are the same. There are, however, differences for H1 '25, predominantly due to the $29 million of year-to-date non-recurring transformation costs that we incurred as part of the SPK-26 operating program that Jolie spoke about earlier.

Now in terms of the P&L and starting at the top, total revenue of $1.939 billion was 1.9% lower than we reported in 1H '24. There are a number of contributors to that. Mobile service revenue declined 3.7% or $19 million year-on-year, predominantly due to discontinuing a mobile insurance product in consumer that had generated income in the past and was approximately $7 million of the downside on its own. Reducing mobile fleet and price competition in Enterprise and Government were also significant factors.

Now mobile non-service revenue increased 3.8% to $248 million, driven in part by higher spend on devices and products in our Spark retail stores with the latest iPhone release in September 2024 being a significant contributor in that respect. Broadband and voice revenues decreased 2% and 17% respectively.

The downside in broadband reflected a decline in connections as competition intensified in this market. The voice revenue decline is consistent with the long-term trend. On the plus side, both high-tech and data center revenues continue to increase year-on-year as we see IoT connection growth in the high-tech space and the benefit of the increased capacity in our data center businesses.

Now in terms of operating expenses, there was an overall 3.1% increase in H1 '25 versus H1 '24. An increase in cost is not the outcome we were looking for, but there are some important drivers that are worth drilling into on this. Of the total costs we incurred, net labor costs were $8 million lower at $271 million for the half year. This reflects the partial benefit of a number of changes made to the operating model that Jolie has already spoken to with an expectation that there will be a much bigger improvement in net labor costs in the second half and into future years as the full annualised benefit of reduced headcount and the new technology delivery model flow through.

Higher product costs reflected a change in the mix of products sold and the shift from private to public cloud services plus higher overall IT costs. Other operating costs were up 14% year-on-year, predominantly due to increases in software license costs and the timing of rebates from some suppliers that were present in the H1 '24 results.

Network support costs were 30% higher than the comparable period due to supply cost inflation and the investment in our expanding mobile network. The transformation of our technology delivery model and the establishment of strategic partnerships in this area will enable us to significantly improve these cost positions in the future.

Now moving to the EBITDAI line. The combination of lower revenues and higher costs led to the 3.7 percentage point decline in our EBITDAI margin and the $82 million reduction in EBITDAI versus H1 '24. Below this line, financing costs increased as a reflection of the higher net debt. The effective interest rate on this dropped from 5.9% to 5.7%.

Depreciation and amortisation was up 20%. This reflects the intensive capital program that had been undertaken in the last couple of years with investment in growth assets like data centers and 5G. Finally, you'll see that although tax expense reduced by $38 million, the effective tax rate has increased by 5.6 percentage points. This reflected a few one-off non-deductible items, which while not significantly large in their own right, were significant relative to the amount of our pre-tax earnings.

Now I'm going to move on to Slide 19 and capital expenditure. And you can see from the profile of our capex spend that in the most recent 6-month period, both maintenance and growth capex were lower than the comparable period in H1 '24. Now this reflects an intentional intervention to align spend in the current operating environment and with our strategic priorities. Across Spark, the main focus of our capital spend program remains investment in digital infrastructure and the mobile network to support the performance of our key business units, in particular, mobile.

Growth capex is also centered around the development of our data centers business. And this has been less than in recent periods as we go through the process of securing a capital partner to co-invest alongside us. Guidance for total capex spend in FY '25 remains at around $415 million to $435 million, which means that the second half of the year will need to be around $160 million to $180 million, a significant reduction on the second half of last year, even taking into account the usual seasonality in capital spend.

Now on to Slide 20, which shows our free cash flow. The discipline around capital and expenditure and management of working capital has led to an improvement in the last 6 months versus the same period a year ago. Free cash flow of $77 million was $31 million or 67% higher than the comparable period, even though the EBITDAI available for cash flow was $85 million. You can see the key drivers of the improvement were lower maintenance capex spend and the $23 million less of cash tax and the payments for leases.

In terms of free cash flow, including growth capex and working capital, the year-on-year change is even bigger. Bottom-line free cash flow was $163 million better than H1 '24, although it should be noted here that within the release of cash from working capital, there was an increase in payables due to the timing of a small number of large supplier contracts, which will unwind in H2 of '25.

We've updated our aspiration of cash flow to be between $300 million to $340 million for FY '25. The key factors that will contribute to these cash inflows in H2 will be the benefits of the labor and opex cost-out program, the ongoing relative drop in capex and a general improvement in our earnings profile.

Turning to Slide 21, on debt and capital management. Here, you can see that at the end of December 2024, net debt stood at $2.7 billion, a result of lower EBITDAI and cash outgoings associated with the capex program and dividend.

The net debt to EBITDAI multiple was 2.3x which is higher than previous periods. We'd expect the settlement of the remaining shareholding in Connexa to occur in H2 '25, which on its own will lead to a 0.3x reduction in the net debt to EBITDAI ratio. We're focused on further improvement in debt metrics with continued discipline around capital expenditure and the progress on our cost reduction program.

The 12.5 cents per share dividend will be paid in April. This will be 75% imputed and subject to the dividend reinvestment plan with a 2% discount to any shares taken up under the plan. The interim dividend is in line with FY '25 dividend guidance of $0.25 per share and this has been maintained in recognition of the receipt of approximately $310 million in the Connexa proceeds, which we talked about earlier, which we expect to come through in Q3.

With that, I'd like to hand back to Jolie to talk about the outlook for the group.

Jolie Hodson: Thanks, Stewart. I'm looking now at Slide 23, which is a busy slide, but an important one to show how we're tracking against the FY '25 KPIs that were previously published, including our update in October and what we now expect across the remainder of FY '25.

Mobile service revenue remains a core driver of earnings performance, so it's disappointing to see the market growth that was previously predicted not materialising. Our update at the end of October recognised that the market was slowing and included a forecast of flat revenues for the rest of the year.

The IDC market revenue figures to the end of December 2024 have confirmed that. Based on the aggressive pricing we've continued to see in E&G over the first half, we now anticipate mobile service revenue decline of around 1% due to further declines in Enterprise and Government. Both the data center and high-tech revenue growth targets remain unchanged and on track for the second half of FY '25, evidenced by H1 results.

As I talked to earlier today, the significantly expanded SPK-26 Operate Programme is expected to deliver $80 million to $100 million of benefits in the current year and $110 million to $140 million of benefits by FY27. With regards to the last three non-financial targets, customer iNPS remains on track.

We expect impacts to our employee engagement as we change our operating model. And we're tracking above our science-based emissions target, noting that this change will change in future years when we benefit from our renewable energy partnership for a full 12 months.

Turning to Slide 24 and our updated FY '25 guidance. As I outlined at the top of the call, adjusted EBITDAI guidance has reduced to $1.04 billion to $1.1 billion. This excludes the benefits of the Connexa sale and the cost transformation I outlined earlier.

Capital expenditure has been maintained at around $415 million to $435 million, recognising this was already reduced in October. The Spark Board has resolved to keep the FY '25 dividend guidance of $0.25 per share, 75% imputed in place. The dividend reinvestment plan will also now be available to shareholders at a 2% discount.

To summarise the overall presentation today, we are transitioning out of a sustained and deep recessionary period in New Zealand. Our performance is not where we want it to be, but we are taking decisive action to adapt our business so that we are leaner and more competitive.

We're seeing the fruits of these labours materialise with momentum building in our telco core and a significant transformation of our operating model and technology and networks operations underway, which will deliver material benefits in the year and out to FY '27. Finally, we're continuing to invest for the

	future through our data center strategy with long-term shareholder value creation front of mind.
	With that now, I'd like to hand back to the moderator to facilitate the Q&A session.
Operator:	Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question.
	Your first question comes from Entcho Raykovski from Evans & Partners. Please go ahead.
Entcho Raykovski:	Hi, Jolie. Hi, Stewart.
Jolie Hodson:	Good morning, Entcho.
Stewart Taylor:	Morning, Entcho.
Entcho Raykovski:	So my first question is around the dividend. I'm just conscious that it remains significantly higher than free cash flow, particularly based on the latest guidance. Now I know you cut the dividend back in October, but current levels just -- I mean, they don't look to be sustainable.
	So I'm just interested in your view on whether you've retained at $0.25 per share today because you or the Board have a firm view that free cash flow will recover over time or what are the considerations you're taking into account?
Jolie Hodson:	Okay, Entcho. So when you stand back on the dividend, we did retain the $0.25 and that took into consideration the recognition that the Connexa proceeds would be received during this year, but also looks at the ongoing ambition for free cash flow to offset that dividend over time.
	What I will say is, though, we will be looking at our holistic capital management strategy later in the year as we go into FY '26, and we'll look at the dividend policy as well alongside that. But the decision to retain a $0.25 was linked to the receipt of the Connexa proceeds.
Entcho Raykovski:	Okay, all right. It sounds like there may be a review underway down the track?

Jolie Hodson: Sorry?

Entcho Raykovski: I said it sounds like there may well be a...

Jolie Hodson: A review underway, yes, that's correct.

Entcho Raykovski: Okay. And then secondly, around the debt metrics, I don't think you mentioned this, but are you still committed to reducing the leverage ratio down to 1.7x? I know you've previously spoken about that being the target to retain an investment-grade credit rating?

Stewart Taylor: Yes. Entcho, Stewart here. I'll pick that up. I guess, the benefit of being a new CFO is sometimes you get the ability to sort of step back and maybe look objectively at things. One of my observations is our debt outside ex leases, net debt sits at about $1.8 billion, which is pretty much at the low, if not lowest, end of comparable telcos globally.

So I think we need to sort of think about that, think about future debt -- what flexibility we need in the balance sheet as well. So there are a number of factors to consider going forward. I mean, clearly, the ongoing credit rating will be one of those, but it's going to have to be a number of other factors as well.

Entcho Raykovski: Okay. And I'm just curious with the ratio now sitting at over 2x, is that having a material impact on interest costs? I mean, the effective interest rate is obviously down in the period with rates coming lower. Are your margins being impacted adversely or are you finding that's a fairly minimal impact?

Stewart Taylor: I think the increase in interest costs half on relative to the prior comparative period, flicking back through to find it - it's around $10 million -- it's around just over $10 million in the half.

Entcho Raykovski: I guess my question is, are you finding that because you're sitting at over 2x, that actually means you're paying more. So if you...

Stewart Taylor: No, we're definitely not finding that at the moment.

Entcho Raykovski: Okay, great. So I suppose the benefit from a reduction down to 1.7x may be fairly limited. I don't want to put words in your mouth, but that's what it sounds like?

Jolie Hodson: I think, Entcho, if we look at that, we have the credit rating in place. We -- and you think about what's happening with the Connexa proceeds that are expected in Q3. So we'll see a further reduction in that debt level and we'll continue to be focusing certainly on a cash flow basis and making sure that disciplined capital management, particularly around capex that we continue to look to bring those debt levels down, and that's our approach right now.

Entcho Raykovski: Okay. And just a final one for me. Would you consider selling the entire data center portfolio or are you committing to -- are you committed to retaining a stake?

Jolie Hodson: It is not our intention. We are looking -- the DC partnership is all around co-investment for accelerating the opportunity that exists in a market that's growing substantially in terms of you look at the forecast ahead and for which we already have a strong position.

Entcho Raykovski: Okay. And then I suppose -- yes, okay. And I mean, how progressed are you in terms of finding a partner? I'm sure you get asked this question all the time, but as you can appreciate, it's rightly a focus of the market. I mean, do you best guess, would you like to have an outcome in the 6 months?

Jolie Hodson: Yes. We have a process underway and we've had a lot of expressions of interest in that process. So we will update you further when we can, but I would expect it to progress certainly through the second half of our financial year.

Entcho Raykovski: Okay. Thank you.

Operator: Thank you. Your next question comes from Arie Dekker from Jarden. Please go ahead.

Arie Dekker: Good morning. Just starting on the data centers, I think at the full year result, you were talking about investing $70 million to $90 million in FY25. It looks like North Shore land has been pushed out into FY26. Maybe that was in the initial guidance, I mean, first half was only $14 million. Can you just give a bit of color around what you're investing in FY25 and what the total will be given how low first half was?

Jolie Hodson: I think in the data center area, if you think around what we're doing, so we are continuing to expand our IT center in Takanini around the master planning of the extended. You recall, we bought the land right just after the end of the FY, expansion of the land.

So further work going on there and also within North Shore in terms of around power and the master planning by the Surf Park in and around that area. So there's activity underway.

We'll also be cognisant in terms of from a partnership perspective of whether or not we may accelerate or look at different components of that timing as we work through that process. So for us, it's probably a little early to talk any further about that. But in terms of what we're investing, we haven't had a change in our capital envelope and what we're talking about within that.

Arie Dekker: Yes. Because it seems -- I mean, I think you've sort of invested $50 million to $60 million in the last 18 months in the data centers growth line. And it sounds like that includes the settlement of some land at Takanini. I mean, that space is obviously seeing rapid expansion.

The spend seems quite light against the opportunity. I mean, are your capital constraints and I guess the constraints of holding the dividend at this level impacting your ability to sort of access the market?

Jolie Hodson: I don't think that. So I'd separate the dividend policy from any implication in terms of the data center strategy. What we did say clearly was that we were looking to go to market for that partner to co-invest with us to be able to accelerate that. And so really, when we look at that, that process is underway. What we want to do is get that completed.

That then helps us reset what the appropriate investment profile is for the next period of time to take advantage of the market opportunities that are there. Remembering we have been investing for a period in terms of a number of sites and had new sites come online and to deliver about 87% committed -- 87%, 88% committed. So it's really linked to those two components in terms of the partnership activity that is underway.

Arie Dekker: So customer discussions are ongoing and then the timing as opposed to capital...

Jolie Hodson: Yes, correct.

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Arie Dekker: Just this one should be a reasonably quick one, but just on MATTR, what's the level of cash burn in that business in FY24 and sort of outlook for FY25?

Jolie Hodson: Well, as you know, Arie, we don't -- we haven't disclosed that around MATTR and it's not a significant enough amount for us to do that. But we have indicated that that is forming part of our ongoing strategic review of certain assets and certainly looking at that more from a co-investment perspective than it is a divestment, but that is underway as part of their review. And we'll have -- we'll update the market as appropriate when we have more to say on that.

Arie Dekker: Yes. I guess, without any visibility and sort of thinking about its materiality, perhaps more in terms of where your free cash flow position is as opposed to any sort of revenue or EBITDAI materiality threshold. I mean, I just -- I guess, some comfort that because I've done a little bit of work on this business and it clearly is very early stage.

So I guess, I'm just keen to understand, if it is up for exit, how you'll just sort of satisfy investors that you won't hold it too long against what may be the realistic expectations are from realisation?

Jolie Hodson: No, it's not at all. We are seeing good growth with that in terms of the opportunities in the market forming, particularly offshore. So for us, looking at partnership opportunities in terms of for co-investment, both from a funding point of view, but a capability point of view in those markets is also part of that. So yes, there isn't anything about holding something that we don't...

Arie Dekker: Okay. And then just finally, on the IT business. I mean, one of the things, and you did talk to it a bit in the presentation. I mean there's obviously been a bit of revenue softness in various areas, and that sort of remains bumpy, but it's obviously been hit by pretty significant cost increases as well.

Just wondering, data centers are a core infrastructure, you're very clear on wanting to continue to participate there. But when you look at your IT business and thinking the products and services and maybe excluding managed data, but do you genuinely see that as sitting in your core telco focus? How does that compare to some of your peers globally in terms of telco? And yes, just because it does look like it is a business that's facing structural issues. Yes, just why does it sit in core telco?

Jolie Hodson: I think IT continues to provide, if you think about a number of the services that we already provided are deeply connected to those core network services that we provide. However, as we've noted, we continue to review the portfolio in enterprise and government, and we've updated both the structure that we have there, the integration subsidiaries, we're looking to rationalise products further.

The recent partnerships we have done and the ones that I talked to look at improving that cost base, and we'll continue to review whether there are elements of those service lines that we may choose to come out of or partly out of. So I think from that point of view, it is under constant review to that performance.

There are definitely economic factors that are impacting this, particularly in relation to the overweight share that you see in government in these services. However, we have acted particularly on the structural side to make sure our cost base, both from a labour perspective, but also from an operating cost perspective, will be improved, particularly in the second half and as we go out into the future years from some of these changes we're making with partnerships and changing the nature of the expenditure that we have in those businesses.

Arie Dekker: Yes. Because -- I mean, I guess on the cost out, there's a lot of focus on the labour. And clearly, then there's the broader overheads, which will capture these businesses as well. But I guess what you're seeing in the market's reaction today too, in terms of just line of sight, when do you think you'll be able to get some line of sight into how the IT business is going to emerge from all these changes?

Jolie Hodson: I think in the August results we'll be able to talk more holistically about what that looks like with both the partnerships in place, because we've been acting on that it will be in place by the end of the year, the changes we've made structurally and view of any further service lines we might consider as well, so...

Arie Dekker: Great. Thank you very much.

Jolie Hodson: Okay. Thanks, Arie.

Operator: Thank you. Your next question comes from Kane Hannan from Goldman Sachs. Please go ahead.

Kane Hannan: Hi guys. I just had two. Can you help me understand, I suppose, the pay monthly SIO trends through the half? I think back at the last update, we're talking about growth in consumer and SME and a flat enterprise government performance -- we've only really grown 2K to the half.

So I mean, did things deteriorate in the second quarter? And then I suppose how do I mesh that with the confidence of the improving service revenue outlook into the second half given those challenging trends?

Jolie Hodson: Okay. Let me just pull it apart. So in pay monthly, in consumer we saw connection growth of around 1.1% to 13,000 connections. So we still have got a more challenging market environment that we're operating in, but it was growing.

If you think about the insurance product that I talked about, that had an impact of -- in consumer basically all of the ARPU reduction was linked to that, so $1.40 of ARPU reduction. If you then look at enterprise and government, they contributed all of the decline in connections. So that offset that growth in consumer. And then the ARPU decline in that was much more significant, more in the $3-plus per unit.

Remembering that enterprise and government is about 10% of our overall service revenues, but it still has an impact when you have a very high market share of that part of the business. So they're the sort of different trends in terms of what we saw in consumer.

Then we launched in October, new higher data plans, which obviously came into play really in the marketplace in November, December. We've seen good acquisition from them. We also had price increases in December in that consumer and prepaid part of the market. So again, those things will flow into the second half of the year that will help support that mobile margin.

Kane Hannan: Yes. And was that the enterprise government declines you were talking to, was that all in the fourth quarter? If it was sort of stable in the first quarter -- sorry, in the second quarter, if it was stable in the third quarter?

Jolie Hodson: No, it has been really since the third quarter of FY '24, we've seen pressure in that space. We saw more fleet reduction -- so about -of that connection decline, 80% of that is really to do with reducing businesses that we serve, reducing the number of people that have line sharing. And then also secondary, we've seen a lot of price competition in that area, particularly around 2 degrees, etcetera. So what we've been doing is holding a significant amount of that share, but at a lower value, it's been renewed.

Kane Hannan: And just secondly on the -- I was just trying to understand the phasing of some of the cost out. So you have the net labour reduction of $50 million that you're expanding to $80 million to $100 million, someone said a $30 million to $50 million increase. I'm assuming that's reflecting the headcount reduction sort of December 31.

I mean if I'm annualising that headcount reduction, I mean you're basically at the $110 million to $150 million of labour savings. Just trying to understand why you're only talking to $110 million to $140 million by FY '27? Sorry for putting all the numbers out there, but I'm just trying to get that gap between those two years.

Jolie Hodson: Yes. So just on some of the labour savings that occurred at the last quarter of last FY, so some of that had already been captured. A lot has happened throughout this period of time and through this first half, and there is still some to occur in the second half. In terms of opex, the combination of the partnership work we're doing too has a mixed labour and opex to it. So those two components are still being finalised, and then we've got ongoing benefits into the latter years, so '26 and '27.

So I think in terms of the 900 to-date that you referenced, that is all baked into the '25 year. And then as we finalise the partnership components, as well as we look ahead at that opex number, that will become clearer. We also have seen some areas of increase in opex. So what we're trying to give is a bit more of a view around where do we think the overall cost base will be at.

Kane Hannan: Okay, perfect. Thanks, guys.

Operator: Thank you. Your next question comes from Aaron Ibbotson from Forsyth Barr. Please go ahead.

Aaron Ibbotson: Yes. Hi there. Good morning. A couple of questions from me. But first, and sorry to come back to it, just on the cost out, just so we're sure what you're communicating here. So you've had the $24 million, if my math is right, of increase if I combine labour and other opex for this first half. So you're effectively saying you're going to be down $100 million plus or so in the second half, but the run rate is only around $100 million at exit. So I'm just trying to understand why the run rate is not higher at FY '25 exit?

And then if I may tag along to that question, I was just trying to understand some of these, which sounds like some major partnership deals, if I could call them potentially outsourcing, but maybe you wouldn't like that. And if you're giving up some gross margin in return for those, what sounds like pretty major opex savings for the second half?

Jolie Hodson: So perhaps just breaking it down and maybe I'll start the partnership to start with. So this is a combination of bringing expertise, accelerating automation and in our network and infrastructure layer costs. So there will be a component or can be components that will include outsourcing within that. So of course, within that, you'll have some labor reduction, some opex increase netting off against that.

There is no impact per se on margin reduction to do with this. In fact, most of the partnerships would potentially see a margin increase because we are reducing some of the product costs associated with it, too, depending on which layer we're talking about. In terms of -- what was the other question, sorry? Cost out.

Aaron Ibbotson: Yes. Cost out relative to run rate, I've just been -- if you have such a large cost saving in the second half, I would have expected a larger run rate exiting FY '25 than the one you're guiding to.

Jolie Hodson: Yes. But a lot of -- a number of activities occurred in the first half, and we're seeing parts of that come through. So not all of that is additional, I guess, on an annualised exit run rate, we are starting to see that. Remembering, too, from a gross labour perspective, we also have labor that's allocated to capital. So in the first half, we actually had a 21 million gross labor reduction in the P&L.

As we look forward into the second half, we see an expanded run rate on that in the six months to go. And we have activity too that will continue beyond the second half as well, in terms of that.

Aaron Ibbotson: Okay.

Jolie Hodson: Another $20 million to $30 million from '26 and '27 is unrelated to the $90 million to $110 million after that.

Stewart Taylor: Aaron, I think there's a part of the cost savings in the second half that will offset some of those. You were talking about the first half cost. So some of the cost savings is 2H, some of them are down to timing and some of that will be rectified in the second half. And then those to which we're attributing an annualised benefit will come from the overall labour reduction.

So that's something that endures into '26 and then also the benefits -- the broader benefits we get out of the partnership arrangements. So that cost saving will also endure in '26 as well, whereas some of the cost savings in H2 will, as I said, go back to -- will actually offset some of that slightly higher cost base we had in H1.

Aaron Ibbotson: Okay. Then on cloud, where we saw accelerating gross margin pressure, I guess. My question is, there any chance you can share with us what of this is sort of mix? We know public cloud has lower margins, obviously. And what proportion is what I would call like-for-like price pressure within private cloud?

Jolie Hodson: Yes. So if you break it into the two components, the growth in cloud has been -- if you think of the revenue line has been in public cloud. What we've seen is in private cloud reduction in some workloads as we've seen the same pressures across government and business and spend in general.

So it's less about a price pressure. These are generally longer-term contracts. And in the second half, we've actually taken price in cloud for the period ahead. So it's more to do with the mix related to growth in the public cloud through that first period.

Aaron Ibbotson: Okay. And apologies for asking a quite detailed question on private cloud, but my understanding is that a key supplier quite publicly has increased their prices massively on private cloud software. So just wondering if that's impacted you?

	And if so, if that showed up in gross margins or elsewhere in your cost base? Broadcom…
Jolie Hodson:	I'm not sure who you...
Aaron Ibbotson:	VMware.
Jolie Hodson:	Yes. So some of the -- if you look at the support costs, you'll see some components of licensing cost increases and certain things like that. Part of what we're doing with the partnerships, we talked about our infrastructure looks at the ability for us to modernise our environment and to make sure that we can shift to a more variable cost within that. So that will address some of the challenges we've seen there will be addressed by that as well. So yes, Aaron.
Aaron Ibbotson:	Okay. Thank you. And finally, just on depreciation, which ticked up quite meaningfully in the half. Is this sort of a run rate we should think about going forward or were there some sort of particularly high charges in this half?
Jolie Hodson:	I think if you look at the capital investment we've had in terms of the 5G and the other network investments over second half of '24, first half '25, as you see them come on to the depreciation register, what we've seen as we build out the 5G network, we have had some increase. We do have some accelerated depreciation in there as a component of it as well. And also some of the D&A is driven by software, growth in software and therefore, higher amortisation. So in the second half of last year, depreciation is sitting at around $276 million, I believe. It's gone up to $300 million as you see more of that capital come off. Clearly, if you look ahead in the last year, we brought our capital envelope down and we don't have the excess capital that we were investing in terms of that 5G acceleration. So that's not part of the forward. So that will start to balance out a little bit more as we go forward with the lower envelope.
Aaron Ibbotson:	Okay. Thank you. I will leave it there for now.
Operator:	Thank you. Your next question comes from Wade Gardiner from Craigs Investment Partners. Please go ahead.

Wade Gardiner: A couple of granular questions from me. Look, within -- sorry, other operating expenses, the increases were mainly in network support costs and computer costs. What's going on there? What's the trend we're going to see there and how does that affect the savings that you're talking about into the second half and going forward, where are we going to see those savings?

Stewart Taylor: Yes. So I think two things driving those. One is there's an increase in some of the software license costs. And then the other one is some of the costs of running the 5G network as well. And I mean this comes back to the sort of point I was making earlier. So if you -- if we think about some of those partnership arrangements we're looking at, they're directed at those -- they are directed at those cost pools. So I mean, part of the idea of that is we do address some of that run rate.

Jolie Hodson: In the second half, and then if you think forward against that sort of the target, particularly around the network support and other costs, we're around about a 20% per annum reduction over the next few years. So we would expect that trend to certainly in the network support reversing under those partnership arrangements.

Wade Gardiner: Okay. So in terms of -- just to clarify, the labor and opex cost savings that you're talking about, we'll see it in that other opex line and we'll see it in the labor line. It's not stuff that is going to be necessarily spread across either capex or across some of the gross margin within the products?

Jolie Hodson: To clarify on that, while there will be gross labor reductions that do impact the number we've included here relates to the net labor in the P&L. So -- and the opex spend effectively will go against the network and support costs. Some of the broader partnerships, particularly the cloud and there will be some element in our margin, improving our margin ongoing, but the costs here that we called out here are much more directed at those lines.

Wade Gardiner: Okay. And just finally from me, within mobile, I guess I expected in tough times, more of a shift towards prepaid and away from postpaid. That doesn't seem to be the case in this period. What's going on there? Are there other factors?

Jolie Hodson: If you think about -- I think if you think about pay monthly or postpaid, the offer of greater data for customers, good plans in place has meant that. We are seeing, particularly in the last quarter or about half, improvement there and people are staying there and they're using data, so they want to stay there. In prepaid, what we saw there more is about 70% of that reduction was to do with low - sort of no - very limited spend.

So that's fallen off the base. You can see that in the -- actually our prepaid service revenue share lifted. So it's not that, that had a lot of lost revenue or went to competitors. We've just seen less of people using those real casual type rates.

So there is pressure in prepaid. It is a more competitive part of the market. You do have a whole range of different providers in that space. But we also refreshed our prepaid base in December, both the plan offers and pricing within that. So again, early days, but we are seeing positive signs off the back of that. So we haven't seen as much of a flight to prepaid if that's what you trade down in that regard.

Wade Gardiner: Yes. I'm just sort of wondering what normally you'd see a migration from postpaid into prepaid as people try to save money?

Jolie Hodson: No.

Wade Gardiner: That's not the case. Okay.

Jolie Hodson: I mean you see a little bit, but nothing material in terms of the scope of our portfolio.

Wade Gardiner: Okay cool. Thanks. That's all from me. Thanks.

Jolie Hodson: Thanks Wade.

Operator: Thank you. Your next question comes from Phil Campbell from UBS. Please go ahead.

Phil Campbell: Yes, morning everyone. Just three questions from me. Maybe just sticking on that topic, Jolie, on mobile. Obviously, plans to shut down the 3G network for the industry later this year. Just be interested in your views on kind of how you're going to manage that, both with Spark and the industry and kind of what you potentially think it could be an impact on Spark?

Jolie Hodson: Yes. So if you look at the 3G shutdown, as you say later in the year, we'll announce a more specific date in the coming months. From an industry perspective, we have been advertising more around that's happening. We're very focused on making sure that people that have older devices have the opportunity to swap those out before.

We look at our broad base storm data going on. But roughly, we're talking about 120,000 devices and around about 80,000 IoT connections in relation to the 3G shutdown. So we're very focused on making sure we help our customers make that move across, and we'll be engaging with them more to in relation to that shift.

Phil Campbell: So have you got any experience [inaudible] Australia's?

Jolie Hodson: Sorry?…

Phil Campbell: So just with respect to the Australian experience, like would you expect to see -- obviously, some of those customers might drop off, but you might be able to migrate some to 4G, you don't really expect a major financial impact?

Jolie Hodson: No, we're definitely looking to migrate them. And it's also an opportunity to talk to all of those customers to make sure that with the range of offers that you could have in terms of encouraging them to move up to 3G, but also on to 4G isn't restricted to our base.

Phil Campbell: Great. I suppose the second question just on partnerships. Obviously, you announced the Microsoft one yesterday. Is it possible at a high level just to give us a bit more detail around that and kind of how it would impact your business going forward? And obviously, you've talked a little bit about it here, but just with an example with Microsoft might be quite useful?

Jolie Hodson: Okay. So there's sort of three main components to the partnership for us. First one is around our own workloads. As you'd imagine we're one of the biggest workloads in New Zealand. And we already operate in a hybrid cloud environment.

So really, this is around moving some more of those workloads into the public cloud like many of our customers are doing, and that helps us take advantage of some of the innovation that is in and around that, but also creates a better economic outcome for us. So that's a big part of it.

We also will continue to partner alongside Microsoft in terms of the customers we serve. Some of those will like us, have a hybrid cloud approach and they'll be transitioning to the cloud. So we'll work with them in relation to that. And then the third part is around the use of tools like Copilot and within our own organisation and expansion of those agreements within that upskilling around AI and the ability to use that within the organisation to create both better customer experience, efficiency for our people and help us use the tools that are already there.

So overall, for us, it's about an improvement in our cost base and that margin that sits within it, but working with a partner, particularly when we think about the transition that's happening. And of course, we have an ongoing relationship with Microsoft prior to this as well in terms of being a partner to the market. They also work with us in terms of data centers and things that we own as well. So that's the main part of the partnership.

Phil Campbell: Great. And is that like a five year deal or is it towards the near term?

Jolie Hodson: It's a long-term deal, but I'm not going to give you any more details on exact length, but it is long term.

Phil Campbell: Okay. Awesome. And then the third question I had was just on data centers to the extent you can comment on it. I suppose the first one was just on what would be the preferred kind of outcome of a partnering arrangement? Because obviously, you've got one option where you might retain more than 50% and keep it on balance sheet.

The other option is to do something like what Vector did with metering, you do like a 50-50, which is more off balance sheet. So I'm interested in kind of views on that. I suppose the other challenge you may have is that given there's not a lot of new data centers being built, the kind of extent of contracted EBITDAI might not be as great. So again, just kind of how you deal with that in terms of trying to optimise the valuation?

Jolie Hodson: I think, if you think about the business, we have a large development pipeline. We've got the purchased land and the power resource consents to those sites. So we've got a good pipeline to -- for co-investment with. When you go back to vehicles, I think we're not in a position to be talking about the vehicles that we might use, but we have looked and considered a number of different arrangements.

We would look to retain a material ownership within this partnership. It is very different to how you might think about towers, for example. This is about a co-investment and acceleration opportunity and we will be looking at the structures that best support that for the nature of the business that data centers is in terms of the ability to invest in the structures that go with that. And so that will be part of the conversations that we have with partnerships as well. So I can't really give you any more on that right now, Phil.

Phil Campbell: And in terms of time frame for that, do you -- what would be a realistic time frame we might get an update at the August result or...

Jolie Hodson: Yes. I would anticipate it would be then or earlier.

Phil Campbell: Yes. Great. And then just the last one for Stewart.

Jolie Hodson: We do have -- we are in marketplace with this right now, so yes.

Phil Campbell: Yes. Great. And then just last one for Stewart. Obviously, the gearing is kind of above that S&P A- credit rating threshold. And obviously with Connexa, it brings it down. I suppose last time when you updated us, you did talk about there was -- S&P were pretty comfortable because there was line of sight to get it back into the A- band. I'm just wondering what S&P's kind of views are at the moment looking forward?

Stewart Taylor: I mean it's -- it would be hard for me to comment on -- to provide the S&P's view, Phil. I mean we had a conversation with them this week, and we'll obviously talk to them next week as well. I think the piece here is just we'll keep looking at our overall capital structure. We do want to keep working on our levels of debt as well and ensure they're sustainable. So I mean we will -- I mean, look, we're just going to keep -- we'll keep having that discussion with them.

Phil Campbell: Okay, awesome. Thank you.

Operator: Thank you. Your next question that comes from Brian Han from Morningstar. Please go ahead.

Brian Han: Jolie. The shrinkage of the enterprise and government fleet, are you adjusting the cost base on the basis that this business is never coming back or maybe will never come back at the current pricing point?

Jolie Hodson: I think if you think about the changes we made in enterprise and government, our division that looks at our whole enterprise and government business. So mobile is one component of that. It's less related to that, the changes. It's probably more to the IT services component and IT components of that business plus the integration of subsidiaries.

So that naturally removes some duplication we have within the organisation, and we sold -- we have entered into sell one of those subsidiaries as well. So I think we have adjusted to the environment we're in, but that doesn't mean we wouldn't be able to serve our customers in mobile should -- as time improves.

Brian Han: Okay. And the free cash flow guidance, does that include the cash costs of the transformation program at all?

Stewart Taylor: So the free cash flow guidance the aspiration, I should say the aspiration we've provided would exclude the additional costs. So -- and we put those below -- I think we put those below the line.

Brian Han: Okay. So you're still labeling that aspiration?

Stewart Taylor: So yes, let me clarify two points. So I mean we -- the free cash flow number we provided is $340 million. That's come down essentially by the change in EBITDAI guidance, and it excludes both -- so that number excludes both the proceeds from the Connexa sale and the transformation costs.

Brian Han: Right. Okay. My final question, Jolie, if you decide to rationalise your IT Services portfolio, would any sale be just the value of client lists and contracts? Or do these businesses still get sold on some revenue multiples?

Jolie Hodson: Sorry, when we're talking about rationalising, we're talking about rationalising product lines or the subsidiaries that we have, we've integrated or sold now. So that's all done. So really, what we're more talking about is what levels of service we choose to continue to be in and have teams focused on.

So it's more -- if you stand back from a simplification of the portfolio and a more focused approach to certain customers and not an exit of the whole IT business, if that was what you were thinking.

Brian Han: Right. So you're not entertaining any thoughts of actually selling some of these businesses that may not be core to your telco business?

Jolie Hodson: Well, we have sold some of these, but the IT business is part of the core Spark business separately to that. It is a key part of that. And what we've done is rationalised along service lines that we no longer think we should be and all these changes of that. But what we don't have is a separate part that we're looking to sell at this point.

Brian Han: And actually, last one, Stewart, just while I'm at it, can I just clarify, did you say there was a $7 million revenue loss from just ending those mobile insurance things?

Jolie Hodson: That's correct.

Stewart Taylor: Yes, that's right. Yes. So that's the movement versus the prior comparative period from the -- well, the cessation of that product offering from Spark itself.

Brian Han: So for the full year, we annualise that? Or will the loss be more than that?

Stewart Taylor: No, that pretty much runs through -- it's pretty much worked its way through, I think, by March.

Jolie Hodson: Yes. So from April -- 1st of April, we will have cycled 12 months. You've got another quarter to go. So that's why we say when you look at the consumer, particularly the pay monthly result, that is a detriment at a revenue ARPU line. It basically accounts for all of the ARPU decline in that consumer component of $1.40. So by April, you will have cycled the whole impact of that.

Brian Han: Okay. Thank you.

Operator: Your next question comes from Cameron Parker from Craigs. Please go ahead.

Lance Reynolds: No, it's actually Lance Reynolds from Aspiring. Thanks for the call. I just got a question in regard to the guidance. The guidance implies in the second half numbers that are actually at the midpoint in line with market and at the top above market and the stock's today lost $900 million in market cap.

So obviously, the market is not believing it. What can you tell people on the call and an investor on your second half guidance of your cost-out assumptions? How certain or visible are those cost-out assumptions?

Jolie Hodson: I think if you break it into the components of labor, we have already completed the majority of the work that's required to deliver those savings. It's not something we take lightly, but we have done that, and it's been across the period of '24 through first half '25, which will materially show up in the second half of this year. So that's a big driver of that.

And in terms of the partnerships, we are well progressed in terms of the discussions that we are having. We've already announced one this week. There will be future over the next few months. All of those will contribute to those cost savings and will be the drivers -the key drivers of that difference in that half.

The other thing is the continuing improvement of the consumer mobile business effectively in that H2 component. They are the big drivers of the changes that we see in the labor and opex numbers that we've provided to help provide insight into how that we get to that half 2 or the full year EBITDA guidance within that.

So it's very much taking the action that we've laid out, both from a transforming the P&L, but also the action that we've taken in terms of the activity around non-core assets and executing those reviews, the DC partnership, all of those elements are well underway and the benefits will be and are becoming visible in that the second half of the year.

Lance Reynolds: With the partnerships being a part of that, could we expect a guidance reiteration or a guidance, I guess, refresh on sealing those deals, say, in the next 3 months? So we're not just waiting for the full year. I mean that would be helpful if you're in the position to do that, yes?

Jolie Hodson: So in terms of sharing more when they're operating -- so the operating partnership is already captured in the savings that we've laid out. If you're talking around the data center partnership, we will be updating as appropriate when we have more specific to say. So as and when we sign deals that are material that we would want to, we will be sharing them before August. Yes, that's right.

Lance Reynolds: Yes. I was more just on the cost out. I mean, as we progress through the second half, it would be useful to get a reiteration of guidance given the fact we're already a couple of months in, but I know there's only 4 to go, but it would be good to get a further update?

My second question is on data centers. If we look at where most of this -- and you mentioned I think in an answer to Phil, you looked at, I think you said structures that support co-investment in the sector. I mean if we look -- we don't have to look too far to see a number of these infrastructure type partnerships are off balance sheet.

And I think Phil referenced the Vector deal whereby there is obviously a different gearing construct, which is obviously pretty obvious. Should we be thinking, therefore, that is the obvious preferred path given the constraints on group credit metrics?

Jolie Hodson: I certainly think it's a pathway that we are looking at in terms of the partnerships. I think it's a fair -- but as I say, until those partnerships are completed and we've gone through that process, we want to -- we'll obviously update as it becomes -- we've got the marketplaces have been updated about process we're underway with, had a lot of interest. And I think as we further complete those partnership discussions, we'll then be in a better place to share more around what that structure looks like.

Lance Reynolds: Thank you. And then one final one. In terms of the process being underway, is there a set time line for the process? So we've got -- so I mean, I'm not asking for a date, but just to give us some confidence that something could come at the latest in August in terms of an update?

Jolie Hodson: We've got -- we have a clear timing of what we're working to within that process, and we will have an update to provide at August. And if it was anything

	earlier than that materially, clearly, we would share that with the market at the appropriate time.
Lance Reynolds:	Excellent. Thanks very much.
Jolie Hodson:	Thanks, Lance.
Operator:	Thank you. Once again, if you wish to ask a question, please press star 1 on your telephone. We'll now pause a moment to allow for any final questions to register. There are no further questions at this time. I'll now hand back to Ms. Hodson for closing remarks.
Jolie Hodson:	Okay. Thank you, everyone, for joining the call today, and we will continue to keep you updated as we progress our programs and plans and particularly around the partnerships. Thank you.

[END OF TRANSCRIPT]