



**MARKET RELEASE**

**18 August 2016**

## **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.”

- ENDS -

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## **FY16 Financial Results – Spark New Zealand**

**Simon Moutter**, Managing Director

**Jolie Hodson**, Chief Financial Officer

**Jason Paris**, CEO, Spark Home, Mobile & Business

**Tim Miles**, CEO, Spark Digital



# FY16 Highlights



## **EBITDA growth of 2.5% demonstrates successful execution of growth strategy**

- #1 in Mobile market by revenue as our mobile growth leads the market
- #1 in Data underpinned by share of high value customers and network performance and cost superiority
- #1 in Cloud services, driven both by organic growth and targeted business acquisition
- Customer experience for fixed line products hasn't been good enough
- But making fast cycle improvements, on the back of successful completion of Re-engineering Programme; a 4 year, \$238m programme to upgrade key customer service IT systems
- Beta launched mass market Wireless Broadband offering. Now moving toward full market launch.
- Tight ongoing management of cashflow and capital will continue to drive sustained shareholder returns and EBITDA growth

# Results Scorecard



## Key Financials

	FY16	H2
Total Revenue Growth	(1.0%)	2.3%
EBITDA Growth	2.5%	1.0%
Ordinary Dividend per Share	22 cps	11.0 cps
Special Dividend per Share	3 cps	1.5 cps

## Product Revenue

	FY16	H2
Mobile Revenue Growth	11.3%	10.9%
Broadband Revenue Growth	5.4%	6.1%
IT Services Revenue Growth	11.1%	13.1%

## Market Share & Connections

<b>Mobile Share</b> <sup>(1) (2)</sup> <b>(Service Revenue)</b> <b>39%</b> +1%	<b>Mobile Customers</b> <b>2,293k</b> +5%	<b>Broadband Share</b> <sup>(1) (2)</sup> <b>(Connection)</b> <b>44%</b> -2%	<b>Broadband Customers</b> <sup>(3)</sup> <b>675k</b> -1%	<b>IT Services Share</b> <sup>(1) (2)</sup> <b>(Revenue)</b> <b>14%</b> slight increase
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(1) Market share estimate

(2) Percentage point estimate vs June 2015

(3) Includes Wireless Broadband connections

# Reported Financials



	FY16 \$M	FY15 \$M	CHANGE %
Revenues	3,497	3,531	(1.0%)
Operating expenses <sup>(1)</sup>	2,511	2,569	(2.3%)
<b>EBITDA</b>	<b>986</b>	<b>962</b>	<b>2.5%</b>
Depreciation & amortisation	446	453	(1.5%)
Net finance expenses	28	27	3.7%
<b>Net earnings before income tax</b>	<b>512</b>	<b>482</b>	<b>6.2%</b>
Income tax expense	142	107	32.7%
<b>Net earnings after income tax</b>	<b>370</b>	<b>375</b>	<b>(1.3%)</b>
CAPEX <sup>(2)</sup>	390	576	(32.3%)
Notional free cash flow <sup>(3)</sup>	596	386	54.4%

<sup>(1)</sup> Includes share of Joint Ventures

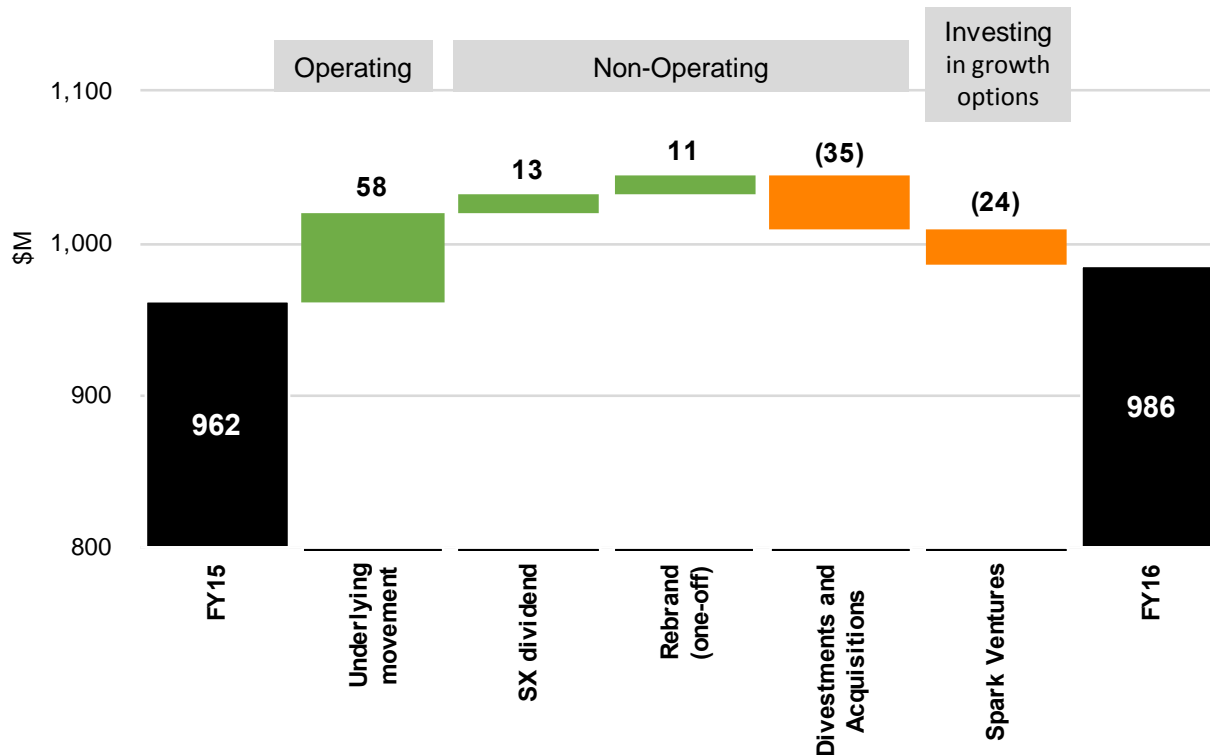
<sup>(2)</sup> Includes \$158m for mobile spectrum in FY15, \$9m in FY16

<sup>(3)</sup> Notional free cash flow = EBITDA less CAPEX

# EBITDA waterfall

Growing EBITDA founded on solid operational performance

EBITDA  
FY15 vs FY16

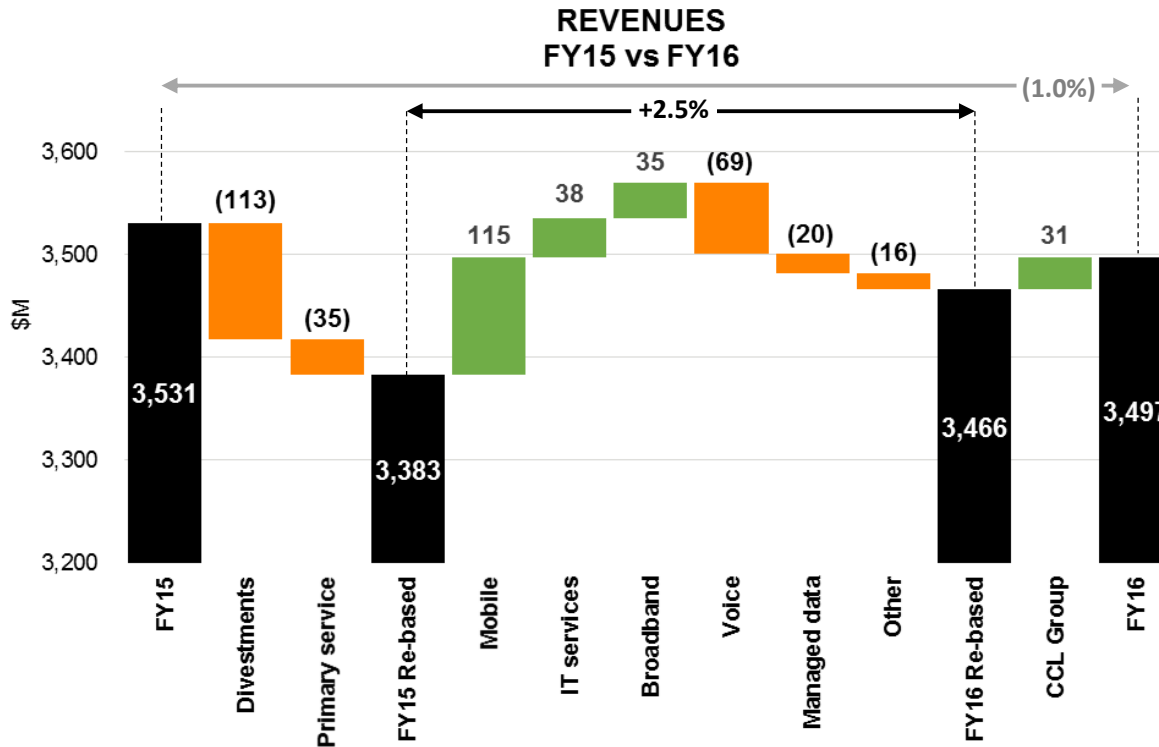


- Operating EBITDA growth driven by Mobile and IT Services revenue and margin uplift
- Impact of higher Southern Cross (SX) dividend and rebrand costs more than offset by prior year divestments
- Ventures investments delivering clear portfolio benefits. Successes and failures have provided critical learnings.



# Revenue waterfall

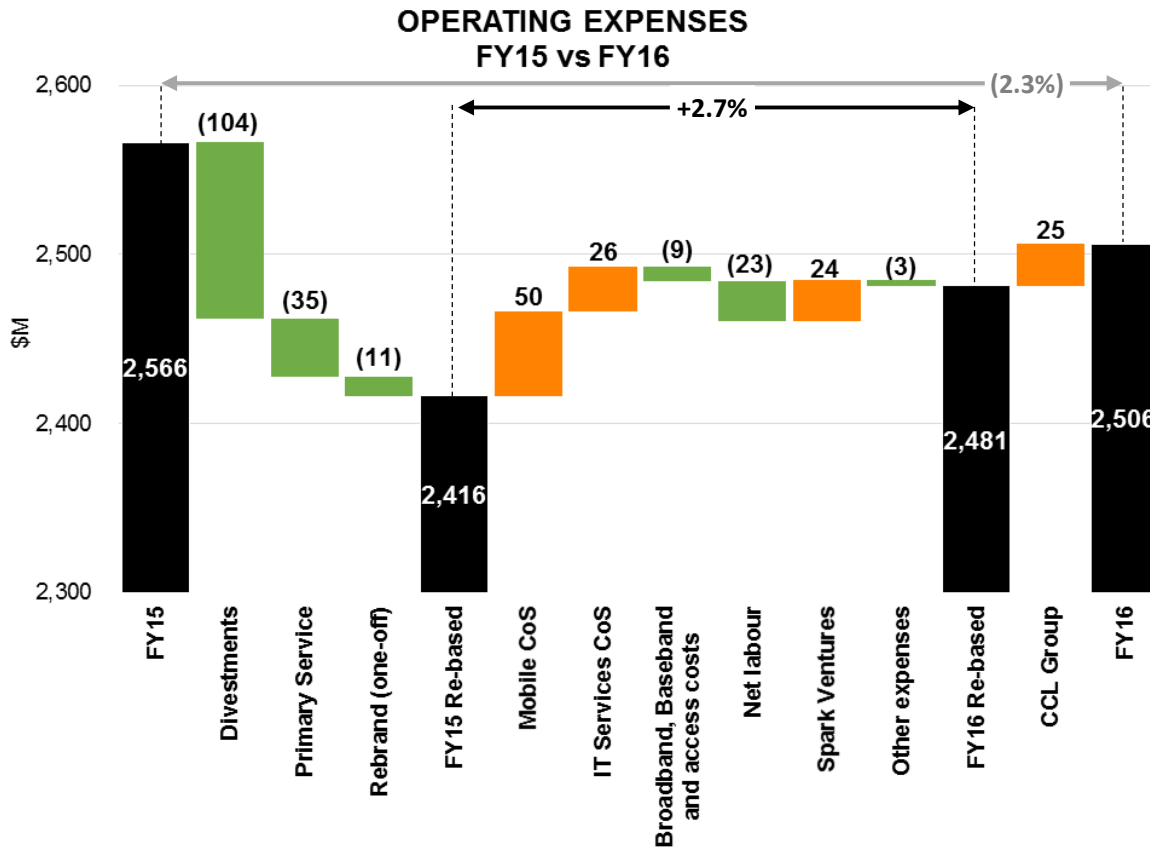
Re-based revenue growth driven by strong Mobile, IT Services and Broadband performance



- Re-based revenue growth of \$83m or 2.5%
- Strong Mobile revenue growth through upsell and value inclusions increasing customer preference
- Growth in IT Services as market transitions to Cloud services
- Broadband revenue growth underpinned by proactive upsell and price increases (pass through of regulated price increase)
- Overall decline in legacy voice and managed data revenues continues in line with recent trends

# Operating Expenses waterfall

Re-based cost growth in support of Mobile, IT Services and Ventures revenues



- Mobile Cost of Sales (CoS) increases in line with customer demand for higher end devices
- IT Services CoS more than offset by associated revenue growth, reflecting changing mix and improved margin
- Higher net input costs from regulated price increase offset through utilisation of own network and more efficient network design
- Higher back-end network costs partially offset by further operational labour efficiencies

# Spark Home, Mobile & Business



## Continuation of EBITDA growth supported by strong Mobile performance

	FY16 \$M	CHANGE %	H2 FY16 \$M	CHANGE %
Revenues	1,984	6.8%	1,003	6.7%
Mobile	927	14.9%	466	12.0%
Broadband	647	6.2%	327	6.5%
Voice	347	(10.8%)	176	(7.4%)
IT Services & Other	63	19.2%	34	25.9%
Costs	1,206	9.0%	605	12.9%
EBITDA	778	3.6%	398	(1.5%)

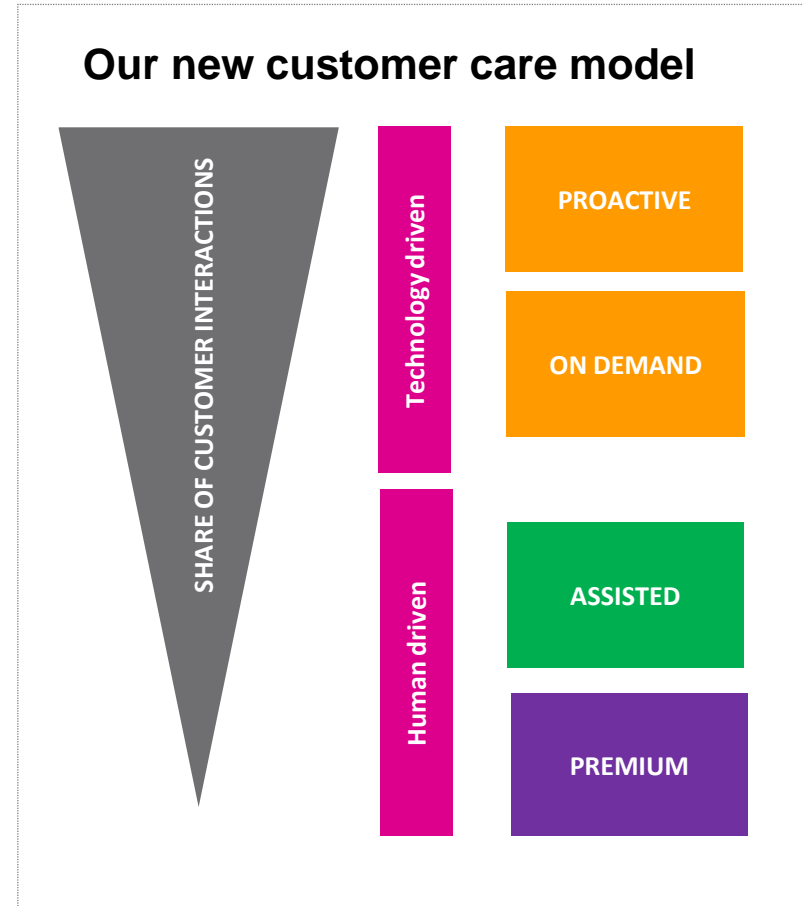
- Excellent growth in Mobile revenues up 14.9% including service revenues up 10.5% in the year. Driven by open term plans, strong product offerings and increased usage
- Broadband revenues increased with focus on high value customers and increasing market share of UFB orders
- Launch of Wireless Broadband will provide further growth and cost reduction in the future
- Cost increase is driven by staff increase in contact centres to improve customer experience
- Investment in new ventures also driving cost increase

# Customer service is our top priority



## Call centre service issues dominated by copper and UFB provisioning and faults but actions are underway to solve

- Have already seen improvements through:
  - 300 FTE increase in contact centre teams
  - Doubling Live Chat team and making it 24/7
  - Upgrades to our Website and App services
  - Improvements to our phone system so customers can book a “call back” at a time that suits them
- With longer term improvements to be delivered through:
  - Frictionless products
  - Tools to pro-actively identify faults
  - Greater self-service ability via Spark App and Website
- This will turn up for customers as:
  - Fewer reasons to contact us about service and less effort if they do; and
  - More convenient ways to interact with Spark via digital channels



## Market leading Platform IT performance driving margin and EBITDA growth

	FY16 \$M	CHANGE %	H2 FY16 \$M	CHANGE %
<b>Revenues</b>	<b>1,215</b>	<b>0.0%</b>	<b>614</b>	<b>3.5%</b>
<b>Traditional IT Services</b>	<b>188</b>	<b>(4.6%)</b>	<b>96</b>	<b>(4.0%)</b>
<b>Platform IT Services</b>	<b>187</b>	<b>26.4%</b>	<b>100</b>	<b>25.0%</b>
<b>Voice</b>	<b>197</b>	<b>(8.4%)</b>	<b>98</b>	<b>(4.9%)</b>
<b>Data<sup>1</sup></b>	<b>175</b>	<b>(5.4%)</b>	<b>87</b>	<b>1.2%</b>
<b>Mobile</b>	<b>192</b>	<b>(4.0%)</b>	<b>97</b>	<b>4.3%</b>
<b>Procurement &amp; Other</b>	<b>276</b>	<b>4.2%</b>	<b>136</b>	<b>5.4%</b>
<b>Costs</b>	<b>805</b>	<b>(2.5%)</b>	<b>396</b>	<b>0.5%</b>
<b>EBITDA</b>	<b>410</b>	<b>5.4%</b>	<b>218</b>	<b>9.5%</b>

- EBITDA in growth through focus on high quality deal flow and greater operational effectiveness
- Strategy to provide hosted digital platforms vindicated through customer wins
- Growth in Platform IT and Cloud significantly faster than market
- Slowing rates of decline in legacy voice and data
- Improving Mobile performance in H2
- Significant product development has created a future platform for customers to buy telecommunications “as a service”
- Cost down due to improvement in operational delivery model

<sup>1</sup>Data includes Broadband and Managed Data

# Strategy continues unchanged



## Ambition

At Spark, our ambition is to be a winning business, inspired by customers to unleash the potential in all New Zealanders

## Goals

To be New Zealand's:

- Benchmark for amazing customer experiences
- No 1 provider of mobility, data and cloud solutions
- Market leader in digital life and business services
- Best run and most efficient business

## Strategic Programmes

Customer Inspired

Spark Brands

Spark Talent

Win Key Markets

Digital First

## Foundation

New Zealand's best data network and digital services capability

# Market structure rapidly evolving

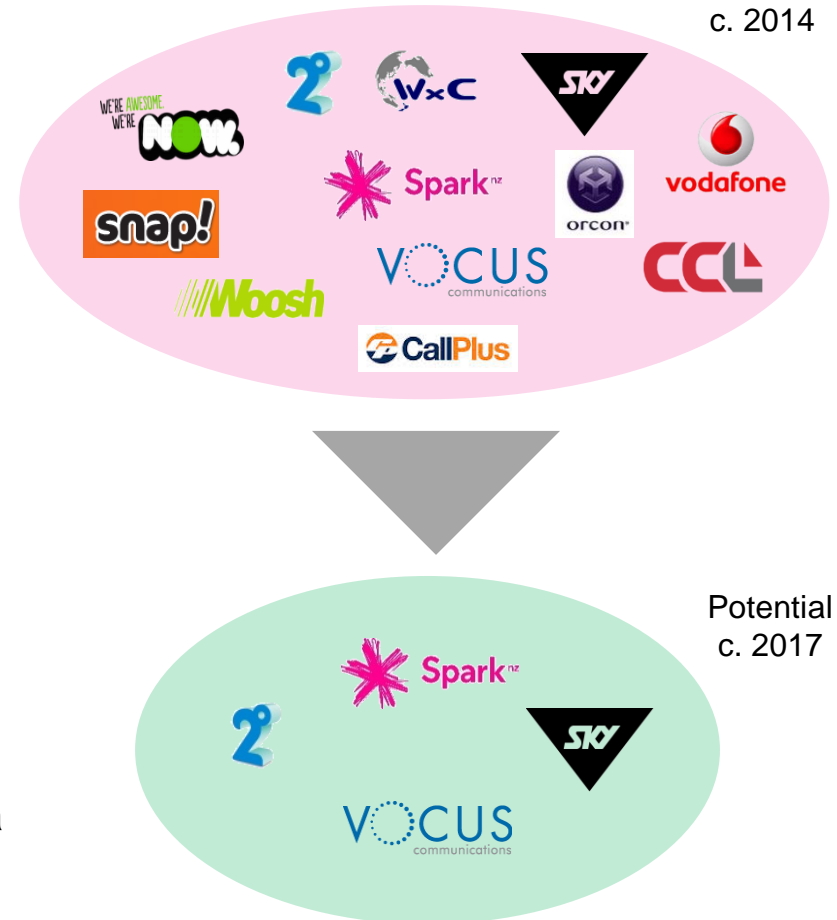


## Consolidation continues at pace, with regulatory framework improving

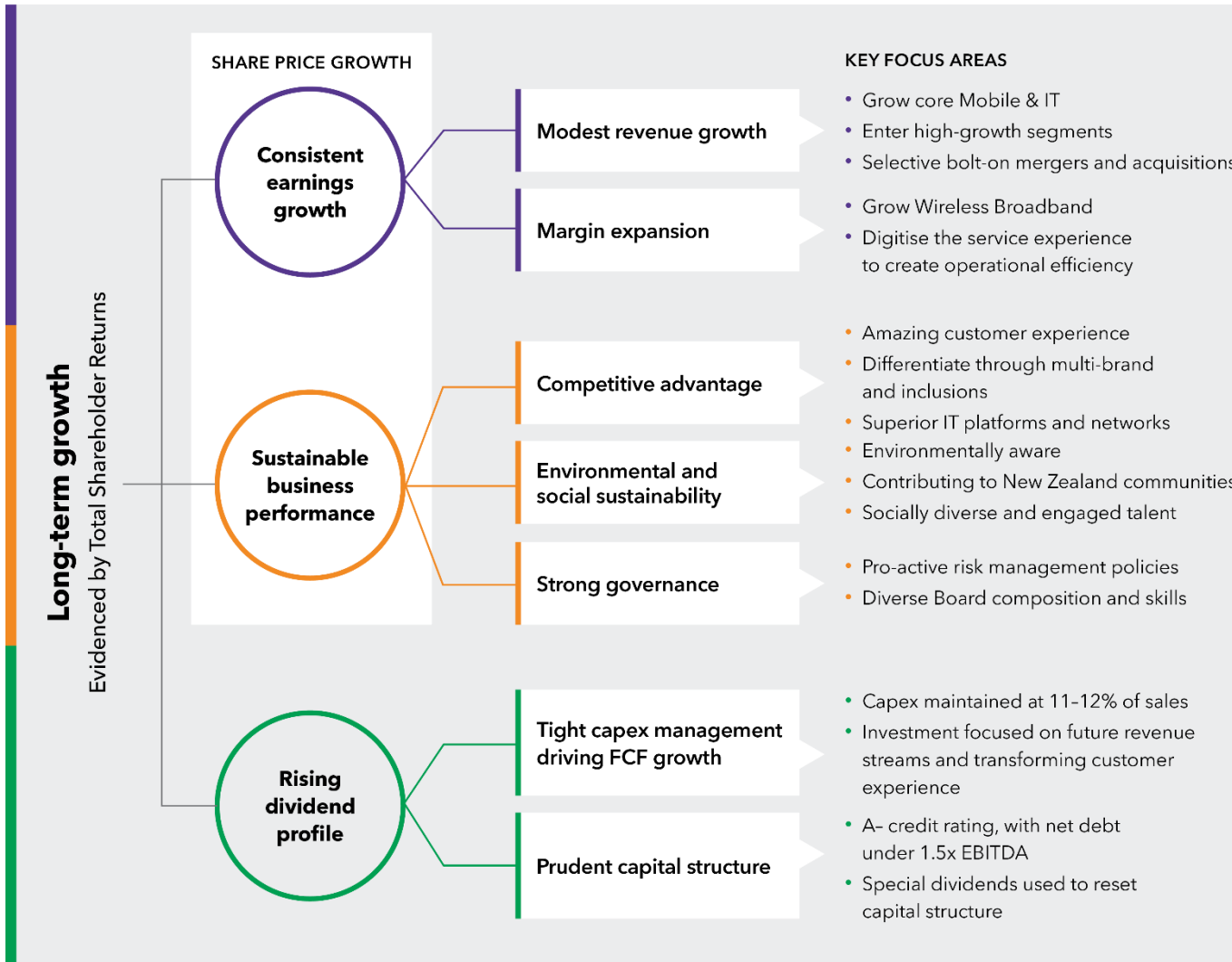
- Increasing trend to create full-service offerings, including media
- Pressure on Broadband margins continues to drive consolidation of subscale brands
- Improving regulatory environment supports more stable market structure
- Trading multiples for Cloud/Data Centre businesses now well ahead of those paid for Revera and CCL

Our market strategy is to:

- Deliver amazing customer experiences
- Differentiate through inclusions and multiple brands
- Invest in superior networks and an open media platform to compete with potential Sky/Vodafone offering



# Focused on sustainable long-term growth





# Revenue growth in core segments



## Primary goals

- **Grow the market whilst holding our share**
- **Deliver ARPU growth through upsell and value inclusions**

## *Mobile*

- Spark is now #1 by revenue share
- Multiple brands and digital services inclusions creating differentiation
- Investment in spectrum and Single Radio Access Network (SRAN) lowering cost per GB
- 4.5G trials in beta launch phase; a stepping stone to faster, more efficient and higher capacity Mobile data services
- Moving aggressively to digital sales channels to improve customer experience



# Revenue growth in core segments (cont.)



## *Broadband*

- Share in value segments remains challenged by price competition
- Aim to hold revenue share through upsell to fibre and unlimited, differentiated by inclusions e.g. Lightbox, Morepork
- Opportunity to grow share in sub \$60 segments using Wireless Broadband

## *Managed data*

- Competing hard on price for commoditised WAN services
- Seeking growth in under-represented segments
- Creating standardised low cost offerings using fibre inputs



# Revenues in high growth segments



## Powering up our leading assets and capability for competitive advantage

### *Platform IT (Revera, CCL & Appserv)*

- Cloud penetration low but growing quickly as customers understand the benefits
- 18 data centres totalling ~10 MW, creating significantly more scale and capability than the competition
- Multiple new customer wins, with strong pipeline, expected to maintain current growth rates

### *Big Data (Qrious and Internet of Things)*

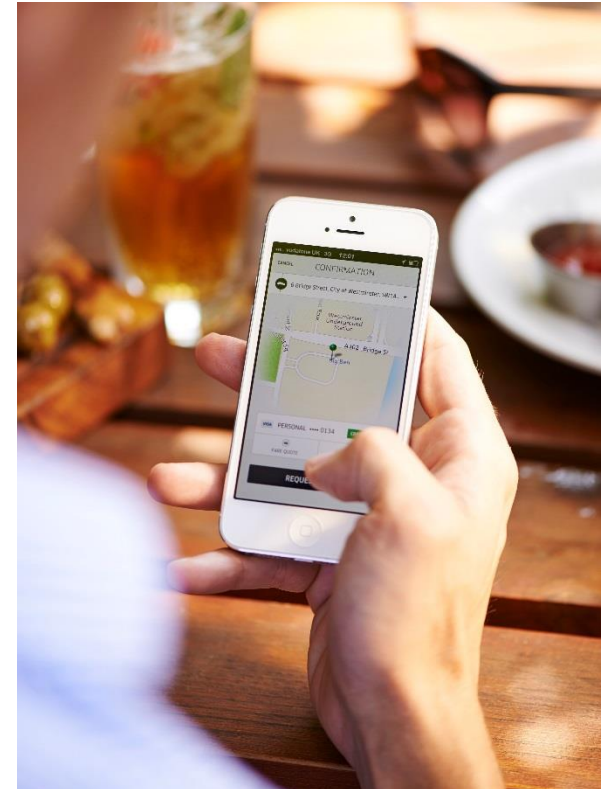
- Focused on growth in industry verticals, for example tourism, transport and retail
- Several proof of concepts underway in Internet of Things, for example the Connected Farm concept



# Margin expansion through cost reduction



- Re-engineered IT stack enables increased automation and more online self service for customers
- Wireless Broadband substitution of fixed Broadband
  - Beta launch phase completed, now moving to scale up
  - Over 12k connections today, targeting at least 50k connections by 30 June 2017
  - Opportunities in both rural and urban, entry level Broadband, and customers seeking resilience
- Moving to RFP for “owned” fibre in CBDs of larger cities
- Longer term network investment in virtualisation will lower cost per GB and create the opportunity to carry more data at even higher data rates



# Differentiation via inclusions and multi-brand strategy



## Inclusion of digital services into core offerings a key differentiator

- Spotify Premium included on selected Pre-Paid Packs and all Pay-Monthly plans \$59.99 and above
- Nationwide WiFi included with all Mobile and Broadband plans
- Lightbox included for all Spark Broadband customers

Media strategy evolving to build scale on an open platform

- Lightbox surpassed 150k total customers, accelerating towards next milestone of 200k

Multiple brands able to target different market segments e.g. Skinny, Bigpipe, NOW

Spark Ventures 2.0 will create future sources of differentiation

- Established Ventures have been moved to the core
- Investing for growth via Qrious and Internet of Things
- Have failed with Lightbox Sport and Semble Payments
- Resetting focus for next series of innovations



# Sustainable business performance



## Board working to deliver sustainable long-term value creation for shareholders

- Disclosures expanded in response to global investor feedback
- Board renewal continuing with a focus on ensuring an excellent mix of skills, experience and gender
- Leadership Team renewal underway, with most new appointments from internal talent pool, plus leadership development programmes created to grow talent
- Following recent appointments will soon be at 25% of senior roles female, aiming for 50% female or non-NZ European
- Sustainable business practices will provide a long-term competitive advantage
  - 11% decrease in annual greenhouse gas emissions during FY16
  - Aspiring to reduce emissions by a further 25% by 2025



# Capex allocation centred on delivering value



## **Tightly managed capex, together with modest EBITDA growth will maintain healthy free cash flow**

- Capex to be maintained at sustainable 11-12% of revenues, equating to approx. \$400m p.a.
- Mobile capex focused on meeting data growth requirements, expanding 4G coverage and moving to 4.5G with further SRAN deployments
- Targeted investment in core infrastructure exemplified by TGA Cable and fibre build
- Envelope allows for investment in strategic programmes which are prioritised based on returns

# Stable capital structure and dividends growing



## Principles

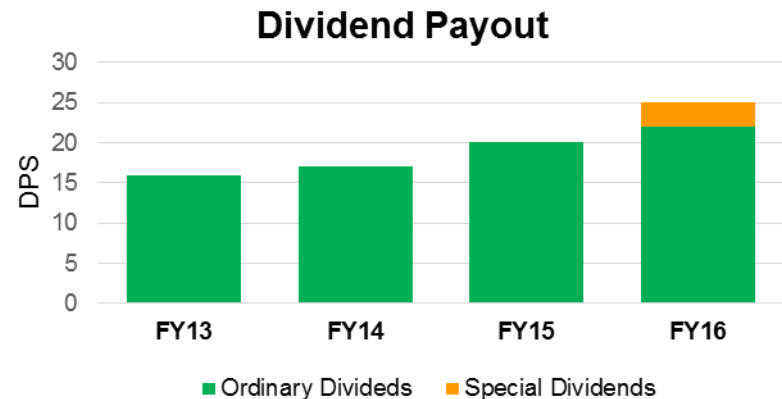
- Remain committed to conservative capital structure and S&P single 'A Band' Credit Rating
- Preferred method of shareholder distribution is to sustainably grow ordinary dividends over time in line with earnings growth
- Special dividends used as appropriate to reset capital structure

## FY16 Dividend

- H2 FY16 dividend 11 cps, fully imputed
- Special dividend of 1.5 cps, fully imputed
- DRP remains suspended

## FY17 Dividend <sup>(1)</sup>

- Anticipate FY17 ordinary dividend of 22 cps and special dividend of 3 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 Indicators of Success



Desired Outcome	Proposed Measures	Target 30 June 2017
<b>Restore call centre service levels to world class</b>	Answer Time	90% in 180 seconds
	First call resolution	75%
	Market NPS	5 point lift
<b>Advance toward amazing customer experiences through digital sales and service</b>	Reduction in call volumes	7.5% reduction
	Launch a new, more feature rich Spark App	Q3 FY17
	Introduce pro-active faults management for mass market	Q3 FY17
	Adopt and scale dev-ops model	Adopt H1 FY17; Scale H2 FY17
	Average daily log-ins to Spark App	20% increase
	Proportion of Skinny sales via Digital Channels	10%
<b>Expand margins and improve service experience through reduced reliance on third party access</b>	Drive uptake of Wireless Broadband	50,000 connections
	Implement 'owned' CBD fibre model	AKL and WLG CBDs 'owned'
	Expand coverage of 4G	95% population
<b>Maintain revenue growth momentum to deliver long-term sustainable growth</b>	Market share of UFB orders	45%
	Mobile total revenue growth	5%
	Platform IT revenue growth	20%
	Proportion of BB and Mobile customers using inclusions	20%
	Enter adjacent high-growth market	Significant entry into one additional market

# FY17 Guidance<sup>(1)</sup>



	FY16 Actuals	FY17 Guidance
<b>Total Revenues</b>	3,497	0-3% growth
<b>Reported EBITDA <sup>(2)</sup></b>	986	0-2% growth
<b>Capex</b>	\$390m	~\$400m
<b>EPS</b>	20c	21c
<b>DPS</b>	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 for Mayoral Drive Carpark estimated at \$17m-\$19m. The transaction remains subject to resource consent and is currently expected to complete by 31 March 2017.



# Disclaimer

This announcement may include forward-looking statements regarding future events and the future financial performance of Spark New Zealand. Such forward-looking statements are based on the beliefs of management as well as on assumptions made by and information currently available at the time such statements were made.

These forward-looking statements may be identified by words such as “guidance”, ‘anticipate’, ‘believe’, ‘estimate’, ‘expect’, ‘intend’, ‘will’, ‘plan’, ‘may’, ‘could’, ‘ambition’ and similar expressions. Any statements in this announcement that are not historical facts are forward-looking statements. These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond Spark New Zealand’s control, and which may cause actual results to differ materially from those projected in the forward-looking statements contained in this announcement.

Factors that could cause actual results or performance to differ materially from those expressed or implied in the forward-looking statements are discussed herein and also include Spark New Zealand's anticipated growth strategies, Spark New Zealand's future results of operations and financial condition, economic conditions and the regulatory environment in New Zealand; competition in the markets in which Spark New Zealand operates; risks related to the sharing arrangements with Chorus, other factors or trends affecting the telecommunications industry generally and Spark New Zealand's financial condition in particular and risks detailed in Spark New Zealand's filings with NZX and ASX. Except as required by law or the listing rules of the stock exchanges on which Spark New Zealand is listed, Spark New Zealand undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

# Spark New Zealand

## Group result - continuing operations

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
	\$m	\$m	\$m	\$m	\$m	\$m
Operating revenues and other gains	1,847	1,791	1,797	1,734	1,723	1,774
Operating expenses	1,395	1,307	1,361	1,205	1,266	1,240
Share of associates' and joint ventures' net (losses)	-	-	-	(3)	(2)	(3)
<b>EBITDA</b>	<b>452</b>	<b>484</b>	<b>436</b>	<b>526</b>	<b>455</b>	<b>531</b>
Depreciation and amortisation expense	227	224	224	229	224	222
Net finance expense	17	14	12	15	13	15
<b>Net earnings before income tax</b>	<b>208</b>	<b>246</b>	<b>200</b>	<b>282</b>	<b>218</b>	<b>294</b>
Income tax expense	61	70	53	54	60	82
<b>Net earnings after income tax</b>	<b>147</b>	<b>176</b>	<b>147</b>	<b>228</b>	<b>158</b>	<b>212</b>

## EBITDA by business unit

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>EBITDA</b>						
Spark Home, Mobile & Business	344	372	347	404	380	398
Spark Digital	200	213	190	199	192	218
Spark Connect	(87)	(68)	(82)	(73)	(100)	(82)
Corporate	(5)	(33)	(19)	(4)	(17)	(3)
	452	484	436	526	455	531

The Group has reclassified the comparative segment results to reflect changes in business unit structures and changes in accountabilities for managing revenues and costs. This includes the reclassification of backhaul expenses previously recognised within the Spark Home, Mobile & Business and Spark Digital business units into Spark Connect and the Group's mobile phone insurance product from the Corporate Centre to Spark Home, Mobile & Business. There is no change to the overall Group reported result as a result of these changes.

## Connections

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
	000's	000's	000's	000's	000's	000's
Mobile connections	1,923	2,006	2,114	2,178	2,212	2,293
Local service connections	1,399	1,374	1,350	1,323	1,281	1,251
Broadband connections	661	669	674	680	675	675

## Dividends

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
Ordinary dividends (cents per share)	8.00	9.00	9.00	11.00	11.00	11.00
Special dividends (cents per share)	-	-	-	-	1.50	1.50
	8.00	9.00	9.00	11.00	12.50	12.50

# Spark New Zealand

## Operating revenues and other gains by business unit

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Operating revenues and other gains</b>						
Spark Home, Mobile & Business	905	897	917	940	981	1,003
Spark Digital	643	645	622	593	601	614
Spark Connect	294	280	267	191	138	142
Corporate	63	40	46	65	26	41
Eliminations	(58)	(71)	(55)	(55)	(23)	(26)
	<b>1,847</b>	<b>1,791</b>	<b>1,797</b>	<b>1,734</b>	<b>1,723</b>	<b>1,774</b>

## Group operating revenues and other gains - continuing operations

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Operating revenues <sup>1</sup></b>						
Voice	534	503	479	401	337	344
Broadband <sup>2</sup>	318	325	324	326	339	346
Managed data	117	118	110	98	96	92
Mobile						
Service revenue	366	369	367	376	390	396
Other mobile revenue	126	115	137	139	173	175
	<b>492</b>	<b>484</b>	<b>504</b>	<b>515</b>	<b>563</b>	<b>571</b>
IT services						
Traditional IT services	103	101	101	103	92	97
Platform IT services	59	62	73	86	93	106
Procurement	114	122	121	108	137	133
	<b>276</b>	<b>285</b>	<b>295</b>	<b>297</b>	<b>322</b>	<b>336</b>
Other operating revenue	102	74	85	65	66	85
<b>Total operating revenues</b>	<b>1,839</b>	<b>1,789</b>	<b>1,797</b>	<b>1,702</b>	<b>1,723</b>	<b>1,774</b>
Other gains	8	2	-	32	-	-
<b>Total operating revenues and other gains</b>	<b>1,847</b>	<b>1,791</b>	<b>1,797</b>	<b>1,734</b>	<b>1,723</b>	<b>1,774</b>

<sup>1</sup> The disaggregation of operating revenues has been changed in the current period to better reflect the nature of services the Group provides to its customers. Operating revenues previously classified as 'Fixed' have been re-presented to allocate its 'Access' and 'Other' components to the appropriate service provided, being Voice or Broadband. Total operating revenues are unchanged. Comparative information has also been re-presented to conform to the current period's presentation.

<sup>2</sup> Wireless Broadband revenues and connections are included in broadband revenues and connections.

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Voice revenue by type</b>						
Landline only	247	237	221	177	169	166
Calling	272	250	241	209	153	164
Other voice revenue	15	16	17	15	15	14
	<b>534</b>	<b>503</b>	<b>479</b>	<b>401</b>	<b>337</b>	<b>344</b>

# Spark New Zealand

## Impact of UBA as primary service, divestments and acquisition

Included in the above reported operating revenues are the following amounts related to the impact of UBA as a primary service and the international voice business, TCNZ Cook Islands Limited (which held the Group's 60% share of Telecom Cook Islands Limited) and Telecom Rentals Limited prior to their divestment and the acquisition of the CCL Group in FY16. The revenue impact of UBA as a primary service has an equal offsetting effect on operating expenses.

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>UBA as primary service:</b>						
Voice	44	43	35	-	-	-
<b>Divestments:</b>						
Voice	56	41	57	38	-	-
IT services	1	-	1	2	-	-
Other operating revenue	10	9	13	2	-	-
	67	50	71	42	-	-
<b>Acquisition of CCL Group:</b>						
IT services	-	-	-	-	5	26

## Re-based: Group operating revenues and other gains - continuing operations

After adjusting for the impact of UBA as a primary service, divestments and acquisitions as outlined above, re-based operating revenues and other gains are shown below.

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Operating revenues</b>						
Voice	434	419	387	363	337	344
Broadband	318	325	324	326	339	346
Managed data	117	118	110	98	96	92
<b>Mobile</b>						
Service revenue	366	369	367	376	390	396
Other mobile revenue	126	115	137	139	173	175
	492	484	504	515	563	571
<b>IT services</b>						
Traditional IT services	102	101	100	101	91	92
Platform IT services	59	62	73	86	89	95
Procurement	114	122	121	108	137	123
	275	285	294	295	317	310
Other operating revenue	92	65	72	63	66	85
<b>Total operating revenues</b>	<b>1,728</b>	<b>1,696</b>	<b>1,691</b>	<b>1,660</b>	<b>1,718</b>	<b>1,748</b>
Other gains	8	2	-	32	-	-
<b>Total re-based operating revenues and other gains</b>	<b>1,736</b>	<b>1,698</b>	<b>1,691</b>	<b>1,692</b>	<b>1,718</b>	<b>1,748</b>
<b>Voice revenue by type</b>						
Landline only	203	194	186	177	169	166
Calling	216	209	184	171	153	164
Other voice revenue	15	16	17	15	15	14
	434	419	387	363	337	344

# Spark New Zealand

## Financial breakdown by business unit - Spark Home, Mobile & Business

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Operating revenues and other gains</b>						
Voice	223	207	199	190	171	176
Broadband	293	300	302	307	320	327
Mobile	372	372	391	416	461	466
IT services	1	1	5	6	6	6
Other operating revenue	16	17	18	20	21	25
Internal revenue	-	-	2	1	2	3
	905	897	917	940	981	1,003
<b>Operating expenses</b>						
Labour	56	56	62	59	68	68
Other operating expenses	489	451	489	455	515	517
Internal expenses	16	18	19	18	15	18
	561	525	570	532	598	603
Share of associates' and joint ventures' net (losses)	-	-	-	(4)	(3)	(2)
<b>EBITDA</b>	<b>344</b>	<b>372</b>	<b>347</b>	<b>404</b>	<b>380</b>	<b>398</b>

## Analysis & KPI's - Spark Home, Mobile & Business

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Voice revenue by type</b>						
Landline only	95	90	88	85	82	75
Calling	119	110	103	97	81	92
Other voice revenue	9	7	8	8	8	9
	223	207	199	190	171	176
<b>Local service</b>						
Broadband connections (000)'s	640	648	653	659	654	654
Landline only connections (000)'s	273	246	232	215	200	194
<b>Total local service connections (000)'s</b>	<b>913</b>	<b>894</b>	<b>885</b>	<b>874</b>	<b>854</b>	<b>848</b>
FTE permanent	1,432	1,429	1,454	1,433	1,594	1,698
FTE contractors	136	155	137	165	173	165
<b>Total FTE</b>	<b>1,568</b>	<b>1,584</b>	<b>1,591</b>	<b>1,598</b>	<b>1,767</b>	<b>1,863</b>

# Spark New Zealand

## Financial breakdown by business unit - Spark Digital

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Operating revenues and other gains</b>						
Voice	123	119	112	103	99	98
Broadband	25	25	22	19	19	19
Managed data	81	78	77	67	69	68
Mobile	115	106	107	93	95	97
IT services	273	283	286	288	316	329
Other operating revenue	3	1	3	2	-	-
Other gains	3	-	-	-	-	-
Internal revenue	20	33	15	21	3	3
	<b>643</b>	<b>645</b>	<b>622</b>	<b>593</b>	<b>601</b>	<b>614</b>
<b>Operating expenses</b>						
Labour	120	113	118	105	101	98
Other operating expenses	303	301	294	273	303	293
Internal expenses	20	18	20	16	5	5
	<b>443</b>	<b>432</b>	<b>432</b>	<b>394</b>	<b>409</b>	<b>396</b>
<b>EBITDA</b>	<b>200</b>	<b>213</b>	<b>190</b>	<b>199</b>	<b>192</b>	<b>218</b>

## Analysis & KPI's - Spark Digital

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Voice revenue by type</b>						
Landline only	51	49	45	41	39	40
Calling	71	67	64	60	58	57
Other voice revenue	1	3	3	2	2	1
	<b>123</b>	<b>119</b>	<b>112</b>	<b>103</b>	<b>99</b>	<b>98</b>
<b>IT services revenue by type</b>						
Traditional IT services	101	100	97	100	92	96
Platform IT services	58	61	68	80	87	100
Procurement	114	122	121	108	137	133
	<b>273</b>	<b>283</b>	<b>286</b>	<b>288</b>	<b>316</b>	<b>329</b>
<b>Local service</b>						
Broadband connections (000)'s	21	21	21	21	21	21
Total connections (000)'s	72	71	69	67	65	62
FTE permanent	1,869	1,852	1,799	1,705	1,776	1,770
FTE contractors	163	174	126	91	73	99
<b>Total FTE</b>	<b>2,032</b>	<b>2,026</b>	<b>1,925</b>	<b>1,796</b>	<b>1,849</b>	<b>1,869</b>



# Spark New Zealand

## Financial breakdown by business unit - Spark Connect

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Operating revenues and other gains</b>						
Voice	188	177	168	108	67	70
Managed data	36	40	33	31	27	24
Mobile	5	6	6	6	7	8
IT services	1	1	3	1	-	1
Other operating revenue	40	31	33	22	19	19
Internal revenue	24	25	24	23	18	20
	294	280	267	191	138	142
<b>Operating expenses</b>						
Labour	70	66	72	62	67	64
Other operating expenses	306	277	271	199	169	157
Internal expenses	5	5	6	4	3	3
	381	348	349	265	239	224
Share of associates' and joint ventures' net profits	-	-	-	1	1	-
<b>EBITDA</b>	<b>(87)</b>	<b>(68)</b>	<b>(82)</b>	<b>(73)</b>	<b>(100)</b>	<b>(82)</b>

## Analysis & KPI's - Spark Connect

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Voice revenue by type</b>						
Landline only	101	98	88	51	48	51
Calling	82	73	74	52	14	15
Other voice revenue	5	6	6	5	5	4
	188	177	168	108	67	70
<b>Analysis of international transits</b>						
International transit revenue	64	48	64	42	-	-
International intercarrier costs	54	41	56	37	-	-
<b>Local service</b>						
Total connections (000)'s	414	409	396	382	362	341
Landline only connections (000)'s <sup>1</sup>					89	82
FTE permanent	1,856	1,711	1,870	1,503	1,505	1,617
FTE contractors	119	57	53	41	52	61
<b>Total FTE</b>	<b>1,975</b>	<b>1,768</b>	<b>1,923</b>	<b>1,544</b>	<b>1,557</b>	<b>1,678</b>

<sup>1</sup> Comparative information for periods prior to H1 FY16 is not available.

# Spark New Zealand

## Financial breakdown by business unit - Corporate

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Operating revenues and other gains</b>						
IT services	1	-	1	2	-	-
Other operating revenue	43	25	31	21	26	41
Other gains	5	2	-	32	-	-
Internal revenue	14	13	14	10	-	-
	<u>63</u>	<u>40</u>	<u>46</u>	<u>65</u>	<u>26</u>	<u>41</u>
<b>Operating expenses</b>						
Labour	20	29	19	21	16	15
Other operating expenses	31	14	36	31	27	28
Internal expenses	17	30	10	17	-	-
	<u>68</u>	<u>73</u>	<u>65</u>	<u>69</u>	<u>43</u>	<u>43</u>
Share of associates' and joint ventures' net (losses)	-	-	-	-	-	(1)
<b>EBITDA</b>	<u>(5)</u>	<u>(33)</u>	<u>(19)</u>	<u>(4)</u>	<u>(17)</u>	<u>(3)</u>

## Analysis & KPI's - Corporate

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
Southern cross dividends - \$m	43	24	31	22	26	40
FTE permanent	185	180	174	151	148	156
FTE contractors	9	7	5	3	3	3
<b>Total FTE</b>	<u>194</u>	<u>187</u>	<u>179</u>	<u>154</u>	<u>151</u>	<u>159</u>

# Spark New Zealand

## Analysis & KPI's - Mobile (Spark Home, Mobile & Business and Spark Digital)

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
<b>Mobile revenue</b>						
Service revenue - \$m	361	363	361	371	384	390
Other mobile revenue - \$m <sup>1</sup>	126	115	137	138	172	173
	<u>487</u>	<u>478</u>	<u>498</u>	<u>509</u>	<u>556</u>	<u>563</u>
<b>Average revenue per user (ARPU) - 6 month active</b>						
ARPU - \$ per month	32.78	30.10	29.77	28.61	29.47	28.74
Pay-monthly - \$ per month	52.79	50.08	48.56	46.94	48.17	47.19
Prepaid - \$ per month	11.90	11.39	11.57	11.39	11.72	11.87
<b>Number of mobile connections at period end - 6 month active</b>						
Pay-monthly (000)'s	948	979	1,018	1,045	1,069	1,091
Prepaid (000)'s	967	1,021	1,092	1,129	1,139	1,198
Internal connections (000)'s	8	6	4	4	4	4
<b>Total mobile connections (000)'s <sup>2</sup></b>	<u>1,923</u>	<u>2,006</u>	<u>2,114</u>	<u>2,178</u>	<u>2,212</u>	<u>2,293</u>

<sup>1</sup> Other mobile revenue includes handset sales and mobile interconnect

<sup>2</sup> Mobile connections exclude MVNO connections

# Spark New Zealand

## Group operating expenses - continuing operations

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Payments to telecommunications operators</b>						
Baseband and access charges	231	218	205	169	162	184
Other intercarrier costs	111	101	97	73	43	48
Broadband cost of sales	133	138	140	114	119	120
Field services	17	6	11	8	10	8
	<u>492</u>	<u>463</u>	<u>453</u>	<u>364</u>	<u>334</u>	<u>360</u>
<b>Mobile acquisition, procurement and IT services</b>						
Mobile cost of sales	193	173	204	194	229	219
IT services cost of sales	161	174	164	160	184	177
	<u>354</u>	<u>347</u>	<u>368</u>	<u>354</u>	<u>413</u>	<u>396</u>
Labour	266	264	271	247	252	245
<b>Other operating expenses</b>						
Direct network costs	44	30	31	18	38	31
Computer costs	38	33	37	39	38	36
Accommodation costs	43	46	48	44	47	45
Advertising, promotions and communication	44	25	46	32	45	32
Bad debts	16	6	7	6	11	11
Impairments	-	-	-	-	-	9
Other	98	93	100	101	88	75
	<u>283</u>	<u>233</u>	<u>269</u>	<u>240</u>	<u>267</u>	<u>239</u>
<b>Total operating expenses</b>	<b><u>1,395</u></b>	<b><u>1,307</u></b>	<b><u>1,361</u></b>	<b><u>1,205</u></b>	<b><u>1,266</u></b>	<b><u>1,240</u></b>

## Group FTE's - continuing operations

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
FTE permanent	5,342	5,172	5,297	4,792	5,023	5,241
FTE contractors	427	393	321	300	301	328
<b>Total FTE</b>	<b>5,769</b>	<b>5,565</b>	<b>5,618</b>	<b>5,092</b>	<b>5,324</b>	<b>5,569</b>

# Spark New Zealand

## Group capital expenditure

	H1 FY14	H2 FY14	H1 FY15	H2 FY15	H1 FY16	H2 FY16
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Major programmes</b>						
Optical transport network (OTN) and Carrier Ethernet	22	5	6	10	21	2
Re-engineering of IT systems	44	31	29	43	42	24
Mobile network	89	41	57	35	58	19
Takanini data centre	-	-	61	-	-	-
	<b>155</b>	<b>77</b>	<b>153</b>	<b>88</b>	<b>121</b>	<b>45</b>
<b>Operating capital expenditure</b>						
Southern Cross capacity	10	11	5	-	9	4
Customer growth and retention	101	105	91	81	86	116
	<b>111</b>	<b>116</b>	<b>96</b>	<b>81</b>	<b>95</b>	<b>120</b>
<b>Total major programmes and operating capital expenditure</b>	<b>266</b>	<b>193</b>	<b>249</b>	<b>169</b>	<b>216</b>	<b>165</b>
Mobile spectrum	-	-	158	-	-	9
<b>Total capital expenditure from continuing operations</b>	<b>266</b>	<b>193</b>	<b>407</b>	<b>169</b>	<b>216</b>	<b>174</b>
Discontinued operation - AAPT	27	8	-	-	-	-
<b>Total capital expenditure</b>	<b>293</b>	<b>201</b>	<b>407</b>	<b>169</b>	<b>216</b>	<b>174</b>

Capital expenditure is presented on an accruals basis.