MARKET RELEASE

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SPARK NEW ZEALAND FY16 RESULTS

Financial results on-track, reflecting ongoing delivery of transformation strategy

Capabilities provided by major IT systems upgrade to help improve customer service experience

Spark New Zealand said today the financial results for the year ended 30 June 2016 demonstrate the company is performing well in the market as it continues its digital transformation.

Spark Chairman Mark Verbiest said, "We are very pleased with the progress made by Spark in the financial year ended 30 June 2016. We are now well into the next phase of our ongoing business transformation, shifting focus from building the solid foundation of digital capabilities needed for future growth, to delivering on the opportunity provided by that foundation.

"Notably, the growing areas of our business, such as mobile and platform IT services, now outweigh the declining areas such as traditional fixed line voice and legacy data services, signalling a successful repositioning and a notable turning point. We signalled our intention to increase dividends last year and we're pleased to confirm an ordinary dividend of 22 cents per share and a special dividend of 3 cents per share for FY16."

While total operating revenues and other gains of $3.497 billion were down slightly, once re-based for prior year divestments, changes to regulated access charges in Wholesale and the acquisition of the Computer Concepts Limited Group (CCL Group) in the current year, the total operating revenues and other gains were up 2.5% on the previous year. This increase was fuelled largely by solid growth in mobile and platform IT services.

Continued tight cost management, resulted in earnings before interest, income tax, depreciation and amortisation (EBITDA) lifting by 2.5% to $986 million and net earnings before income tax increasing by 6.2% to $512 million. Net earnings after income tax were slightly down by 1.3% to $370 million with Spark's contribution to New Zealand's tax base increasing by $35 million to $142 million, on the back of higher current year earnings, prior year non-taxable gains on divestments and prior period adjustments.

Spark Managing Director Simon Moutter was pleased with progress yet upfront about areas that need to improve. "We are clearly winning in the mobile market. Spark's mobile revenues were up 11.3% to $1.134 billion for FY16, well ahead of Vodafone's recently published estimate of $1.065 billion.

"In broadband, our focus on higher-value plans and adding customer value through digital services, such as Lightbox and smart living solution Morepork, has helped a 5.4% growth in revenues. There has also been excellent growth in business IT services revenue, up 11.1%.

"In media, while we're generally supportive of market consolidation where it leads to better outcomes for consumers, Sky's monopoly in premium sports content - and the lack of a viable and credible wholesale market that provides better online, on-demand choices for New Zealanders to watch their sports - is a key concern. We believe a merged Sky/Vodafone will be able to leverage its monopoly power in the sports content market, to the detriment of consumers. We have therefore opposed the merger in its current form in our submission to the Commerce Commission."

"Our most immediate issue though is customers experiencing unacceptable delays when contacting our call centres. While supply constraints and visibility of fault restorations are beyond the control of ISPs like Spark, we do not shy away from the fact that, as their digital service provider, we are responsible for the experiences of our customers. This is our highest priority right now and we are moving fast on a number of fronts. While we still have a long way to go, wait time performance has been improving markedly in recent weeks as a result of the work we've done to date."

In June 2016 Spark completed a four-year, $238 million Re-engineering Programme. The programme saw 52 legacy IT systems retired, 41 systems consolidated and over 100 million customer inventory records migrated. Completed on time and on budget, it lays the platform for the delivery of excellent digital customer services.

Mr Moutter said, "We are also proud of our commitment to New Zealand's future. We're investing in innovation through Spark Ventures and through our support of start-up sector programmes. And we continue to invest in our nation's future through the Spark Foundation and through our support of community initiatives, particularly in technology education for young New Zealanders.

"We have also continued to develop our people through a range of leadership and diversity initiatives. We now have significantly more diversity in our leadership ranks, from the Board level down. We're promoting more from within, bringing more diversity through to senior roles, faster."

Mr Verbiest said Spark is well positioned for long-term success. "We've transformed Spark from the ground up. More customers are choosing us. We have a sound long-term strategy in place, a strong FY17 game plan and proven execution skills. The next phase of our strategy is concentrated on delivering market-leading customer experiences, which will underpin the development of a competitive, sustainable and well-led business with a strong financial performance and capital foundation.

"We're determined to do all we can to play an even bigger role in New Zealand's digital future and be truly useful for our customers and for New Zealand. The reason is simple. If we help New Zealanders and New Zealand businesses succeed, Spark will also succeed. We won't be slowing down over the coming 12 months. For shareholders, we are looking forward to the 2017 financial year and to raising our game again. As we did in FY16, for FY17 we anticipate paying ordinary dividends of 22 cents per share, with a special dividend of 3 cents per share, subject to there being no material change in outlook. The financial results for this past year support the Board's view that a return to long-term, sustainable growth is realistic and achievable."

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