Spark New Zealand H1 FY17 Results

Simon Moutter, Managing Director
David Chalmers, Chief Financial Officer

H1 FY17 Highlights

EBITDA result underpinned by ongoing momentum across IT Services and Mobile

- Mobile connections growth of 141k (6.4%) driven by multi-brand offerings and digital service inclusions Spotify and Lightbox
- Upgrade of customers to Fibre and Wireless Broadband progressing well; securing Fibre growth ahead of overall share and already over 40,000 Wireless Broadband connections
- Sustained revenue growth in Platform and Cloud IT services; up 25.8% reflecting good enterprise and government customer wins and bolt-on business acquisitions
- Investment in digital self service and additional call-centre resource driving material improvements in customer experience
- Expansion of Spark brand digital inclusions and entry of Skinny brand into Fixed and Wireless Broadband will strengthen share of revenue in future
- Price pressure continuing across Mobile, Broadband and IT services requires ongoing tight management of costs and capex to drive sustained shareholder returns and profit growth

Results Scorecard

Key Group Financials

	H1 FY17
Total Revenue Growth	4.1%
EBITDA Growth	3.5%
Dividend per Share (ord + special)	11.0 cps + 1.5 cps

Product Revenue

	H1 FY17
Mobile Revenue Growth	4.4%
Broadband Revenue Growth	1.5%
IT Services Revenue Growth	19.3%

Market Share & Connections

Mobile Share [1] (Service Revenue)	Mobile Customers	Broadband Share[1] [2] (Connection)	Broadband Customers [2]	IT Services Share[1] (Revenue)
38.3%	2,353k	42.3%	675k	#1
-1.0pp	+6.4%	-2.0pp	-	
vs December 2015	vs December 2015	vs December 2015	vs December 2015	

(1) Market share estimate
(2) Includes Wireless Broadband connections

Reported Financials

	H1 FY17 $M	H1 FY16 $M	CHANGE %
Revenues	1,793	1,723	4.1%
Operating expenses [1]	(1,322)	(1,268)	(4.3%)
EBITDA	**471**	**455**	**3.5%**
Depreciation & amortisation	(215)	(224)	4.0%
Net finance expenses	(13)	(13)	-
Net earnings before income tax	**243**	**218**	**11.5%**
Income tax expense	(65)	(60)	(8.3%)
Net earnings after income tax	**178**	**158**	**12.7%**
Capital expenditure [2]	224	216	3.7%
Notional free cash flow [3]	247	239	3.3%

(1) Includes share of Joint Ventures
(2) Includes $2.0m in relation to Kaikoura earthquakes
(3) Notional free cash flow = EBITDA less Capital expenditure

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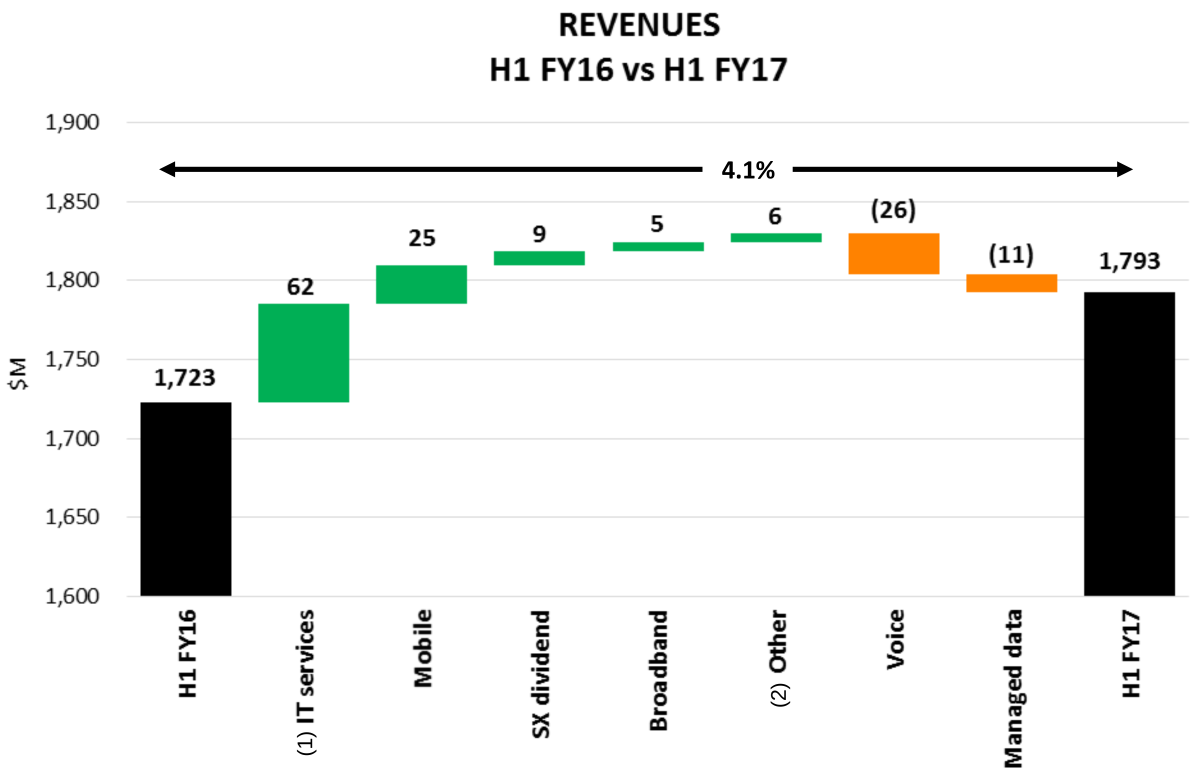
Revenue Waterfall

Revenue growth driven by continued IT Services, Mobile and Broadband performance

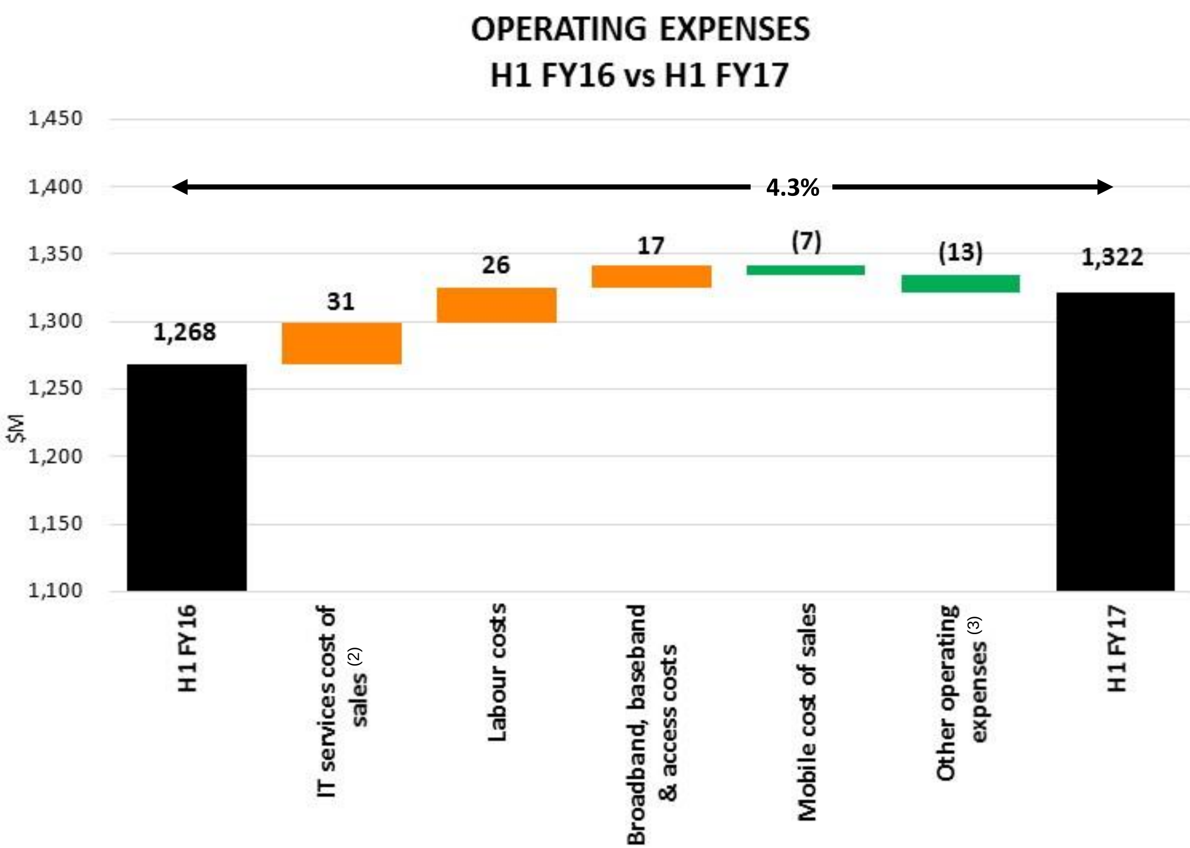


- IT services growth driven by bolt-on business acquisitions and continued shift to Cloud services
- Ongoing Mobile growth through upsell, value inclusions and shift away from handset subsidies
- Other revenue reflects progress of Spark Ventures businesses
- Rate of decline across legacy Voice and Data in line with prior period continuing operations at (8-10%)

(1) includes $29m increase in revenue from CCL Group (acquired in December 2015)
(2) Other revenue increase predominantly driven by Lightbox, Qrious and Morepork

Operating Expenses[1] Waterfall

Cost growth in support of IT Services revenue and improved mass market service experience

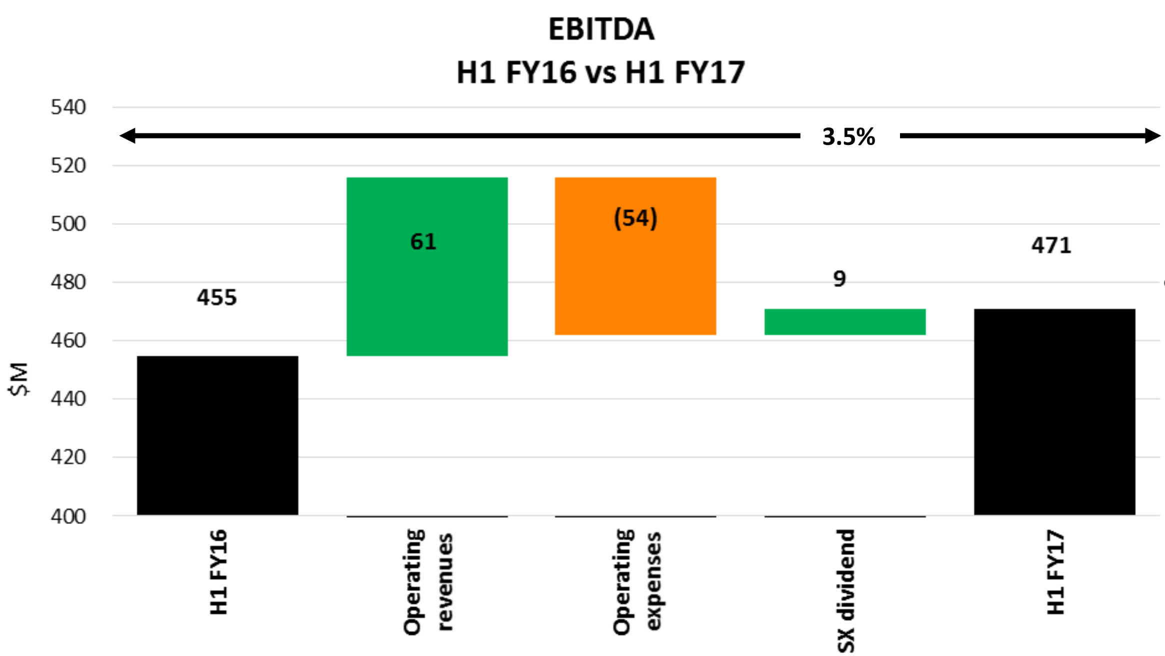


- IT Services Cost of Sale (CoS) consistent with strong revenue growth
- Temporary labour cost increase in support of service experience and IT service revenue growth
- Higher access input costs due to regulated price increases and penetration of higher speed UFB inputs, partially offset by Wireless Broadband adoption
- Mobile CoS decline reflecting improved customer retention
- Other expenses improved on tight cost control and recognition of new customer acquisition costs over customer contract periods

(1) Includes share of Joint Ventures
(2) Expenses increase in relation to CCL Group (acquired in December 2015) is $13m IT services CoS, $9m labour and $1m other
(3) Other operating expenses includes selling and support costs such as advertising, accommodation, computer costs, consulting and bad debt

EBITDA Waterfall

Continued EBITDA growth built on revenue uplift



- Revenue uplift driven by continued IT services and Mobile growth, including revenue from CCL Group (acquired December 2015)
- Expenses increased in support of revenue growth and service experience improvement; partially offset by benefits of improved mobile retention and recognition of new customer acquisition costs over customer contract periods
- Timing uplift in Southern Cross (SX) dividend due to portion of expected H2 dividends being declared in H1

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Spark Home, Mobile & Business

Revenue growth continues with investments in systems, processes and staff driving improvements in service experience

	H1 FY17 $M	H1 FY16 $M	CHANGE %
Revenues	985	971	1.4%
Mobile	478	459	4.1%
Broadband	326	320	1.9%
Voice	157	171	(8.2%)
Other	24	21	14.3%
Costs	(594)	(575)	(3.3%)
EBITDA	391	396	(1.3%)

- Continued growth in Mobile revenue through increased customer base
- Broadband revenue growth fueled by migrations to higher value plans
- Fixed Voice revenue decline of (8%) in line with prior period; due to increasing penetration of Naked Broadband and ongoing Mobile adoption
- Cost uplift includes impact of regulated price increases for Copper Voice and Broadband services and investment in call-centre resource to address service experience
- Service related cost uplift now abating as customer pain points are resolved through simplification and digitisation; market NPS up 5 points during H1
- Successful full launch of Wireless Broadband delivering service experience and margin benefit
- Skinny playing bigger role, expanding its Wireless Broadband offer, moving into unlimited Fixed Broadband and launching Skinny Direct

NB: Includes Skinny, Lightbox and Bigpipe

Spark Digital

Platform IT revenue growth continues to outperform the market, however margin pressure remains a challenge across the portfolio

	H1 FY17 $M	H1 FY16 $M	CHANGE %
Revenues	658	607	8.4%
Traditional IT Services	104	92	13.0%
Platform IT Services	116	93	24.7%
Procurement	163	137	19.0%
Voice	94	99	(5.1%)
Data[1]	82	88	(6.8%)
Mobile	98	95	3.2%
Other	1	3	(66.7%)
Costs	(467)	(414)	(12.8%)
EBITDA	191	193	(1.0%)

IT Services: Traditional IT Services, Platform IT Services, Procurement

(1)Data includes Broadband and Managed Data

- Platform IT and Cloud revenue growth reflects CCL acquisition and new customer wins
- Telecommunications-as-a-service seeing strong adoption by eligible government agencies and high win rate by Spark
- Mobile revenue remains in growth on move towards high-end devices, offsetting impact of price pressure on average usage revenues per customer.
- Rate of decline in legacy Voice stable at (5%)
- Cost-base higher in support of Platform IT, Mobile and Procurement revenue growth
- EBITDA to increase in H2 on completion of major customer transitions and improving efficiency in IT service delivery

Customer Experience

Sustained improvement being driven by migration off Copper inputs and investments in digitisation and service resource

- Investment in call-centre resource has delivered results. Resource is now reducing as underlying pain points are addressed and resolved.
- Ongoing upgrade from Copper improving customer experience and reducing fault volumes; more than 25% of base now on Fibre or Wireless Broadband
- Fibre provisioning experience improving via initiatives such as our ‘street in a week’ programme
- Digitisation enabling pro-active assurance and effortless self-service, with launch of new Spark app imminent
- Migration from Yahoo to new mail platform underway

33pp

increase in calls answered in 180 seconds since June 2016

5pt

improvement in Market NPS since June 2016

Broadband

Performing well in core segments but struggling to maintain overall share in a commoditising market

- Continued price competition, particularly at lower end of the market
- Reinforces value of multi-brand strategy to meet all preferences
    - Skinny for low priced 'basic' broadband
    - Bigpipe for the tech-savvy
    - Spark for value-packed bundles
- 'Upgrade New Zealand' programme focused on moving customers off legacy Copper Broadband onto better, newer and less fault prone Fibre and Wireless Broadband
- Fibre remains preferred technology for customers using larger amounts of data; secured 43% of market growth in H1
- Wireless Broadband targeted to customers with low to medium data usage; delivering clear service and margin benefits
- Digital inclusions with Spark broadband driving clear retention benefits with churn down to 15%
- Lightbox progressing well towards 250k subscribers; upgrading platform in support of media strategy

43%

share of Fibre growth during H1 FY17

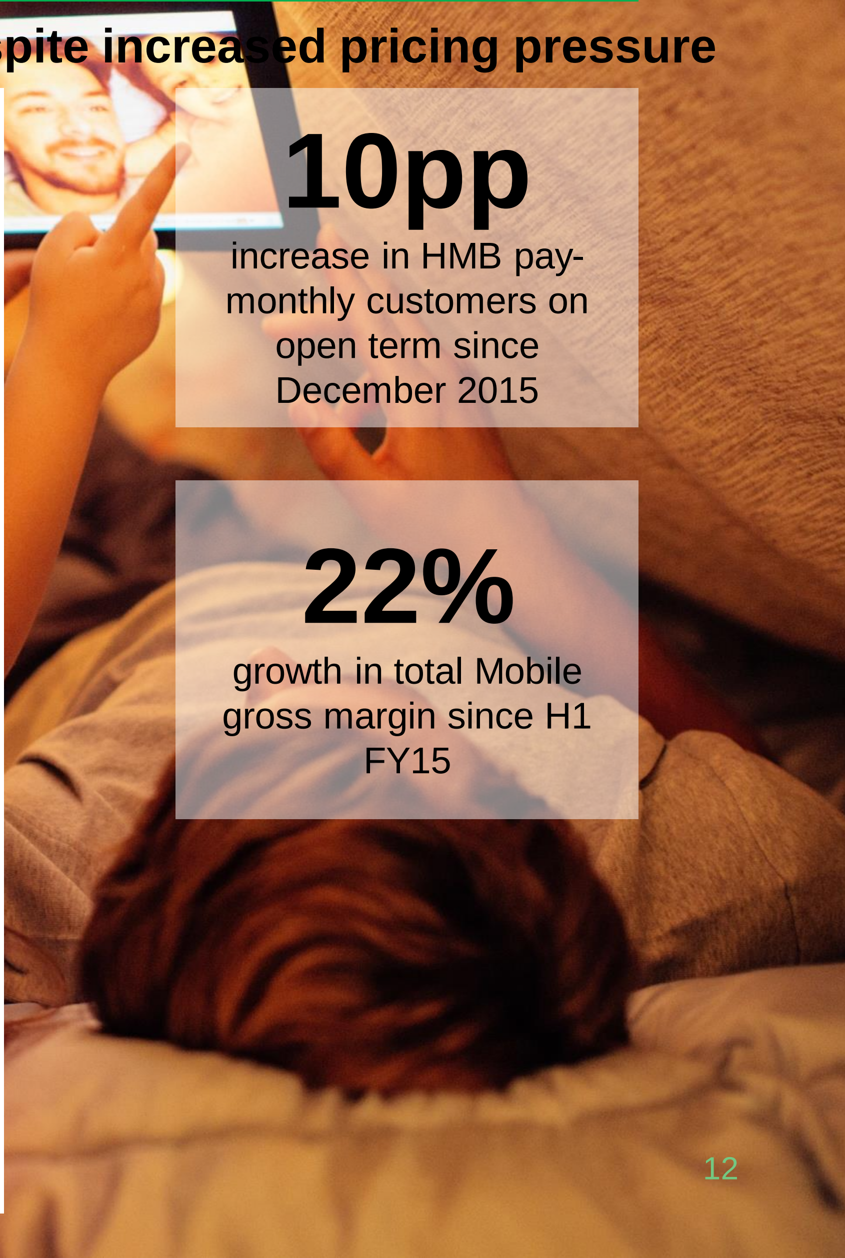
178k

Fibre and Wireless Broadband connections at 31 Dec 2016

Mobile

Revenue and base growth continues despite increased pricing pressure

- Migration away from subsidised contracts continues to deliver margin upside; more than 80% of HMB pay-monthly now on open term plans
- Lightbox and Spotify pay-monthly inclusions driving clear churn benefit; HMB churn at lowest level in three years
- Ongoing proactive re-signing to drive churn reduction across business customer base
- Skinny Direct proving that digital sales and service model can deliver market leading service experience *and* improved margins
- Investment in network leadership continues with 4.5G overlay commenced



10pp

increase in HMB pay-monthly customers on open term since December 2015

22%

growth in total Mobile gross margin since H1 FY15

Platform IT

Focus on Platform IT delivering very strong returns and differentiation

- Revenue growth continues to outpace the market with a number of substantial customer wins
- Acquisition of CCL has successfully complemented existing services
- Some margin pressure emerging as expected, with installed base maturing
- Focused on driving efficiency in IT service delivery via leveraged support model and more efficient vendor spend

26%

Platform IT 2 year revenue CAGR

30%

Platform IT share of total IT Services revenue

Investing In Our Future

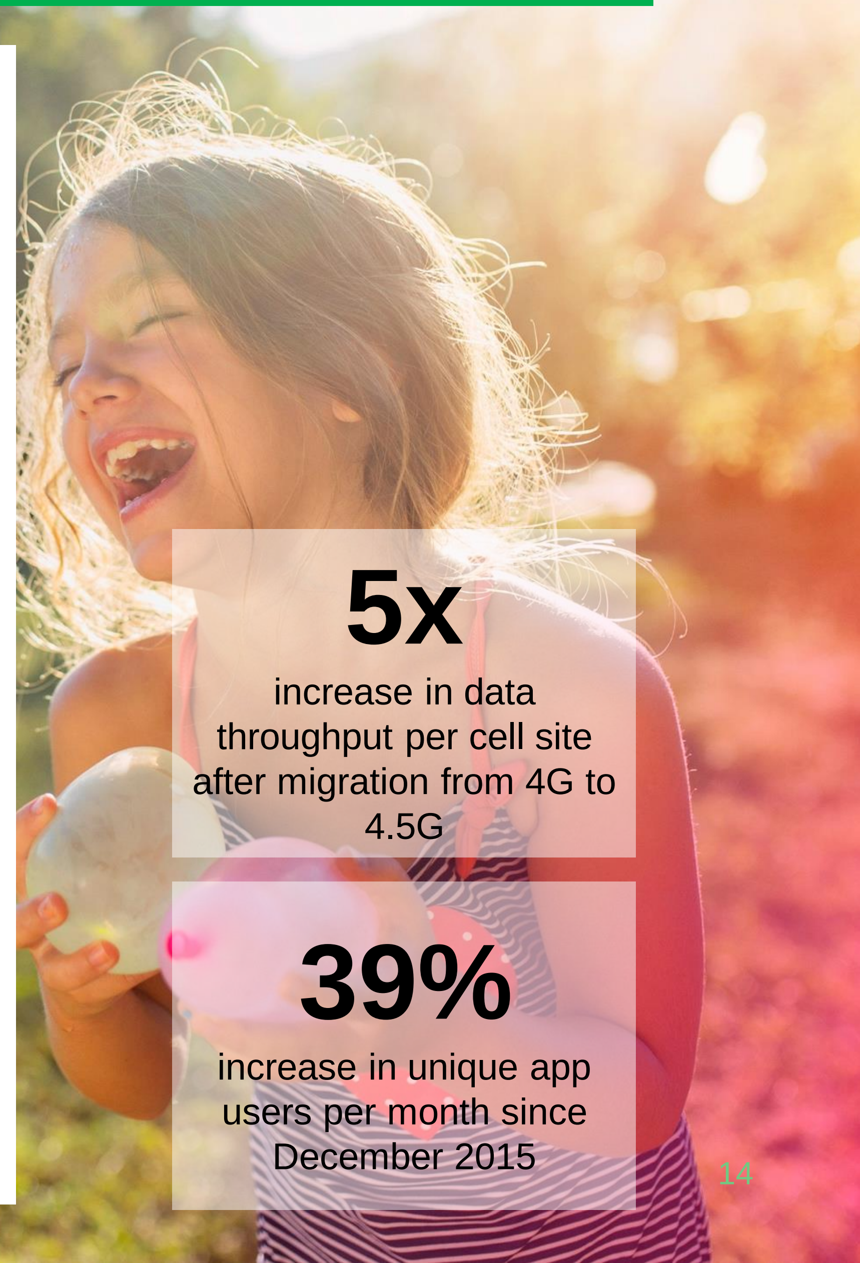
- Strategic intent to ‘own’ CBD fibre progressing towards improving:
  - Customer experience
  - Network economics
  - Speed to market

- Connect 8 acquired to expand in-house fibre skill set

- Notice of Intention filed for proposed acquisition of TeamTalk

- Digitisation of service experiences enabled by completion of IT stack re-engineering programme;
  - Active app users up 39% YoY
  - More than 5,000 fault events already benefited from pro-active faults management
  - Several online buy and change journeys upgraded

- Improved network economics to be unlocked by 4.5G, ongoing core network augmentation and replacement of PSTN



5x

increase in data throughput per cell site after migration from 4G to 4.5G

39%

increase in unique app users per month since December 2015

Capex Update

Capex remains within 11-12% of revenue in support of network superiority, digitisation and ongoing operational improvements

- FY17 Capex guidance increased by approximately $15m in support of Kaikoura earthquake remediation and resiliency enhancements including:
  - remedying the damaged South Island eastern fibre route and adding a third South Island fibre route
  - increasing backhaul resilience, capacity and routing in Wellington and the South Island
- Wireless Broadband delivering strong return on investment via improved customer outcomes and input cost savings
- Mobile capex supporting data growth requirements and expanding 4G coverage. 4.5G overlays commenced with SRAN deployments progressing to plan
- New trans-Tasman submarine cable (TGA) build ongoing and on track to deliver improved resilience for international connectivity between NZ, Australia and USA from April 2017
- Ratio of capex to revenue of 11-12% will continue to allow for investment in strategic programmes which are prioritised based on returns

Capital Structure and Shareholder Returns

Principles

- Remain committed to conservative capital structure and S&P single 'A Band' Credit Rating
- Preferred method of shareholder distribution is to sustainably grow ordinary dividends over time in line with earnings growth as articulated in our long-term growth framework outlined in Appendix 1
- Special dividends used as appropriate to reset capital structure

Total Debt increasing in support of:

- capital structure reset; and
- movements in working capital reflective of changing shape of margin recognition, particularly in respect of deferred handset payments and strong growth in IT services customer contracts

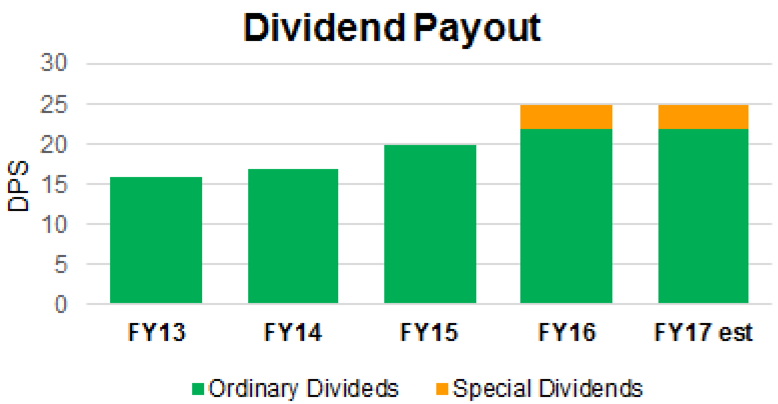
$m	at 31 Dec 2016	at 31 Dec 2015
Debt due within one year	199	182
plus Long-term debt	807	636
less Cash	56	60
Net Debt	**950**	**758**

H1 FY17 Dividend

- H1 FY17 dividend 11 cps, fully imputed
- Special dividend of 1.5 cps, 75% imputed
- DRP remains suspended

H2 FY17 Dividend (1)

- Anticipate H2 FY17 ordinary dividend of 11 cps and special dividend of 1.5 cps
- Anticipate ordinary dividend to be fully imputed. Special dividend anticipated to be at least 75% imputed



(1) Guidance subject to no adverse change in operating outlook

FY17 Guidance[1]

	FY16 Actuals	FY17 Guidance	Change to Previous FY17 Guidance
Total Revenues	$3,497m	0-3% growth	-
Reported EBITDA [2]	$986m	0-2% growth	-
Capex	$390m	~$415m	+$15m
EPS	20c	21c	-
DPS	Ordinary Div 22 cps +Special Div 3 cps fully imputed	Ordinary Div 22 cps fully imputed +Special Div 3 cps at least 75% imputed	-

(1) Guidance subject to no adverse change in operating outlook
(2) EBITDA guidance is relative to FY16 reported EBITDA and excludes potential net gains on sale of Mayoral Drive Carpark estimated at $17m-$19m. This transaction is expected to complete by 30 June 2017.

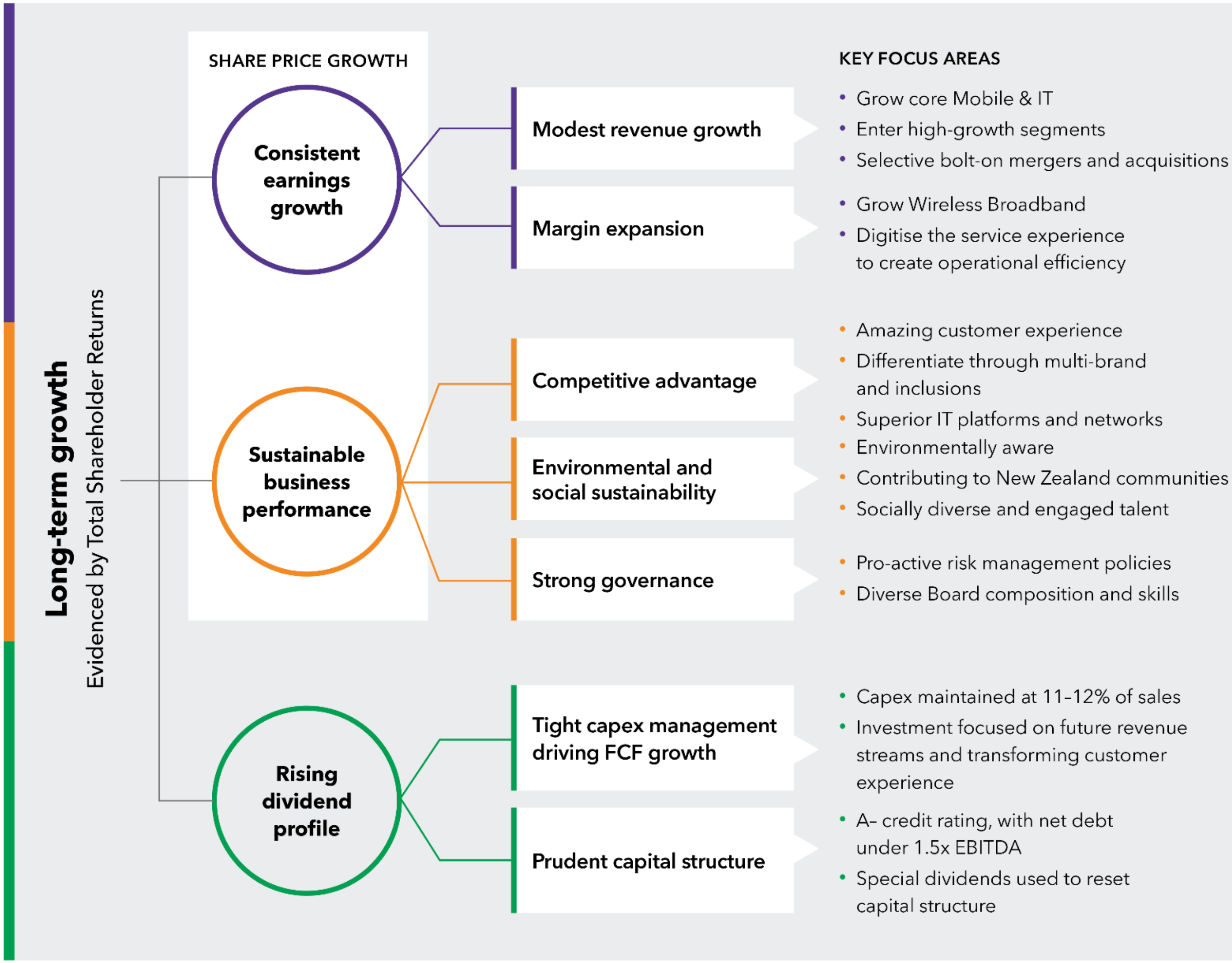
FY17 Indicators of Success

Outcome	Proposed Measures	Target 30 June 2017	Status
Restore call centre service levels to world class	Answer Time	90% in 180 seconds	Tracking up to Target
	First call resolution	75%	Improvement Needed
Advance toward amazing customer experiences through digital sales and service	Market NPS	5 point lift	On Track
	Reduction in call volumes	7.5% reduction	Improvement Needed
	Launch a new, more feature rich Spark App	Q3 FY17	On Track
	Introduce proactive faults management for mass market	Q3 FY17	Delivered
	Adopt and scale dev-ops model	Adopt H1 FY17; Scale H2 FY17	Adoption: Delivered Scaling: On Track
	Average daily log-ins to Spark App	20% increase	Improvement Needed
	Proportion of Skinny sales via Digital Channels	10%	Ahead
Expand margins and improve service experience through reduced reliance on third party access	Uptake of Wireless Broadband	50,000 connections	Ahead now aiming for 70,000
	Implement 'owned' CBD fibre model	AKL and WLG CBDs 'owned'	In progress
	Expand coverage of 4G	95% population	On Track
Maintain revenue growth momentum to deliver long-term sustainable growth	Market share of UFB orders	45%	Slightly behind
	Mobile total revenue growth	5%	Slightly Behind
	Platform IT revenue growth	20%	Ahead
	Proportion of BB and Mobile custs. using inclusions	20%	Ahead
	Enter adjacent high-growth market	Significant entry into one additional market	Considering options

Working on Refreshed Strategic Plan

- Solid results but market changes and learnings from last three years of execution require a strategic response
- Customers strongly preferring wireless connectivity and digital self service
- Growing portion of the market is buying primarily on price
- If approved, merger of Vodafone and SkyTV will change the industry structure and competitive playing field; decision expected February 2017
- New leadership team now working on next evolution of market strategy to respond to current trends and future risks; expanding the Skinny brand into broadband is our first significant move
- Will share a refreshed strategic plan at an investor day before the end of this financial year

Appendix 1: Focused on sustainable long-term growth



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