MEDIA RELEASE

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SPARK NEW ZEALAND FY15 HALF YEAR RESULTS

CUSTOMER FOCUS KEEPS SPARK NEW ZEALAND ON TRACK

Spark New Zealand said today the half-year results for the FY15 financial year show it is continuing to deliver against the milestones set out in its long-term growth strategy.

Chairman Mark Verbiest said, “More than two years ago, we made the decision to build our business around a digital services future inspired by the needs of our customers in a rapidly changing world. At the time, we outlined a two-phase approach: first, resetting the business by stabilising revenue and margins and reducing costs; and subsequently, moving to create value by driving market revenue and margin growth, with continuing improvement in unit costs.

“The first half of the 2015 financial year saw Spark New Zealand remaining on-plan as we near the end of this first phase of repositioning. The decline in core retail product revenues evident in recent reporting periods, due to lower demand for legacy and fixed voice services and sharp declines in broadband pricing, showed further signs of moderating, while underlying net earnings from operations were flat compared with the corresponding period in the previous financial year.”

Earnings before interest, tax expense, depreciation and amortisation (EBITDA) from continuing operations were down 3.5%. This includes the impact of non-recurring rebrand costs and the higher reorganisation costs versus the prior year. Taking these items into account, operating earnings were broadly flat.

Spark New Zealand’s net earnings from continuing operations after tax for H1 FY15 were $147 million, unchanged from H1 FY14.

Operating revenues from continuing operations declined 2.7%, to $1,797 million, largely as a result of the ongoing and historical decline in consumer use of legacy fixed and voice products.

Managing Director Simon Moutter said the results reflect the ongoing repositioning of the Company and the execution of its long-term strategy.

“There has been sustained growth in good quality mobile connections, up another 108,000 in the period since 30 June 2014, as Spark New Zealand continues to close the gap on the competition. Total mobile revenues grew by 2.4% however the market remains very competitive, particularly in the business segment where revenues have actually declined on the back of continuing price reductions and data bundle expansion.

“Our performance in the broadband market also reflected the competitiveness of the market, with Spark New Zealand’s share of connections declining slightly. That said, gains were made in broadband revenue and profitability as we weighted our efforts toward higher-value customers through the introduction of higher-end products and the provision of valued broadband services for Spark New Zealand customers, such as Lightbox.”

IT services revenue rose 6.9%, underpinned by the ongoing repositioning of Spark Digital (formerly Gen-i) and investments in Cloud computing, through Revera and Appserv, and in data centres, including new and expanded facilities.

The tight management of operating costs remained, with expenses from continuing operations reducing 2.4% to $1,361 million, reflecting the ongoing flow-through benefits from the Turnaround Programme.

“The rebrand from Telecom to Spark New Zealand in August 2014 was executed superbly and is already making a difference to online and store traffic, to increased customer preference and consideration and to our market share momentum”, said Mr Moutter.

“An emphasis on delivering a range of additional services that consumer’s value, such as Spotify, Lightbox, nationwide WiFi, Socialiser and many others has enabled the Spark New Zealand brand to build differentiation positions in mobile and broadband. This has been supported by our multi-brand strategy, which has seen Skinny mobile and Bigpipe broadband improve their market presence.

“Business customers have benefited from the ongoing repositioning into Cloud computing and data centres, from our network nationwide fibre services, a completed optical transport network, and our rapidly expanding 4G mobile network. We now believe Spark New Zealand is overtaking its competitors in 4G mobile coverage.

“We have also upped the ante in the emerging online TV market in New Zealand with Lightbox TV, which launched on-time in August 2014, well ahead of competition, to very positive customer feedback. Lightbox also formed a strategic joint venture with online sports company Coliseum, which has rights to PGA Golf, French Rugby and the English Premier League, to form Lightbox Sport.”

Mr Moutter said, “Our focus during the second half of the financial year will be on maintaining intensity of execution, reflecting our determination to build on the firm foundation that is setting up the Company for growth.

“In August 2014 we provided guidance of low single digit growth in EBITDA and low single digit decline in revenue. However, it is still uncertain as to the date the new Chorus input charges will take effect, with the possibility of backdating.

“Subject to a final Commerce Commission decision on backdating, we remain on track for this guidance with, as we saw in the 2014 financial year, more of the benefits of our actions expected to show through in the second half.

“Our overall confidence around continuing solid market performance and cash generation has enabled the Directors to declare a half-year dividend of 9 cents per share.

“More than a million New Zealanders have an ownership stake in Spark New Zealand, either directly as shareholders or indirectly through KiwiSaver investments. And with an ever-growing dependence on high-quality connectivity and services for consumers and businesses alike, Spark New Zealand has an important role to play in our country’s future progress. That’s a responsibility that helps drive our ambitions.”

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