MARKET RELEASE

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SPARK NEW ZEALAND H1 FY17 RESULTS

- **Financial results demonstrate another six-month period of dynamic change and ongoing progress**
- **Customer service experience improving**
- **Competing hard in a challenging market and operating environment**

Spark New Zealand Chairman Mark Verbiest said today the financial results for the half-year ended 31 December 2016 demonstrate it's been another six month period of dynamic change and ongoing progress.

"The financial results for the six months to 31 December 2016 are in line with our plan and reflect the continuing execution of Spark's long-term strategy.

"Customer service levels have recovered markedly and several new market-leading offers have been launched. However, some of the key indicators in the results also highlight the challenging market and operating environment and the need for us to maintain a fast pace of change and keep delivering for our customers.

"Despite vigorous price competition, top-line revenue growth has been pleasing, with total operating revenues up 4.1% on the prior half-year to $1.793 billion. Mobile revenue was up 4.4%, broadband revenue up 1.5%, and IT services revenue up 19.3%.

"While the revenue performance across mobile, broadband and IT services was good, it is clear the intense ongoing price competition, particularly at the lower end of the market, is driving margin pressure and reinforcing the need to increase our focus on our brand assets, as well as continuing to tightly manage operating and capital expenditure.

"Operating expenses were up 4.3% to $1.320 billion. Much of this was attributable to an increase in the cost of supporting IT services growth and bringing on new big business customers, as well as the additional resources deployed to improve the service experience for our customers and reduce call centre wait times."

Earnings before interest, income tax, depreciation and amortisation (EBITDA) lifted by $16 million, or 3.5% to $471 million in H1 FY17. This increase was driven by the inclusion of a full six months earnings from the CCL Group (acquired in December 2015) and the timing of Southern Cross dividends, with $9 million of dividends originally expected in H2 FY17 being recognised in H1 FY17.

Spark Managing Director Simon Moutter said, "The six months saw a big focus on a programme we are calling 'Upgrade New Zealand', designed to move as many of our customers as possible off older copper broadband onto newer and less fault-prone fibre or wireless broadband technologies.

"Spark is working proactively with local fibre companies (LFC's) to accelerate take-up of fibre through trialling initiatives such as 'street-in-a-week'. Trials to date have been very successful, with fibre orders well ahead of those achieved via more traditional marketing. Outside the trials, we continue to work with the fibre network companies to improve the fibre provisioning process and eliminate pain points for our customers. As at 31 December 2016 Spark had 138,000 UFB fibre broadband connections.

"While fibre is the preferred broadband technology for customers who use large amounts of data, as part of Upgrade New Zealand we have also ramped up the rollout of Wireless Broadband for customers with low to medium data usage, with over 40,000 Wireless Broadband connections on our network as at 31 December 2016.

"On Spark's customer service, there is much work still to be done but the investment in call centre resources and processes has led to reduced call wait times and significant improvements on customer service measures. Digitisation will be pivotal to future service measures as customer preference continues to shift to online and mobile self-service channels. A new Spark app is launching imminently which will provide customers with significantly enhanced self-service capability."

"Gains were made by Spark Digital with our business, enterprise and Government customers, with revenue growth fuelled by a series of successful customer wins and the

CCL Group acquisition, which helped to offset much of the decline in legacy telco revenues and the ongoing mobile pricing pressures.

“Over the half-year we have invested further to extend our existing network leadership and develop the future network pathway to ensure we can meet the growing demands of customers. The investment in additional capacity and resiliency at holiday hotspots ensured that Spark customers had arguably their best ever Christmas and New Year experience in terms of service continuity and coverage.

Mr Verbiest added, “While there will inevitably be more challenges to come and the market remains very competitive, Spark is confidently looking forward to the rest of the financial year, and to delivering on our ambitions for our customers, our shareholders and for New Zealand.

“We note that due to unplanned work following the earthquakes centred near Kaikoura, we are now guiding to capital expenditure of $415 million for FY17 (still within 11-12% of revenue). That said, the results for the first half reaffirm the Board’s view on full-year EBITDA guidance of 0 – 2% growth and support an interim dividend of 11 cents per share and a special dividend of 1.5 cents per share.”

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For media queries, please contact:

Richard Llewellyn
Head of Corporate Communications
+64 (0) 27 523 2362

For investor relations queries, please contact:
Dean Werder
General Manager Finance & Performance
+64 (0) 27 259 7176