

A photograph of a man and a young boy looking at a tablet together. The man is on the left, smiling slightly, and the boy is on the right, pointing at the screen. The scene is dimly lit, with the light from the tablet illuminating their faces.

# Spark New Zealand FY19 Results Summary

**Jolie Hodson** Chief Executive Officer  
**David Chalmers** Finance Director

# FY19 Result Highlights

Clear strategy with strong execution and greater customer focus leading to EBITDAI<sup>(1)</sup> margin of 30.9%; up 2.2pp since FY17. On plan to deliver financial aspirations communicated as part of three-year strategy in June 2017

Improving customer experience through better digital journeys. Grew usage of MySpark app by 18% and delivered a further 33.8% reduction in customer care voice interactions whilst improving interaction NPS<sup>(2)</sup> by 14 points - now at its highest level since 2015

Winning in mobile, securing over 60% of total FY19 market growth across both service revenue and connections<sup>(3)</sup>. Growth in 'unlimited' plans; resulting in highest connection share since 2012

Cloud, security and service management revenues grew by 8.1%. Merged CCL and Revera to create NZ's largest IT services business while launching Leaven; a new consultancy business to help customers accelerate their adoption of cloud and digital services

Spark Sport launched in March 2019, from a standing start less than a year earlier, with preparations on track to successfully deliver Rugby World Cup 2019

Accelerating transition to wireless through growth in wireless broadband and wireless voice services, with material investments in mobile capacity, content delivery network and fibre backhaul in preparation for 5G and to accommodate growing customer demand for streaming services and data. 5G readiness progressing strongly. More than 2,700 visitors through the 5G innovation lab and a range of customers already testing applications. Biggest dependency for launch of 5G commercial services is spectrum availability

Agile operating model successfully embedded across the entire company, with excellent employee engagement providing a strong platform for ongoing improvements in customer service delivery and faster, more efficient product development

Committed to being a recognised sustainability leader in New Zealand. New sustainability strategy focuses on improving digital inclusion, fairness and equity and reducing Spark's environmental impact

Dividend maintained at 25 cents per share for FY20 (at least 75% imputed) supported by growing confidence in cash flow generation; subject to no adverse change in operating outlook

<sup>(1)</sup> Earnings before finance income and expense, income tax, depreciation, amortisation and net investment income (EBITDAI) is a non-Generally Accepted Accounting Practice performance measure that is defined and reconciled in Spark New Zealand's Annual Report

<sup>(2)</sup> Interaction net promoter score is an index ranging from -100 to 100 that measures the willingness of a customer to recommend a company to others, based on their most recent interaction with that company

<sup>(3)</sup> Estimated market growth sourced from IDC



# Three Year Plan Objectives

Significant progress made against the areas of focus communicated at Spark's June 2017 Investor Day

<b>Outstanding customer experience</b>	Improvements across most key NPS <sup>(1)</sup> measures – with many above +30. However market NPS remains below target	Improvement needed
<b>Holding market share</b>	Sustained connection and revenue share growth in mobile, and a return to revenue growth in broadband	On track
<b>Lowest cost operator</b>	\$75m reduction in labour costs since FY17. Delivered through Quantum programme focused on digitisation, automation and simplification	On track
<b>Growing key markets</b>	Sustained growth in mobile, broadband, cloud, security and service management	On track
<b>Top decile culture</b>	Employee NPS above +30. Diversity and inclusion programmes now also embedded into recruitment and development practices	On track
<b>Top 10 global telco ROI</b>	EBITDAI growth of 8% between FY17 and FY19 – while maintaining annual capital expenditure of ~\$415m	

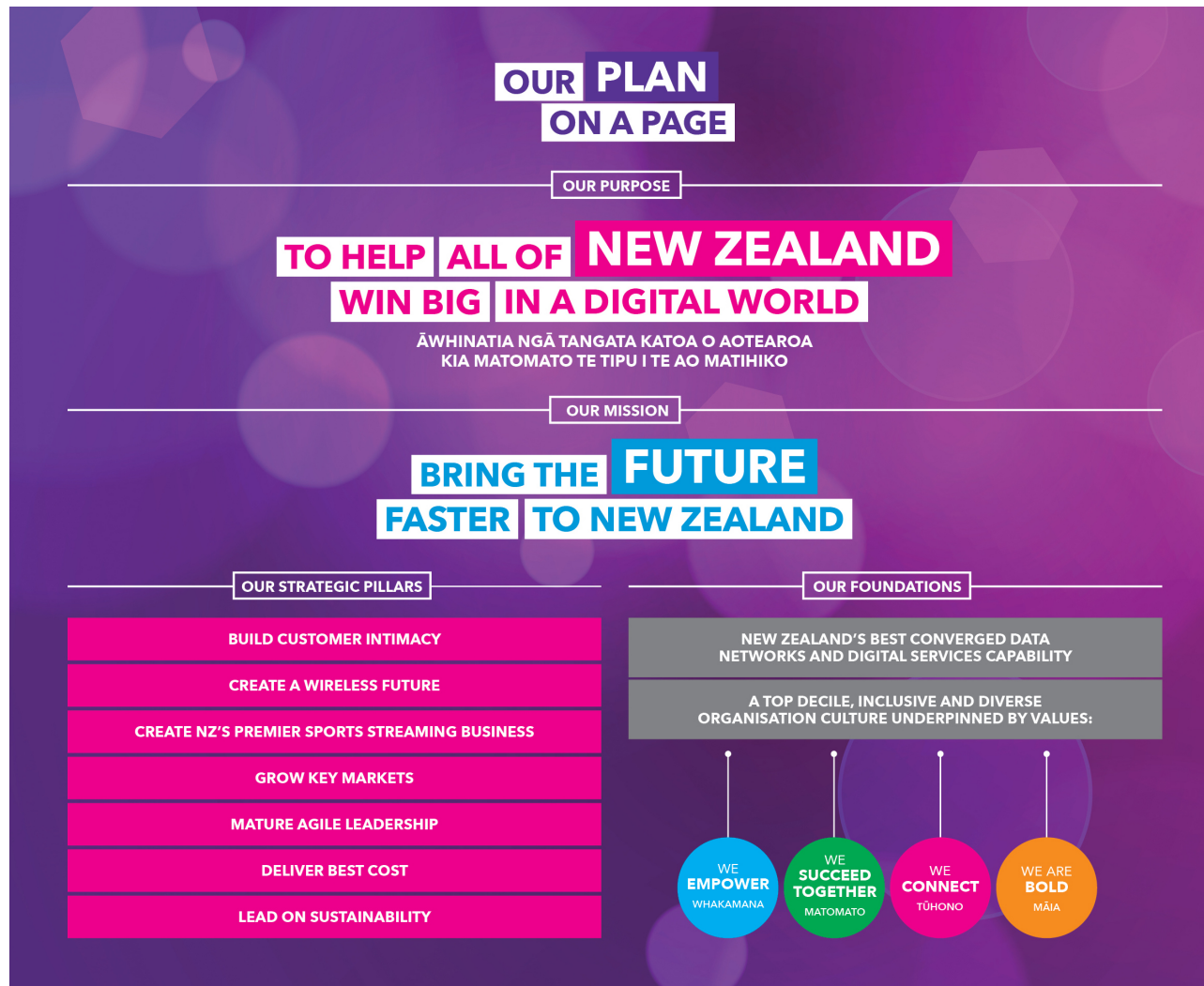
  

<b>Revenue</b> 0-2% CAGR	On track
<b>EBITDAI</b> at least 31% margin	On track
<b>Dividend</b> Sustainable total dividend of 25cps or above that is not supplemented by debt	On track

<sup>(1)</sup> Net Promoter Score is an index ranging from -100 to 100 that measures the willingness of an employee or customer to recommend a company to others

# Bringing the future faster to New Zealand

A clear and ambitious set of strategic priorities have been set for FY20; the final year of the three year plan communicated at Spark's June 2017 Investor Day



## Strategy Update

# Lead on Sustainability<sup>(1)</sup>

Sustainability strategy focused on areas that are material to Spark's business

### Fairness and inclusion

- More than 3k families now connected with subsidised broadband via Spark Jump programme<sup>(2)</sup>
- Spark Foundation has established long-term partnerships with four community initiatives seeking to effect meaningful social impact and systems change in digital access, skills and capabilities
- More than 3,000 staff have made a Blue Heart pledge to demonstrate personal commitment to promoting diversity and inclusion in the workplace - up 11% on prior year
- Staff-led mental health programme, Head First, recognised as a finalist in the 2019 Diversity Works NZ awards taking place on 28 August 2019

### Environmental protection

- Targeting a 25% reduction in CO<sub>2</sub> emissions on FY16 levels by 2025. FY19 carbon emissions remained higher than FY16 but improvement in energy efficiency now expected following completion of five-year SRAN project and closure of 25% of PSTN network
- Introduced 30 new Mini Countrymen plug-in hybrid electric vehicles (PHEV) to our fleet. By December 2019 more than 30% of core corporate vehicle fleet will be PHEV or EV
- Founding member of Climate Leaders Coalition. Focused on reducing emissions - across our ecosystem – with suppliers and customers

### A prosperous New Zealand

- Continue to focus on long term business sustainability; resulting in ongoing EBITDAI and earnings growth
- Helping drive New Zealand's growth as a nation, through investment in strong and adaptable infrastructure via the rollout of IoT networks and our preparations for 5G

### Trust and transparency

- In FY19 moved to a combined Annual and ESG report which uses the Global Reporting Initiative (GRI) framework. A stepping stone towards full adoption of Integrated Reporting in FY20
- Reporting against NZX Corporate Governance Code

<sup>(1)</sup> For more information on Spark's environmental, social and governance efforts please see Spark's Annual Report which can be found on our Investor Centre website: [investors.sparknz.co.nz](https://investors.sparknz.co.nz)

<sup>(2)</sup> Spark Jump: heavily subsidised broadband for families with school-aged children who cannot access broadband due to affordability issues

# Strategy Update

## Spark Sport

Preparations for successful delivery of Rugby World Cup now in education phase; focused on helping customers transition to a sports streaming model

### Creating New Zealand's premier sports streaming business

Focused on commercial returns, with regard to appropriate capital management

Beta launch in March 2019; ex-beta from late July having already:

- Strengthened platform and end-to-end content delivery chain;
- Expanded accessibility through smart TV apps and partnerships;
- Delivered approximately 800 sporting events and 12,000 hours of linear channels; and
- Rapidly improved live event performance with availability at 99.9% in May, June and July 2019

Focus post Rugby World Cup will be on transitioning viewers into Spark Sport subscribers with a range of sports content including Premier League and F1

Will maintain a disciplined and considered approach towards future sports rights

### On-track to successfully deliver RWC 2019

Spark's delivery of RWC is already proving to be the catalyst for widespread adoption of sports streaming in New Zealand

- Extensive education programme in flight to encourage New Zealanders to have in-home set up streaming-ready in advance of kick off
- Spark Sport platform already put to the test with key content including Premier League
- Significant investment made in networks<sup>(1)</sup> including the upgrade of 100's of mobile cell sites and extension of the content delivery network



<sup>(1)</sup> Investment in network scaling has been informed by rigorous modelling including independent verification by Bell Labs

# Strategy Update

## Other Investments

### Lightbox

Lightbox has been an important part of Spark's value-added strategy via bundled offers to customers, but its continued success will require ongoing investment, especially in content

In March 2019 announced intention to find a media partner to help grow the Lightbox entertainment business

Formal process progressing with multiple parties engaged; will update the market as appropriate



### Southern Cross Next cable

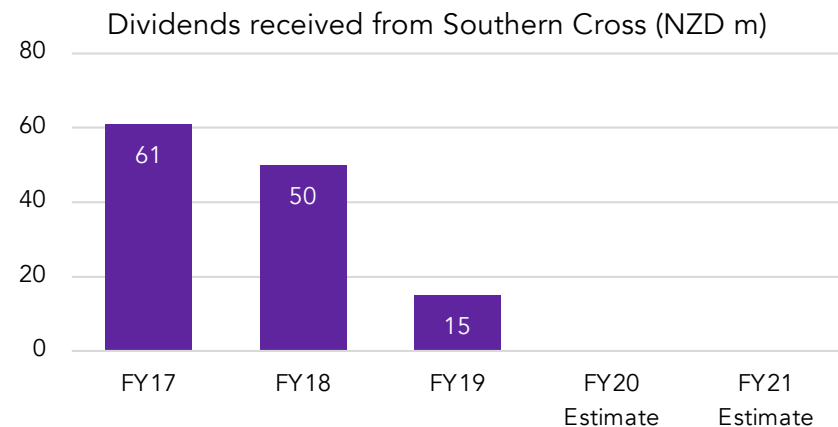
Shareholder negotiations ongoing but expect Southern Cross Next cable build to proceed

Proposed structure will result in Spark's holding in Southern Cross being diluted as a result of Telstra becoming a shareholder

Southern Cross estimates build costs to be ~USD\$300m, funded via a combination of:

1. Debt held by Southern Cross;
2. Further equity investment phased across FY20, FY21 and FY22; and
3. Retention of dividend streams from the existing cable during build phase – with no dividends expected to be received in FY20 and FY21

Expect dividend receipts to resume from FY22. Will grow over time, but to more modest levels of return than historically generated



## Creating a wireless future: 5G Update

Moving at pace towards 5G to keep ahead of growing customer demand for more data at faster speeds; and in support of broader innovation and new services

### Network preparations progressing well

Leading the market in mobile investment and Internet of Things networks to provide customers with world-class service and innovative products

Completing vendor selection for the build of Spark's 5G network with an extensive roll-out programme already in place

Will take a multi-vendor approach to 5G. Rollout plans will not be impacted by decisions beyond Spark's control around Huawei's participation

### Already working with New Zealand businesses to identify and develop applications

More than 2,700 visitors have been through Spark's 5G innovation lab with a range of range of applications already tested with customers

Working with a diverse range of customers, such as Emirates Team New Zealand and Paymark, to help them discover the possibilities that 5G could enable

### Auction of spectrum is a critical enabler for all operators

Expect consultation on spectrum auction process to continue through the second half of 2019, with spectrum now assumed to be auctioned in late 2020

Government understands the need to enable early access to 3.5GHz spectrum for 5G use - ahead of delayed auction

Spark is well-placed to take part in 5G spectrum allocation and has already secured test spectrum which is being used to help Kiwi businesses showcase their capabilities to the world



# Financial Summary<sup>(1)</sup>

Strategic and operational execution delivering excellent financial and market share results. On track to achieve key EBITDAI margin and dividend aspirations

EBITDAI of \$1,090m, up \$109m or 11.1% on reported prior year EBITDAI, and towards the top-end of guidance

- Excluding \$49m of Quantum implementation costs incurred during FY18, EBITDAI was up \$60m or 5.8% on prior year

Revenues flat on prior year, despite moderated growth across mobile, cloud, security and service management, increased EBITDAI was underpinned by \$109m or 4.3% reduction in total reported operating expenses delivering a 3.1pp increase in EBITDAI margin to 30.9%

NPAT growth of \$44m or 12.1% versus reported prior year NPAT, or \$9m (2.2%) on adjusted prior year NPAT. EBITDAI growth partially offset by:

- Net investment income decline of \$33m; FY19 Southern Cross dividend of \$15m as projected - down \$35m on prior year;
- Increase in finance expenses of \$8m or 10.4% on higher average net debt; and
- Increase in tax expenses of \$30m or 21.4% due to increased earnings and the impact of lower investment income

In line with expectation, net debt growth moderated during H2 - up a further \$26m - resulting in total net debt<sup>(2)</sup> growing by \$160m to \$1,316m

- Net debt to EBITDAI ratio of 1.21x is consistent with Spark's commitment to ensure that reported net debt<sup>(1)</sup> to EBITDAI does not exceed 1.4x on a long-run basis

H2 FY19 total dividend per share of 12.5c will be made up of a 75% imputed ordinary dividend per share of 11.0c and a 75% imputed special dividend per share of 1.5c



**EBITDAI  
movement**  
vs. reported FY18



**NPAT  
movement**  
vs. reported FY18

<sup>(1)</sup> All movements are comparative to restated results for the year ended, or as at, 30 June 2018 following the adoption of NZ IFRS 15 and NZ IFRS 16

<sup>(2)</sup> Reported net debt at hedged rates as reconciled in note 4.4 of the financial statements in Spark's FY19 Annual Report

# FY19 Performance

## Financials

	FY19 \$m	FY18 \$m	CHANGE
Operating revenues	3,533	3,533	-
Operating expenses	(2,443)	(2,552)	(4.3%)
<b>Reported EBITDAI</b>	<b>1,090</b>	<b>981</b>	<b>11.1%</b>
Finance income	37	35	5.7%
Finance expense	(85)	(77)	10.4%
Depreciation and amortisation	(477)	(481)	(0.8%)
Net investment income	14	47	(70.2%)
<b>Net earnings before tax expense</b>	<b>579</b>	<b>505</b>	<b>14.7%</b>
Tax expense	(170)	(140)	21.4%
<b>Net earnings after tax expense</b>	<b>409</b>	<b>365</b>	<b>12.1%</b>
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>1,090</b>	<b>1,030</b>	<b>5.8%</b>
<b>Adjusted net earnings after tax expense<sup>(2)</sup></b>	<b>409</b>	<b>400</b>	<b>2.2%</b>
Capital expenditure	417	413	1.0%
Free cash flow <sup>(3)</sup>	292	299	(2.3%)
Reported EBITDAI margin	30.9%	27.8%	3.1pp
Adjusted EBITDAI margin	30.9%	29.2%	1.7pp
Reported effective tax rate	29.4%	27.7%	1.7pp
Capital expenditure to operating revenues	11.8%	11.7%	0.1pp
Reported Earnings per Share	22.3c	19.9c	12.1%
Adjusted Earnings per Share	22.3c	21.8c	2.3%
Total Dividend per Share	25.0c	25.0c	-

<sup>(1)</sup> Adjusted FY18 EBITDAI calculated as: reported EBITDAI of \$981m adjusted to exclude Quantum implementation costs of \$49m

<sup>(2)</sup> Adjusted FY18 net earnings after tax calculated as: reported net earnings after tax adjusted to exclude Quantum implementation costs of \$49m less tax effect on implementation costs of \$14m

<sup>(3)</sup> Calculated as underlying free cash flow plus movements in working capital

## FY19 Performance

# Guidance

Financial performance on plan, with all guidance metrics met

	FY19 Guidance	FY19 Actual
Total revenues	\$3,530m to \$3,600m	\$3,533m
EBITDAI	\$1,065m to \$1,095m	\$1,090m
Capital expenditure <sup>(1)</sup>	~\$410m	\$417m
Earnings per share	22c to 23c	22.3c
Dividend per share	Total 25.0c at least 75% imputed	Total 25.0c 75% imputed

<sup>(1)</sup> Includes purchase of property, plant and equipment, intangible assets and capacity (including Southern Cross) but excludes spectrum purchases and leased customer equipment assets

# FY19 Performance

## Indicators of Success

	Measures	Target 30 June 2019	Actual 30 June 2019
<b>Technology evolution</b>	Clear pathway to 5G including spectrum entitlements	by end of H2	Solid progress
	Proportion of broadband customers off copper	60%	Achieved
	Launch of wireless broadband and Voice over LTE (VoLTE) products to rural customers using the Rural Connectivity Group (RCG) network	by end of H2	Solid progress
	PSTN exchange closures completed during FY19	at least a further 100 closures	Exceeded
	Voice-only copper connections substituted to wireless	double connections to 30k	Solid Progress
	Sports media service tested and ready for RWC delivery	by end of H2	Achieved
<b>Ways of working</b>	Full implementation of scale Agile operating model	by end of H1	Achieved
	Percentage of Agile squads at or above level 3 Agile maturity	80%	Solid Progress
	Diverse and inclusive workplace showing through in employee NPS	7 point lift	Achieved
	Annualised net labour costs at \$470m or less	by end of H1	Achieved
<b>Digital and data adoption</b>	Percentage of new customer journeys implemented digital first	85%	Achieved
	Reduction in monthly Customer Care workload minutes <sup>(1)</sup>	10% to 15%	Achieved
<b>Winning in market</b>	Spark consumer market NPS	5 point lift	Not Achieved
	Total mobile service revenue growth	3%	Solid Progress
	Cloud, security and service management revenue growth	10%	Not Achieved
	Number of Internet of Things products launched	4 to 6	Achieved
	Increase in number of customers actively using two or more digital services	15%	Exceeded

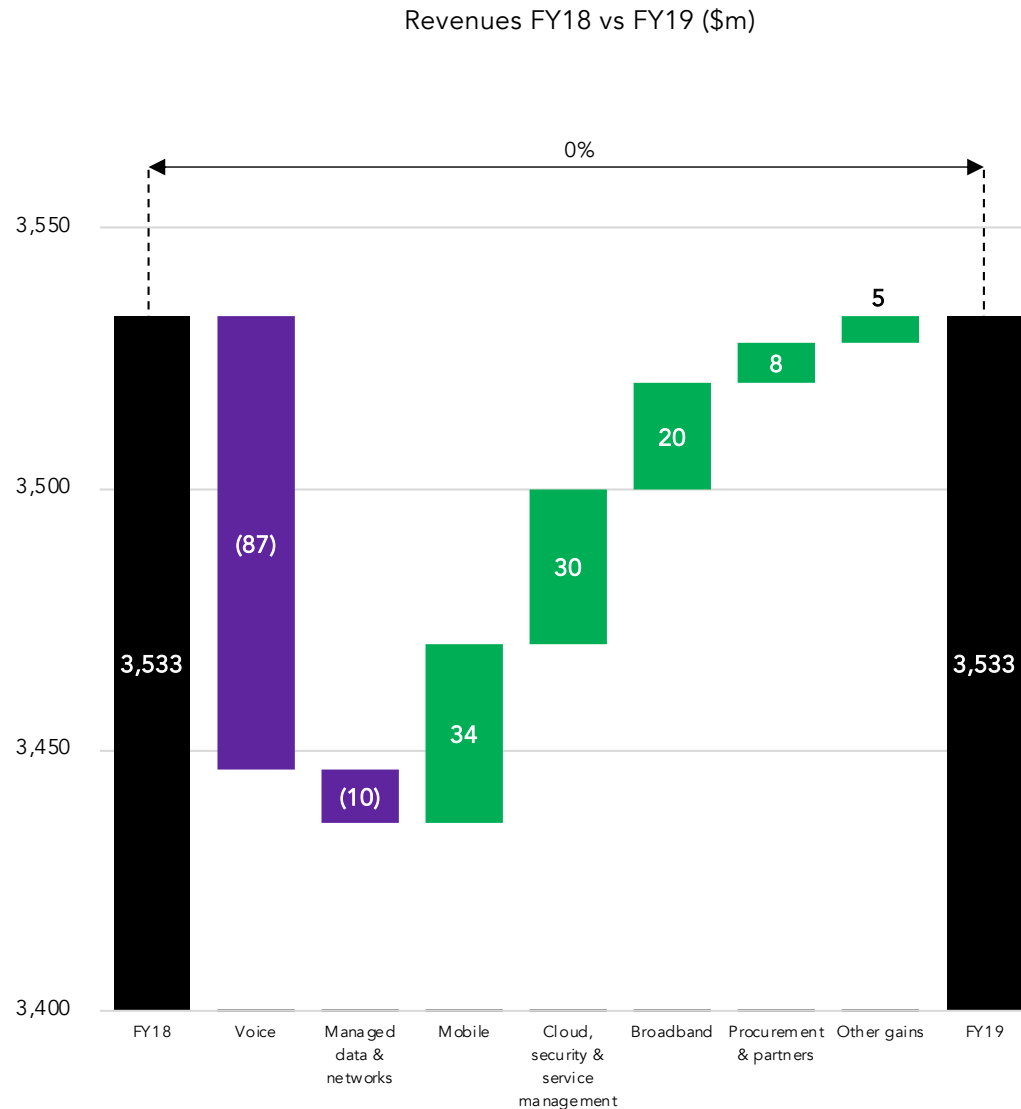
<sup>(1)</sup> Workload minutes defined as interactions answered x average handling time



## FY19 Performance

# Revenue

Revenue flat on prior year, reflecting moderated growth across mobile, cloud, security and service management



Launch of 'unlimited' plans at mass-market price points driving sustained growth in high-margin mobile service revenues

Voice and collaboration decline, albeit at a similar absolute level to prior year, due to:

- Full year revenue impact of a large wholesale voice customer migration in H2 FY18; and
- Declines in calling minutes as customers transition to newer digital and mobile services

Continued broadband revenue growth following removal of upfront acquisition credits and increase in price of copper plans

Slower than planned growth in cloud, security and service management due to delays in onboarding of two key new contracts. However fundamental drivers of growth remain

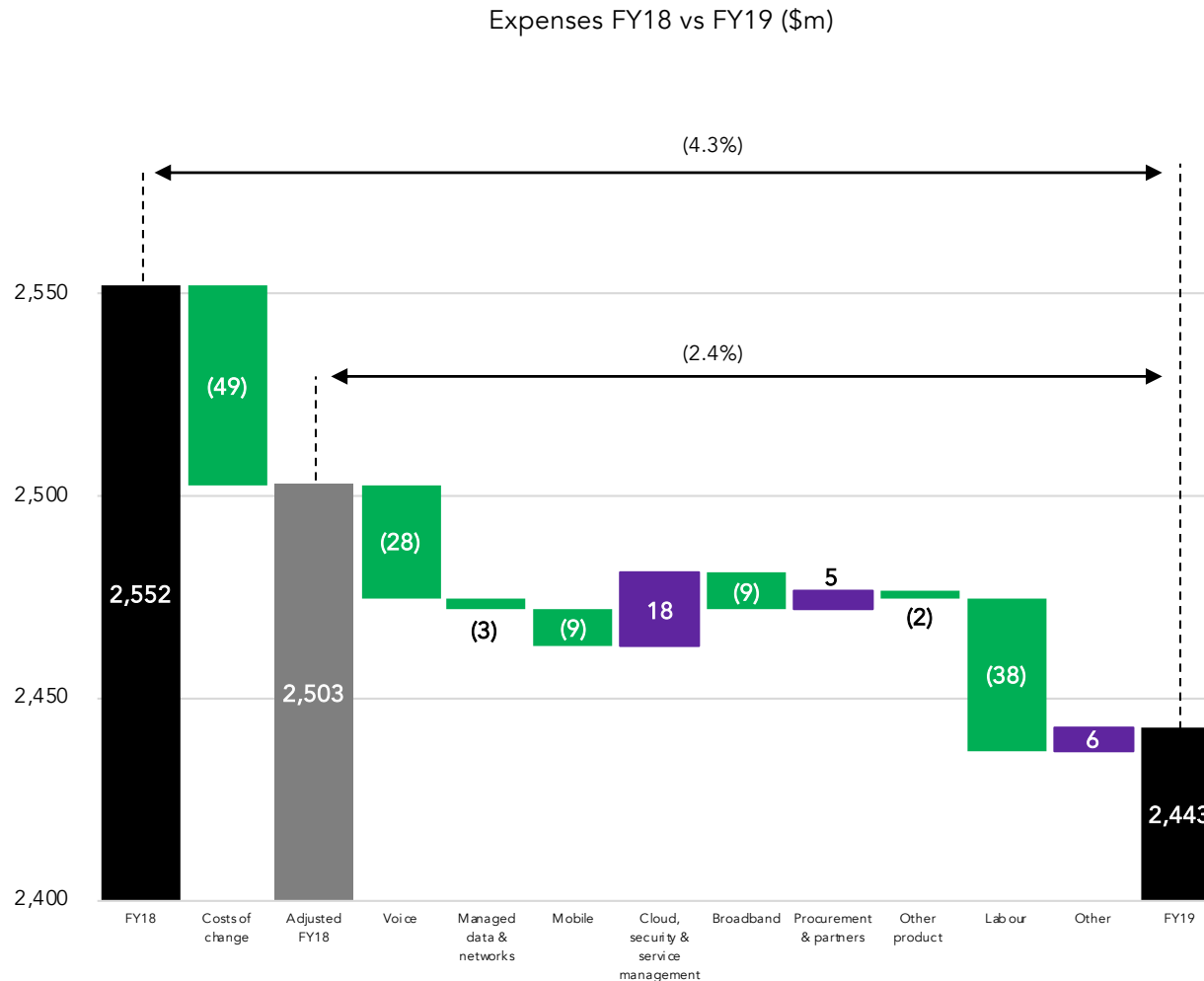
Moderated declines in managed data and networks revenue; with a large number of legacy connections now migrated to new lower margin fibre based alternatives

\$15m other gains from sale of surplus legacy mobile network equipment and other sundry divestments

## FY19 Performance

# Operating Expenses

Benefited from full-year impact of Quantum initiatives and further savings secured through ongoing cost management programmes. Demonstrating Spark's ability to deliver cost reductions across all expense categories



Further declines in mobile product costs due to retail and supply chain efficiencies

Decrease in voice product costs in-line with connection loss, partially offset by increased access charges associated with growth in fibre connections and regulated price increases

Benefits from further adoption of wireless broadband more than offsetting margin erosion from annual increases in input prices for both fibre and copper

Higher cloud, security and service management product costs to support ongoing cloud revenue growth

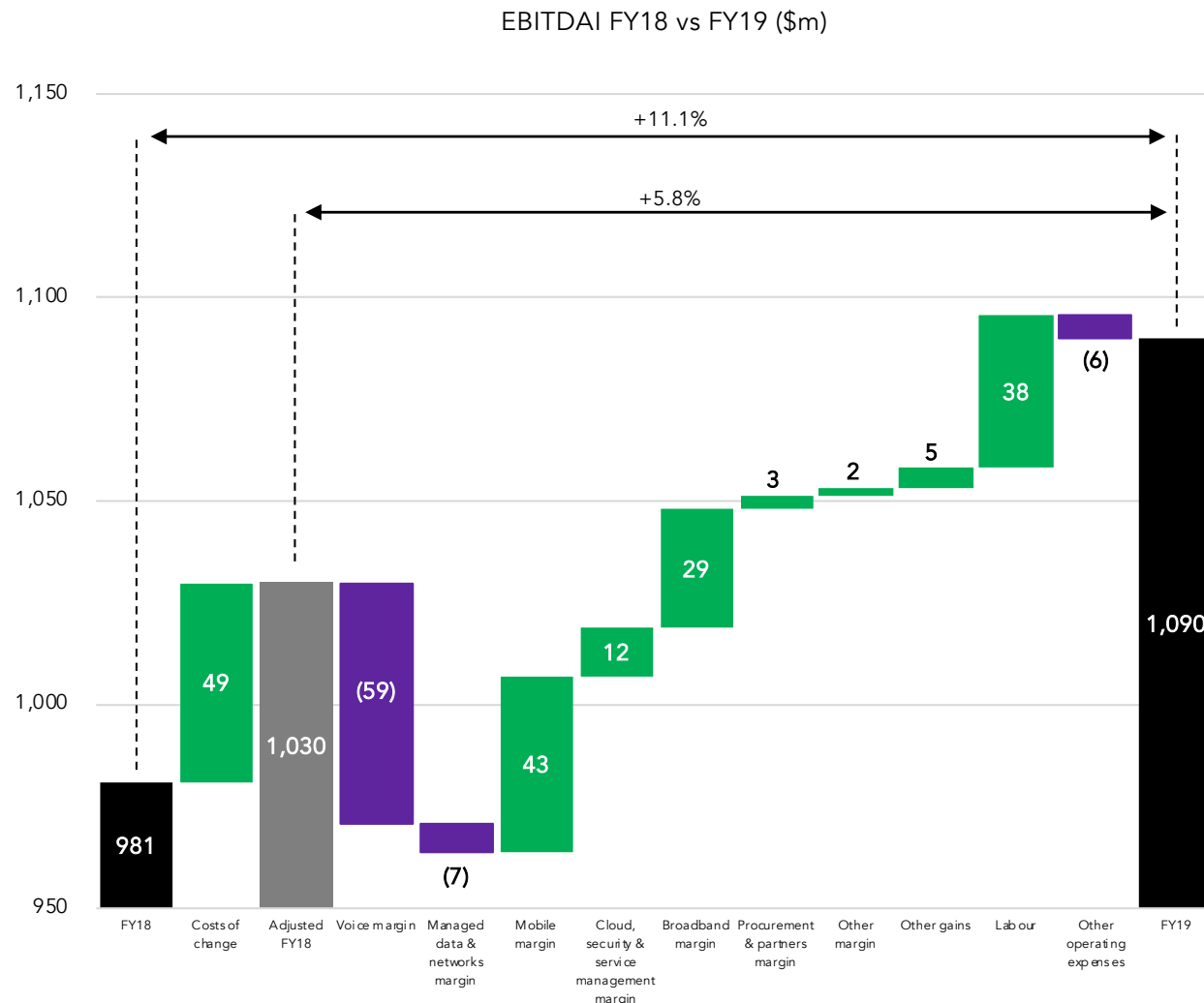
Reduction in net labour costs following successful implementation of Quantum initiatives and ongoing cost disciplines

Excluding \$49m of Quantum implementation costs incurred in FY18, other expenses increased \$6m or 1.5% primarily due to electricity spot-prices

## FY19 Performance

# EBITDAI

Relentless focus on delivering best cost resulted in \$109m or 11.1% improvement in reported EBITDAI; further expanding margins and profitability



Gross margin growth of \$28m or 1.4% largely due to:

- Mobile connection and ARPU growth in the consumer segment, coupled with benefits of retail and supply chain efficiencies;
- Further adoption of wireless broadband services and cessation of up-front broadband acquisition credits; and
- Cloud revenue growth

Reported EBITDAI margin of 30.9% - up 2.2pp since FY17 - is in line with aspiration outlined in June 2017.

EBITDAI margin expansion driven by:

- Gross margin improvement across core products;
- Net labour reduction of \$38m or 7.4% on prior year following successful implementation of Quantum led initiatives;

Partially offset by:

- Ongoing declines across high-margin voice and legacy data products

## Capital Expenditure

Capital expenditure programme, in support of strategic and operational initiatives, successfully delivered within targeted envelope of between 11% and 12% of operating revenues

Capital expenditure (\$m)	FY17	FY18	FY19
Plant, network, core sustain and resiliency	67	62	63
IT systems	112	113	132
Mobile network <sup>(1)</sup>	102	115	118
Cloud	42	39	36
Converged Communications Network (CCN)	15	32	31
International cable construction and capacity <sup>(2)</sup>	34	14	12
Other <sup>(3)</sup>	43	38	25
<b>Total capital expenditure</b>	<b>415</b>	<b>413</b>	<b>417</b>
Total capital expenditure to operating revenue	11.8%	11.7%	11.8%

Following completion of major IT transformation programmes now entering a less intensive IT investment phase

Recent mobile investment has funded:

- Completion of Spark's Single RAN deployment programme;
- Continued site densification to deliver more capacity and to prepare for RWC and 5G; and
- A major refresh of Spark's mobile core technology

Investment in the multi-year Converged Communications Network (CCN) programme peaked in FY18 and FY19 to progress decommissioning of Spark's PSTN network and deployment of a new voice core

<sup>(1)</sup> Mobile includes investment in standalone mobile assets including capacity in support of wireless broadband

<sup>(2)</sup> International cable includes capacity purchases on Southern Cross cable and investment in Tasman Global Access cable

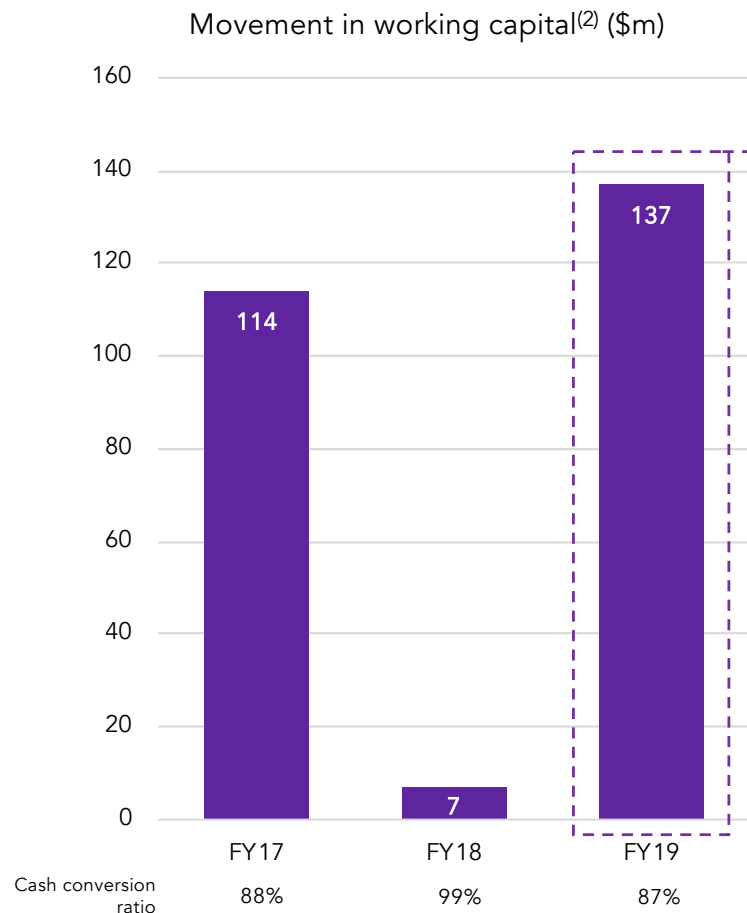
<sup>(3)</sup> Other includes retail store refits, Spark Sport, Lightbox, Qrious, and IoT



## FY19 Performance

# Working capital

FY19 cash conversion ratio<sup>(1)</sup> of 87% below expected ratio of 95% due to unfavourable timing of cash receipts associated with June 2019 asset sales and revenues



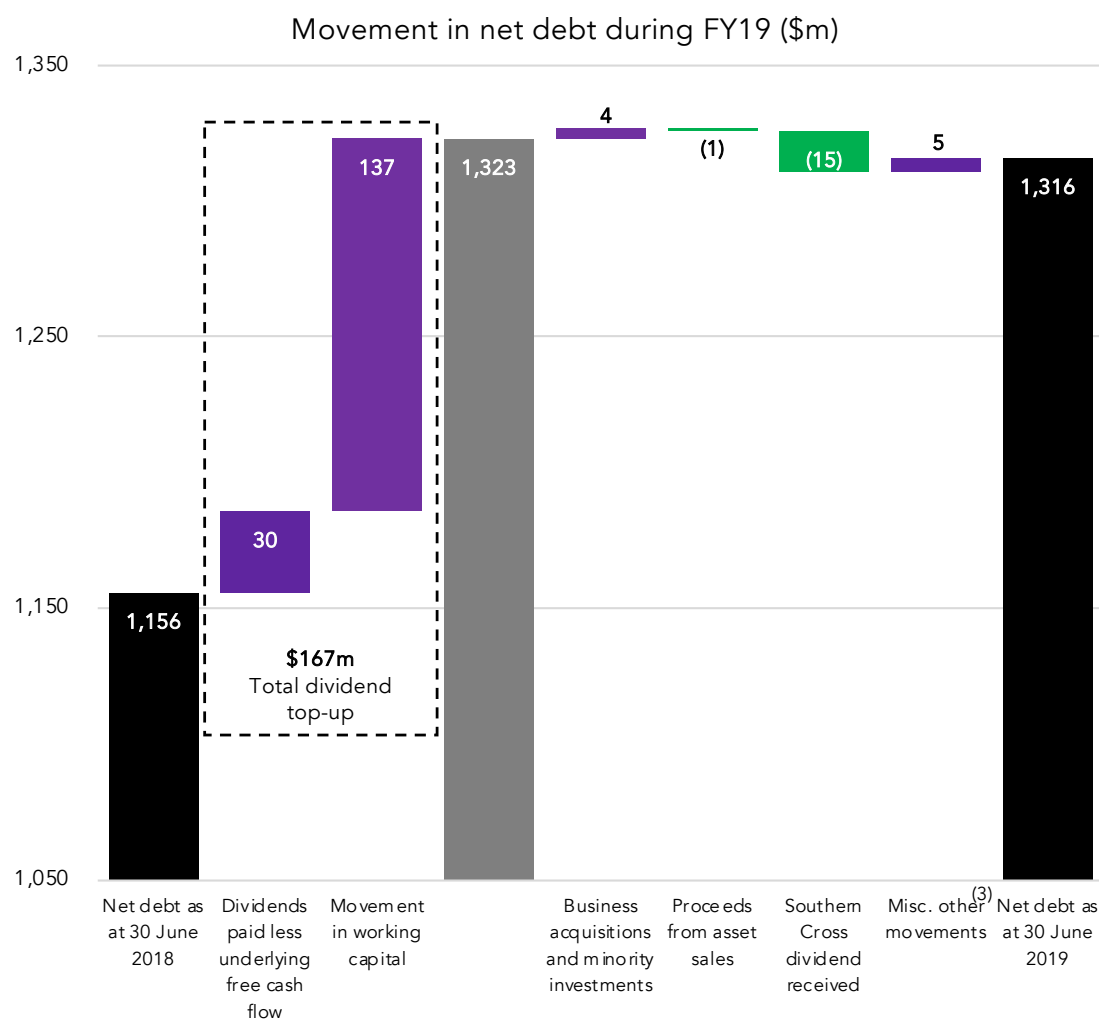
<sup>(1)</sup> Calculated as net cash flow from operations (excluding tax, dividend receipts and interest) divided by EBITDAI (excluding impairments and other gains)  
<sup>(2)</sup> Calculated as EBITDAI (excluding impairments and other gains) less net cash flow from operations (excluding tax, dividend receipts and interest)

Key components of movement in working capital <sup>(2)</sup>	FY19
<b>Device receivable</b> Slowing rate of growth (versus FY18 increase of \$52m) due to emergence of longer consumer refresh cycles	\$29m
<b>Prepayments and accruals</b> Primarily due to biennial software licence renewals	\$10m
<b>IT services contracts</b> Further on-boarding of customers during FY19, with costs incurred at the beginning of the contract but recognised over the life of the contract	\$11m
<b>Timing of payables and receivables</b> Full year movement largely driven by: <ul style="list-style-type: none"> <li>• Timing of payments for Quantum implementation costs recognised in H2 FY18;</li> <li>• Timing of receivables associated with June 2019 asset sales and procurement revenues; and</li> <li>• Timing of vendor rebate redemptions</li> </ul> <p>Due to the timing of payments to Chorus being linked to working days, five monthly payments were made during H1 FY19 and seven were made during H2 FY19, resulting in a ~\$80m swing in payable and receivable movements between H1 FY19 and H2 FY19</p>	\$66m
<b>Inventory</b> Largely due to content inventory in support of Spark Sport; with recognised values only reduced as content is broadcast	\$21m
<b>Total</b>	<b>\$137m</b>

## FY19 Performance

# Net debt<sup>(1)</sup>

Reported net debt<sup>(1)</sup> to EBITDAI stabilised during FY19. Continues to provide sufficient debt headroom to fund strategic investments



Despite significant EBITDAI growth during FY19, total dividend top-up<sup>(2)</sup> was in-line with prior year due to increased working capital<sup>(4)</sup> from unfavourable timing of receivables associated with June 2019 asset sales and procurement revenues

Successfully completed first Norwegian Krone debt issuance in March 2019<sup>(5)</sup> – providing further diversity to complement existing domestic and offshore issuances

Currently considering options to refinance existing long term debt that is maturing in October 2019

<sup>(1)</sup> Net debt at hedged rates as reported in note 4.4 of Spark's FY19 Annual Report

<sup>(2)</sup> Dividend top-up calculated as total dividends paid less free cash flow

<sup>(3)</sup> Miscellaneous movements includes movements in cash on hand and interest amortisation on debt

<sup>(4)</sup> Drivers of movements in working capital are outlined further on slide 17

<sup>(5)</sup> Issuance was converted to NZD using a cross currency interest rate swap

# Mobile

Market-leading innovation and multi-brand strategy driving growth in share of service revenue and connections<sup>(1)</sup>; at highest share of connections since 2012

Gross margin up \$43m or 5.9% on prior year due to growth in higher margin mobile service revenue, lower sales costs following the insourcing of retail stores and further migration away from subsidised plans – with open term plans now accounting for 98% of consumer pay-monthly base

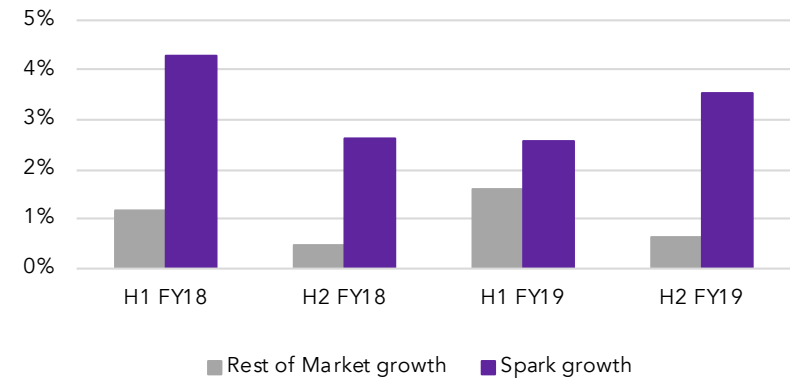
Service revenue growth of \$21m was in-line with prior year and accounted for more than 60% of total market growth. Driven by increase in pay monthly connections, up 62k, and consumer ARPU growth from further migration to 'unlimited' and 'shareable unlimited' plans

Business ARPU continues to decline due to competitive pricing pressure and migration off legacy plans towards 'shareable' offerings

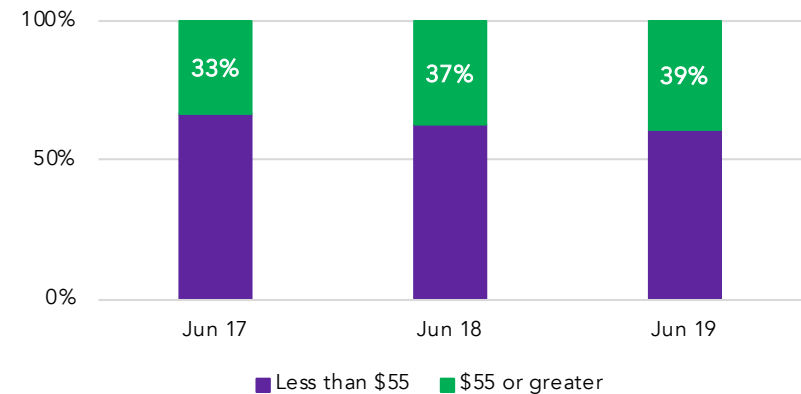
Targeting FY20 service revenue growth of between 2% and 3%, with a continued focus on:

- Further adoption of 'unlimited' offers;
- Leveraging Spark's multi-brand portfolio to appeal to different customer segments; and
- Bringing new innovative propositions to market

Percentage growth in mobile service revenue versus prior year<sup>(2)</sup>



Consumer pay-monthly plan mix



<sup>(1)</sup> Estimated market growth sourced from IDC

<sup>(2)</sup> Excluding wholesale service revenues; to remove any duplication of total market revenues

## FY19 Performance

# Broadband

Sustained revenue growth and further margin expansion achieved in a slowing<sup>(1)</sup> but intensely competitive market

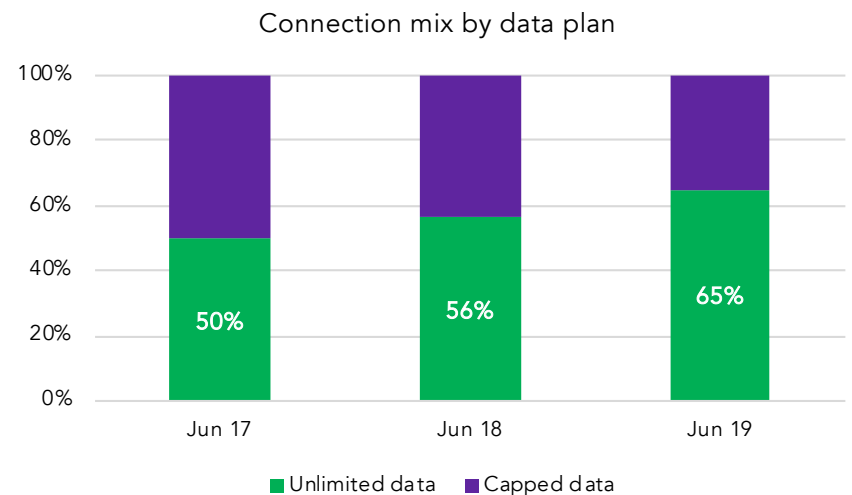
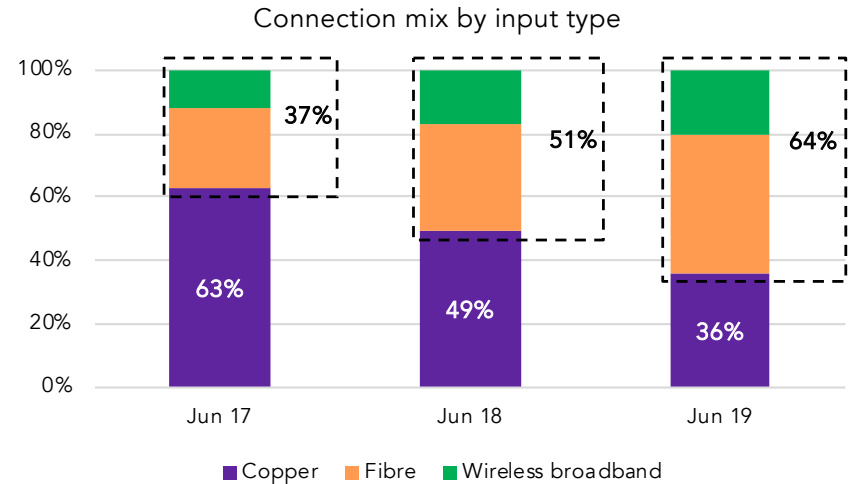
Successfully balancing ARPU growth and connection share to increase profitability, with revenue growing by \$20m or 3.0% on prior year. Key drivers being:

- Removal of upfront customer acquisition credits as part of new innovative 'Unplan' offers;
- Increase in price of copper plans; partially offset by
- 5k decline in overall connections<sup>(2)</sup> – albeit with Skinny sub-brand continuing to grow share of the price-sensitive market

Gross margin up \$29m or 9.2% largely due to:

- Revenue growth;
- \$14m reduction in broadband access costs from further wireless broadband connections - now 20% of customer base; partially offset by
- Increased access charges driven by growth in fibre connections and regulated price increases

Expect market connection growth to stay at ~2% in the medium term; with Spark continuing to focus on margin growth and holding connection share



<sup>(1)</sup> Estimated market growth sourced from IDC

<sup>(2)</sup> Includes wireless broadband connections



## FY19 Performance

# Cloud, security and service management

FY19 saw moderation in rate of revenue growth; however ongoing demand for cloud and associated services expected to drive growth of between 8% and 10% in FY20

Cloud, security and service management revenue growth of \$30m or 8.1% below target of 10% due to:

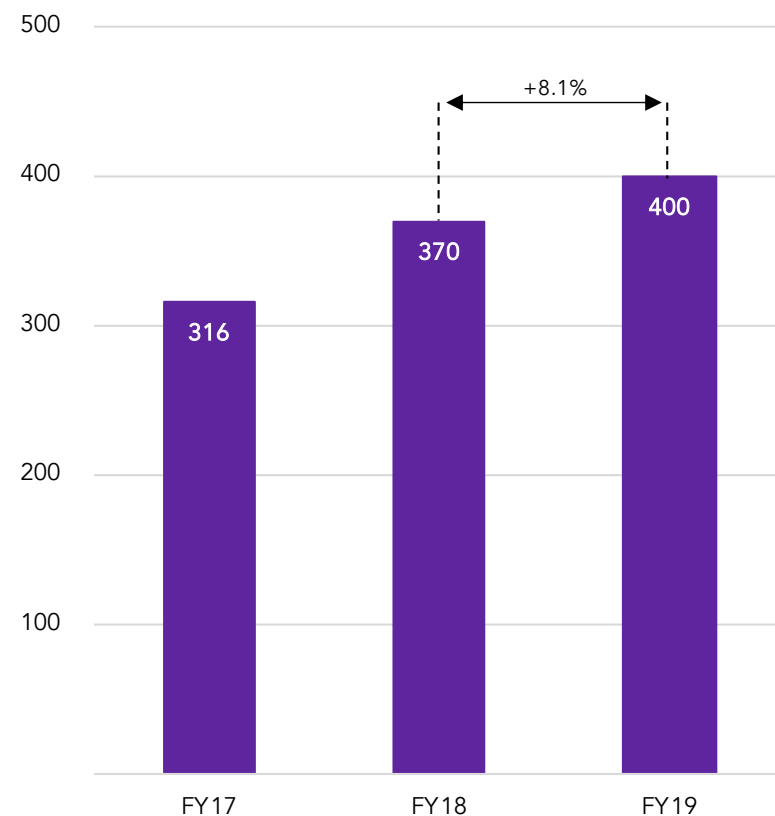
- Delayed onboarding of two new large customers; and
- Emergence of price pressure on renewals as customer base matures

Further expansion in contribution margin<sup>(1)</sup> of \$3m, or 1.9%, albeit at a slower rate than revenue due to shift in customer demand towards more labour intensive - and lower margin - service management offerings

Cloud, security and service management revenue expected to grow by between 8% and 10% in FY20 due to:

- Completion of delayed FY19 transitions and commencement of billing;
- The launch of digital transformation consultancy business Leaven, to help organisations accelerate their adoption of cloud and associated services;
- Further penetration of cloud services; with approximately three quarters of the New Zealand market still to transition to a more flexible and future-proof cloud based IT model; and
- As more devices and environments become connected, helping businesses with cybersecurity is increasingly an area of opportunity

Cloud, security and service management revenue (\$m)



<sup>(1)</sup> Contribution margin is defined as reported gross margin less labour and other costs that are directly attributable to the implementation and ongoing support of specific contract services

# Voice, Managed Data and Networks

Absolute decline in total voice, managed data and networks revenues in line with prior year; with gross margin benefiting from growth in wireless voice connections

Absolute decline in total voice, managed data and networks revenues of \$97m was broadly in line with prior year decline of \$102m. FY19 revenue movement driven by:

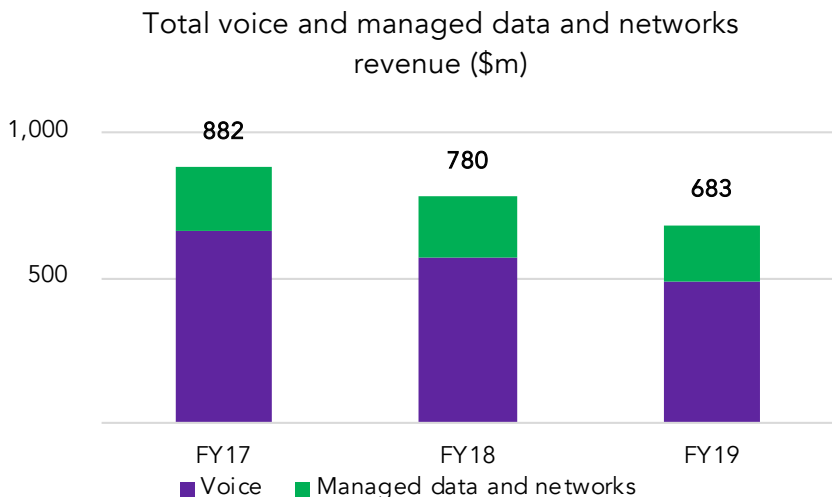
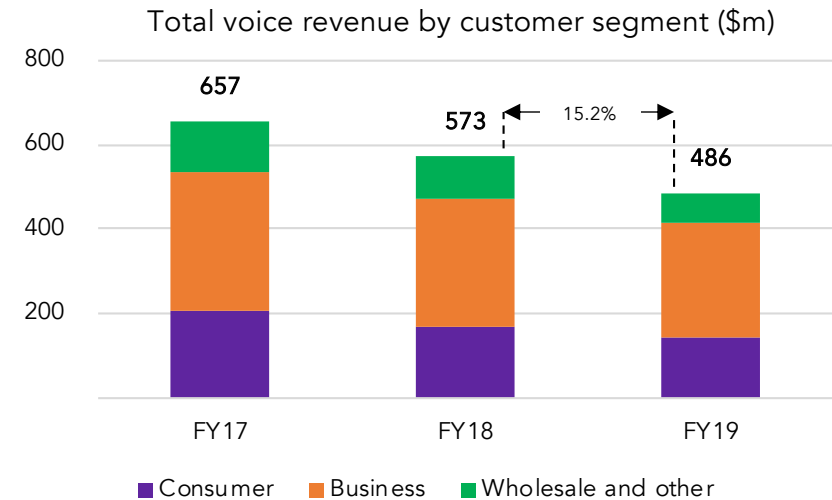
- Full year impact of a large wholesale voice customer migration completed in H2 FY18;
- Decline in total calling minutes due to connection loss and substitution; and
- Moderated declines in managed data and networks due to migration of customers off legacy data platforms onto new lower margin fibre based alternatives.

Impact of revenue declines on gross margin partially offset by reduction in voice access costs; due to 12k increase in wireless voice connections

Focus shifted to further improve margins through migration of customers to better performing, higher margin services such as:

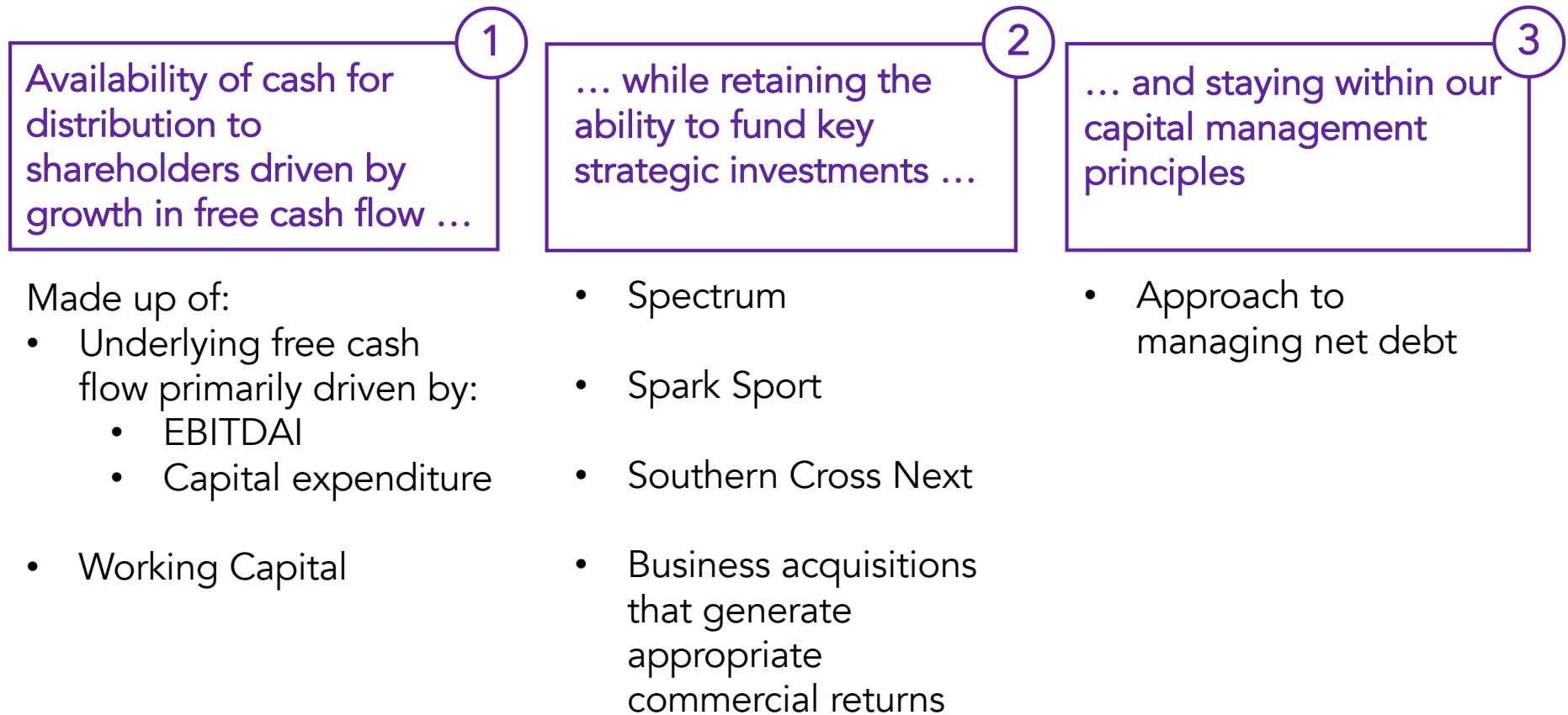
- Wireless voice; and
- Software defined wide-area-networks (SDWAN)

In FY20, fixed voice revenues are expected to decline at a rate of ~12-15% due to further connection declines and calling substitution



# Capital management

Dividend aspiration – first communicated in June 2017 – is to deliver a sustainable total dividend of 25 cents per share or above that is not supplemented by debt



## Dividend

As a result of a sustainable improvement in the outlook for free cash flow, Spark expects to achieve its dividend aspiration in FY20

Spark anticipates paying a total FY20 dividend per share of 25.0c that is at least 75% imputed<sup>(1)</sup>

Supported by growing confidence in free cash flow generation

As a result anticipated FY20 dividend of 25cps expected to be paid via an ordinary dividend only

Expected free cash flow growth to be driven by:

- EBITDAI growth
- Sustained reduction in capital expenditure
- Cash conversion of at least 95%

No special dividend to be paid in FY20

Expect that any future use of debt to top-up dividends will be limited to smoothing short-term movements in payables and receivables

<sup>(1)</sup> Subject to no adverse change in operating outlook



# ① Capital management

## Underlying free cash flow

Significant increase in underlying free cash flow during FY19, up \$123m, fuelled by EBITDAI growth

(\$m)	FY17	FY18	FY19
Net cash flows from operations	760	820	777
Payments for purchase of property, plant, equipment and intangibles	(398)	(414)	(415)
Payments for capitalised interest	(6)	(8)	(8)
Payments for leases	(36)	(37)	(36)
Payments for leased customer equipment assets	(17)	(17)	(17)
Receipts from finance leases	3	5	6
<i>excluding</i>			
Dividends received from Southern Cross	66	50	15
(Increase)/decrease in working capital <sup>(1)</sup>	(114)	(7)	(137)
<b>Underlying free cash flow</b>	<b>354</b>	<b>306</b>	<b>429</b>

Underlying free cash flow was introduced as part of Spark's interim FY19 results and excludes:

- Movements in working capital<sup>(1)</sup>;
- Dividends received from Southern Cross;
- Proceeds from asset sales;
- Payments for business acquisitions; and
- Payments for spectrum

The primary lens Spark will use to assess dividend sustainability is free cash flow being:

- Underlying free cash flow *plus*
- Movements in working capital

<sup>(1)</sup> Calculated as EBITDAI (excluding impairments and other gains) less operating cash-flow (excluding tax, dividend receipts and interest)

# ① Capital management

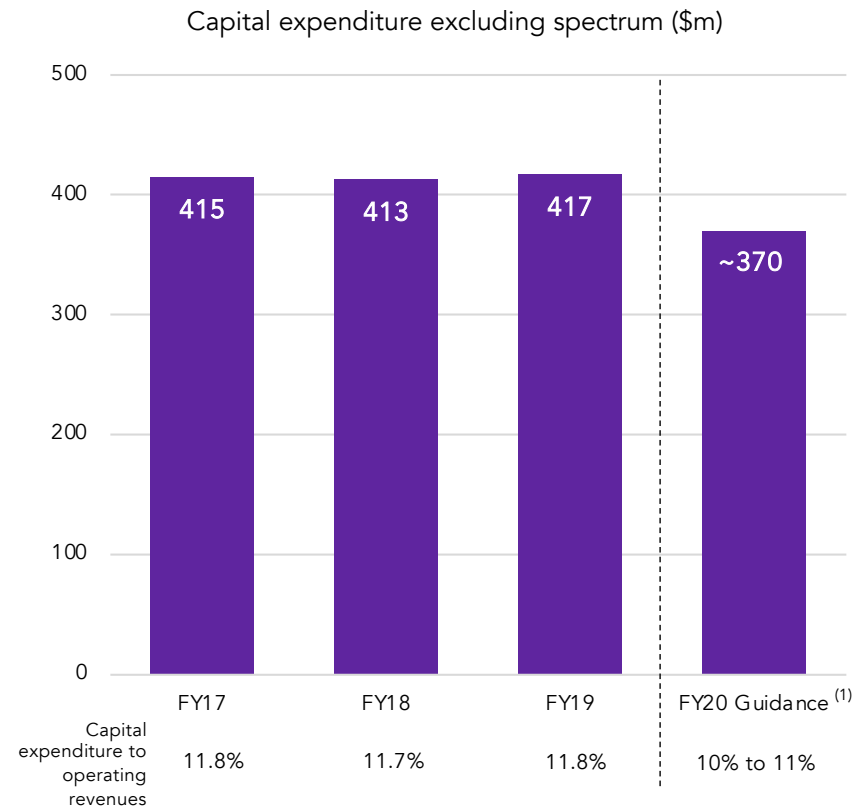
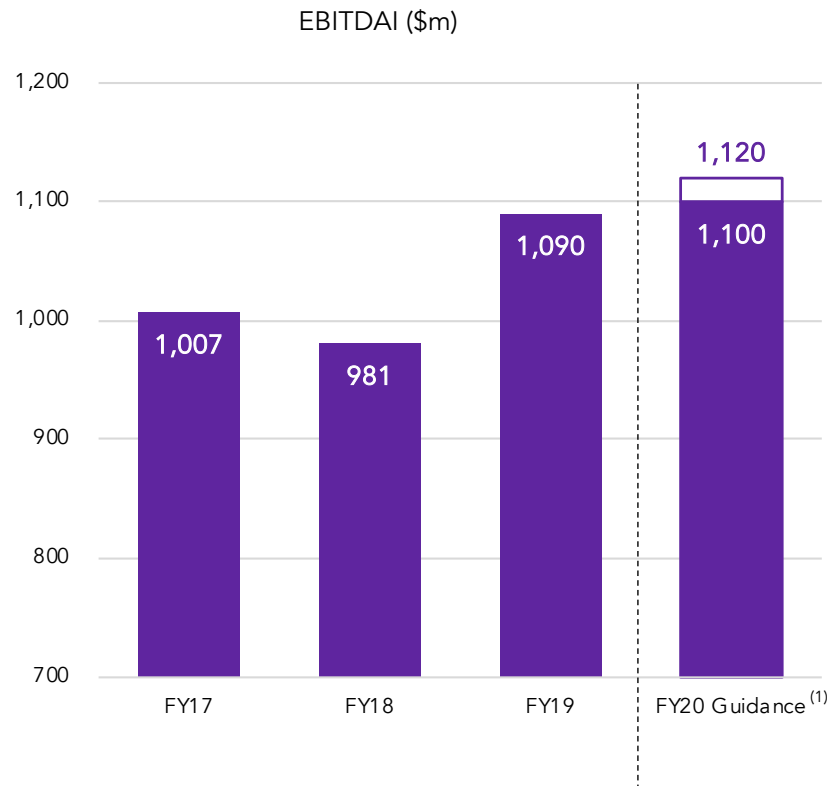
## Underlying free cash flow

Underlying free cash flow expected to increase by at least a further ~\$60m in FY20<sup>(1)</sup>; due to further EBITDAI growth and decrease in capital expenditure to ~\$370m

Growth in EBITDAI of between \$10m and \$30m expected in FY20<sup>(1)</sup>

Capital expenditure expected to decrease by ~\$50m to ~\$370m in FY20<sup>(1)</sup> - excluding any spectrum purchases and renewals

Expect to maintain spend at between 10% and 11% of revenue in the medium term



<sup>(1)</sup> Subject to no adverse change in operating outlook

# ① Capital management

## Underlying free cash flow

FY20 capital expenditure (excluding spectrum) decreasing to ~\$370m<sup>(1)</sup> following completion of large investment programmes. Expect to maintain spend at between 10% and 11% of revenue in the medium term

Envelope reducing following completion of a number of major investment programmes

Fully integrated and modern customer management system now in place. Next, less intensive, phase of IT investment is focused on:

- Incremental improvements; and
- Sustaining (and rationalising) existing products and systems

Investment in core mobile and IoT network capability complete, enabling more efficient growth in network capacity through:

- Leveraging new technology incl. 4.9G;
- Utilising latent capacity - following upgrades for the RWC - for further wireless broadband growth; and
- Focussing 5G roll-out on organic growth and deployment into specific markets where demand or use cases are most evident

Will maintain absolute level of investment in mobile – with majority of reductions from capitalised labour

IT investment expected to decrease by between 10% and 15% in-line with:

- Less intensive development phase; and
- Ongoing shift in software-as-a-service expenditure away from capital expenditure to operating expenses

Fixed network investment will be reduced through a combination of smart architectural choices and more cost-efficient technologies

Upcoming completion of Converged Communications Network (CCN) programme will further free up capital

Envelope will be maintained at between 10% and 11% of revenue in the medium term

Will free up capital to invest in upcoming spectrum purchases and renewals - which sit outside both the capital expenditure envelope and free cash flow - while still providing sufficient funding for:

- Required capacity growth;
- The progressive roll-out of C-band 5G; and
- Further innovation

<sup>(1)</sup> Subject to no adverse change in operating outlook

# ① Capital management

## Working capital

FY20 cash conversion<sup>(1)</sup> expected to return to at least 95% due to associated unwind of unfavourable FY19 movements

Movement in working capital <sup>(2)</sup> (\$m)	FY17 Actual	FY18 Actual	FY19 Actual	FY20 Estimate <sup>(3)</sup>
Device receivable	44	52	29	Similar rate of growth to FY19. Not estimated to return to FY17 and FY18 levels as customer refresh cycles are not expected to shorten in the near-term
Prepayments and accruals	(13)	8	10	Lower rate of growth than FY19 due to biennial renewal cycle for software licences
IT services contracts	16	6	11	Modest net increase in support of cloud, security and service management revenue growth
Timing of payables and receivables	54	(44)	66	
Inventory	13	(15)	21	Modest net decrease due to full amortisation of RWC content in H1 FY20 and no change in device inventory balance
<b>Total</b>	<b>114</b>	<b>7</b>	<b>137</b>	<b>Maximum of ~50</b>
Cash conversion ratio	88%	99%	87%	at least 95%

**Significantly lower rate of growth than FY19;** with FY20 working capital already benefiting from:

- Unwind of unfavourable FY19 receivables associated with June 2019 asset sales and procurement revenues
- Redemption of vendor rebates; and
- Absence of significant prior period payables such as Quantum implementation costs recognised in FY18 but paid in FY19

<sup>(1)</sup> Calculated as net cash flow from operations (excluding tax, dividend receipts and interest) divided by EBITDAI (excluding impairments and other gains)

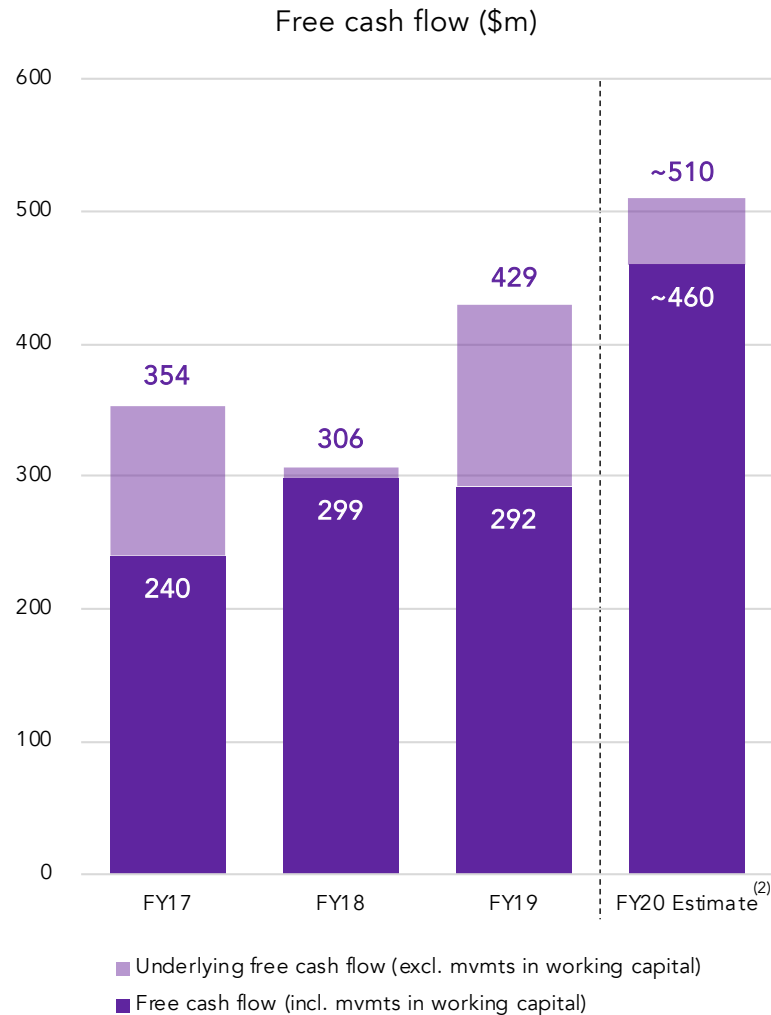
<sup>(2)</sup> Calculated as EBITDAI (excluding impairments and other gains) less net cash flow from operations (excluding tax, dividend receipts and interest)

<sup>(3)</sup> Subject to no adverse change in operating outlook

# ① Capital management

## Free cash flow

Resulting free cash flow<sup>(1)</sup> expected to grow by ~\$170m to ~\$460m in FY20<sup>(2)</sup> – sufficient to fully fund a dividend of 25 cents per share without the use of debt



Expected \$170m YoY growth in FY20 free cash flow primarily driven by:

- Further growth in EBITDAI
- Sustained reduction in capital expenditure (excluding spectrum) to approximately \$370m; and
- Return of cash conversion to at least 95% as unfavourable FY19 working capital movements unwind

Free cash flow outlook for future periods is similar to FY20; subject to no adverse change in operating outlook and excluding timing variances (including movements in working capital)

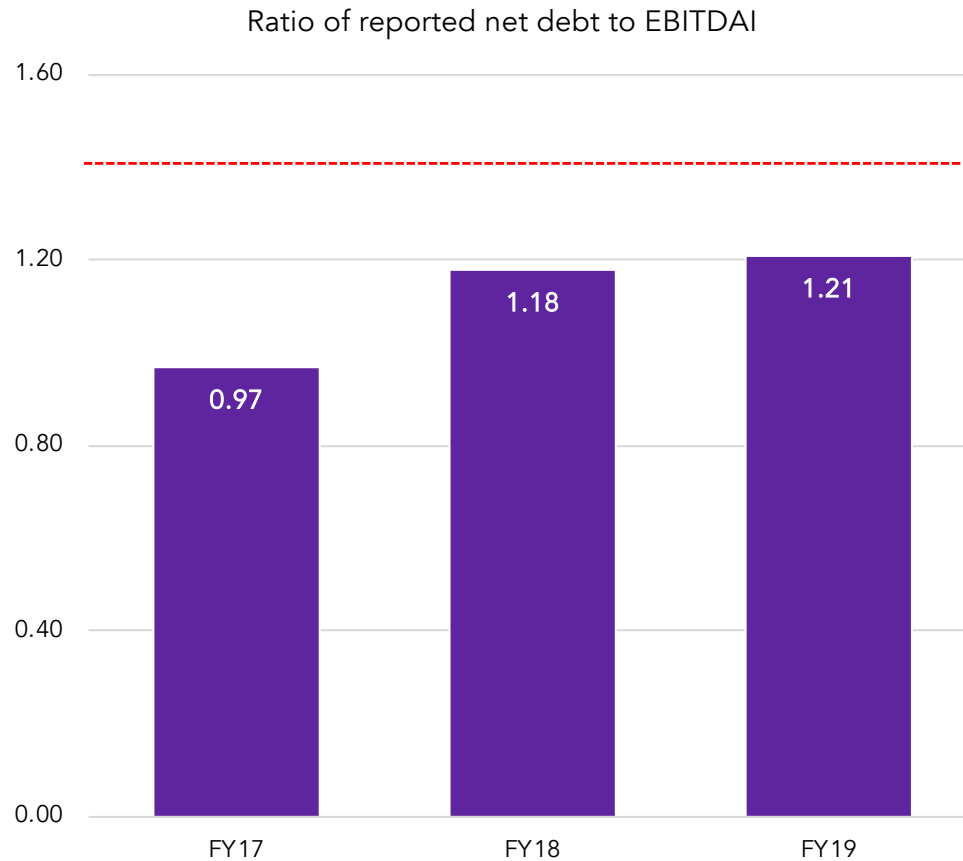
<sup>(1)</sup> Calculated as underlying free cash flow plus movements in working capital

<sup>(2)</sup> Subject to no adverse change in operating outlook

### 3 Capital management

## Net Debt

Spark is committed to ensuring that reported net debt<sup>(1)</sup> to EBITDAI does not exceed 1.4x on a long-run basis; consistent with a prudent capital structure and Spark's A- S&P credit rating



S&P reaffirmed Spark's A- credit rating in July 2019, noting there are no fundamental changes to Spark's underlying credit quality despite Spark's adoption of the new IFRS 15 and IFRS 16 accounting standards resulting in an increase in S&P's calculation of net debt

<sup>(1)</sup> Reported net debt at hedged rates as reported in note 4.4 of Spark's FY19 Annual Report



## FY20 Outlook Guidance<sup>(1)</sup>

Guidance provided for FY20; subject to no adverse change in operating outlook

	FY19 Actual	FY20 Guidance <sup>(1)</sup>
EBITDAI	\$1,090m	\$1,100m to \$1,120m
Capital expenditure <sup>(2)</sup>	\$417m	~\$370m
Dividend per share	Ordinary 22.0c (75% imputed) Special 3.0c (75% imputed)	Ordinary 25.0c at least 75% imputed

<sup>(1)</sup> Subject to no adverse change in operating outlook

<sup>(2)</sup> Includes purchase of property, plant and equipment, intangible assets and capacity (including Southern Cross) but excludes spectrum purchases and leased customer equipment assets

# FY20 Outlook

## Indicators of Success

	Measures	Target 30 June 2020
<b>Build customer intimacy</b>	Consumer and small business iNPS	8 point lift
	Growth in mobile and broadband change transactions completed online	30%
<b>Create a wireless future</b>	Go-live of 5G for America's Cup (subject to spectrum)	Ready for July 2020 launch
	Preparation for commercial launch of 5G (subject to spectrum)	5G sites deployed to targeted geographical locations
	Growth in wireless broadband connections	+30k
<b>Create New Zealand's premier sports streaming experience</b>	Rugby World Cup tournament	Successfully deliver the RWC tournament with platform availability of 99.9%
<b>Grow key markets</b>	Mobile service revenue growth <sup>(1)</sup>	2-3%
	Cloud, security and service management revenue growth	8-10%
	Growth in number of connected IOT devices	60%
	Begin progressive rollout of new concept Spark retail stores	By end of September 2019
<b>Mature Agile leadership</b>	Percentage of Agile squads at or above level 3	85%
<b>Deliver best cost</b>	EBITDAI margin	At least 31%
<b>Lead on sustainability</b>	Transition to integrated reporting	For FY20 annual report
	Number of school students participating in one of the Spark Foundation's programmes <sup>(2)</sup>	+10k

<sup>(1)</sup> Consumer and business segments only

<sup>(2)</sup> Measured as school aged children 5-18 years who participate in one of the Spark Foundation's digital inclusion or skills and capability programmes including JUMP, Digital Native Academy, Code Club, The Electric Garden and Like a Boss

# 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 and assumptions made by management along with 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', 'aspiration' 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 - reported

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
Operating revenues and other gains	1,738	1,767	1,761	1,772	1,754	1,779	3,533	3,533	-	-%
Operating expenses	(1,273)	(1,225)	(1,305)	(1,247)	(1,265)	(1,178)	(2,552)	(2,443)	109	4.3%
<b>EBITDAI</b>	<b>465</b>	<b>542</b>	<b>456</b>	<b>525</b>	<b>489</b>	<b>601</b>	<b>981</b>	<b>1,090</b>	<b>109</b>	<b>11.1%</b>
Finance income	16	15	16	19	18	19	35	37	2	5.7%
Finance expense	(37)	(38)	(37)	(40)	(40)	(45)	(77)	(85)	(8)	(10.4%)
Depreciation and amortisation expense	(242)	(240)	(237)	(244)	(245)	(232)	(481)	(477)	4	0.8%
Net investment income	33	24	27	20	-	14	47	14	(33)	(70.2%)
<b>Net earnings before income tax</b>	<b>235</b>	<b>303</b>	<b>225</b>	<b>280</b>	<b>222</b>	<b>357</b>	<b>505</b>	<b>579</b>	<b>74</b>	<b>14.7%</b>
Tax expense	(65)	(77)	(63)	(77)	(69)	(101)	(140)	(170)	(30)	(21.4%)
<b>Net earnings for the period</b>	<b>170</b>	<b>226</b>	<b>162</b>	<b>203</b>	<b>153</b>	<b>256</b>	<b>365</b>	<b>409</b>	<b>44</b>	<b>12.1%</b>
Capital expenditure	224	191	262	151	264	153	413	417	4	1.0%
Free cash flows	62	178	155	144	108	184	299	292	(7)	(2.3%)
Reported EBITDAI margin	26.8%	30.7%	25.9%	29.6%	27.9%	33.8%	27.8%	30.9%	3.1%	11.1%
Reported effective tax rate	27.7%	25.4%	28.0%	27.5%	31.1%	28.3%	27.7%	29.4%	1.6%	5.9%
Capital expenditure to operating revenues	12.9%	10.8%	14.9%	8.5%	15.1%	8.6%	11.7%	11.8%	0.1%	0.9%
Reported basic and diluted earnings per share (cents)	9.3	12.3	8.8	11.1	8.3	14.0	19.9	22.3	2.4	12.1%

## Group result - adjusted

Spark presents adjusted EBITDAI and adjusted net earnings when the year includes significant items greater than \$25 million. FY18 included \$49 million of costs of change and adjusted EBITDAI and adjusted net earnings are as follows:

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
Operating revenues and other gains	1,738	1,767	1,761	1,772	1,754	1,779	3,533	3,533	-	-%
Adjusted operating expenses	(1,273)	(1,225)	(1,292)	(1,211)	(1,265)	(1,178)	(2,503)	(2,443)	60	2.4%
<b>Adjusted EBITDAI</b>	<b>465</b>	<b>542</b>	<b>469</b>	<b>561</b>	<b>489</b>	<b>601</b>	<b>1,030</b>	<b>1,090</b>	<b>60</b>	<b>5.8%</b>
Finance income	16	15	16	19	18	19	35	37	2	5.7%
Finance expense	(37)	(38)	(37)	(40)	(40)	(45)	(77)	(85)	(8)	(10.4%)
Depreciation and amortisation expense	(242)	(240)	(237)	(244)	(245)	(232)	(481)	(477)	4	0.8%
Net investment income	33	24	27	20	-	14	47	14	(33)	(70.2%)
<b>Adjusted net earnings before income tax</b>	<b>235</b>	<b>303</b>	<b>238</b>	<b>316</b>	<b>222</b>	<b>357</b>	<b>554</b>	<b>579</b>	<b>25</b>	<b>4.5%</b>
Adjusted tax expense	(65)	(77)	(67)	(87)	(69)	(101)	(154)	(170)	(16)	(10.4%)
<b>Adjusted net earnings for the period</b>	<b>170</b>	<b>226</b>	<b>171</b>	<b>229</b>	<b>153</b>	<b>256</b>	<b>400</b>	<b>409</b>	<b>9</b>	<b>2.2%</b>

The tax effect on costs of change in H1 FY18 is \$4m and in H2 FY18 is \$10m. There were no adjusting items in FY17.

Adjusted EBITDAI margin	26.8%	30.7%	26.6%	31.7%	27.9%	33.8%	29.2%	30.9%	1.7%	5.8%
Adjusted effective tax rate	27.7%	25.4%	28.2%	27.5%	31.1%	28.3%	27.8%	29.4%	1.6%	5.6%
Adjusted basic and diluted earnings per share (cents)	9.3	12.3	9.3	12.5	8.3	14.0	21.8	22.3	0.5	2.3%

# Spark New Zealand

## Gross margin by product

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
Mobile	341	363	356	376	376	399	732	775	43	5.9%
Voice	221	204	189	180	158	152	369	310	(59)	(16.0%)
Broadband	146	152	158	157	168	176	315	344	29	9.2%
Cloud, security and service management	129	144	152	163	163	164	315	327	12	3.8%
Procurement and partners	22	23	17	23	18	25	40	43	3	7.5%
Managed data and networks	62	63	54	57	51	53	111	104	(7)	(6.3%)
Other product	22	31	25	24	25	26	49	51	2	4.1%
<b>Total product gross margin</b>	<b>943</b>	<b>980</b>	<b>951</b>	<b>980</b>	<b>959</b>	<b>995</b>	<b>1,931</b>	<b>1,954</b>	<b>23</b>	<b>1.2%</b>
Other gains	-	20	-	10	-	15	10	15	5	50.0%
<b>Total gross margin</b>	<b>943</b>	<b>1,000</b>	<b>951</b>	<b>990</b>	<b>959</b>	<b>1,010</b>	<b>1,941</b>	<b>1,969</b>	<b>28</b>	<b>1.4%</b>

## Connections

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	000's	000's	000's	000's	000's	000's	000's	000's	000's	%
Mobile connections	2,353	2,392	2,437	2,458	2,464	2,515	2,458	2,515	57	2.3%
Voice connections by type <sup>1</sup>										
POTS & ISDN	629	567	491	400	356	329	400	329	(71)	(17.8%)
VoIP	41	44	47	52	57	62	52	62	10	19.2%
Voice over wireless	-	11	14	14	18	26	14	26	12	85.7%
	670	622	552	466	431	417	466	417	(49)	(10.5%)
Broadband connections										
Copper	497	431	384	346	296	249	346	249	(97)	(28.0%)
Fibre	138	172	206	238	273	306	238	306	68	28.6%
Wireless	40	84	104	116	129	140	116	140	24	20.7%
	675	687	694	700	698	695	700	695	(5)	(0.7%)

<sup>1</sup> Voice connections include all voice technology types, including POTS, ISDN, VoIP and wireless voice. Voice connections exclude connections where Spark also provide a bundled broadband service, but include all wholesale voice connections (including those where the underlying customer has a bundled broadband service).

## Group FTE's

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
									#	%
FTE permanent	5,664	5,554	5,384	5,266	5,107	5,109	5,266	5,109	(157)	(3.0%)
FTE contractors	279	220	230	241	212	167	241	167	(74)	(30.7%)
Total FTE	5,943	5,774	5,614	5,507	5,319	5,276	5,507	5,276	(231)	(4.2%)

## Dividends

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
									\$	%
Ordinary dividends (cents per share)	11.00	11.00	11.00	11.00	11.00	11.00	22.00	22.00	-	-%
Special dividends (cents per share)	1.50	1.50	1.50	1.50	1.50	1.50	3.00	3.00	-	-%
	12.50	12.50	12.50	12.50	12.50	12.50	25.00	25.00	-	-%

# Spark New Zealand

## Group operating revenues and other gains

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
<b>Operating revenues</b>										
Mobile										
Service revenue	379	393	395	400	403	413	795	816	21	2.6%
Non-service revenue	197	198	218	224	219	236	442	455	13	2.9%
	576	591	613	624	622	649	1,237	1,271	34	2.7%
Voice										
Access	160	149	136	124	109	105	260	214	(46)	(17.7%)
Calling	112	105	98	95	87	83	193	170	(23)	(11.9%)
Videoconferencing	28	28	26	29	25	20	55	45	(10)	(18.2%)
Other voice revenue	39	36	33	32	29	28	65	57	(8)	(12.3%)
	339	318	293	280	250	236	573	486	(87)	(15.2%)
Broadband	337	336	331	334	344	341	665	685	20	3.0%
Cloud, security and service management	150	166	179	191	195	205	370	400	30	8.1%
Procurement and partners	178	173	184	173	191	174	357	365	8	2.2%
Managed data and networks	112	113	104	103	96	101	207	197	(10)	(4.8%)
Other operating revenue	46	50	57	57	56	58	114	114	-	-%
<b>Total operating revenues</b>	<b>1,738</b>	<b>1,747</b>	<b>1,761</b>	<b>1,762</b>	<b>1,754</b>	<b>1,764</b>	<b>3,523</b>	<b>3,518</b>	<b>(5)</b>	<b>(0.1%)</b>
Other gains	-	20	-	10	-	15	10	15	5	50.0%
<b>Total operating revenues and other gains</b>	<b>1,738</b>	<b>1,767</b>	<b>1,761</b>	<b>1,772</b>	<b>1,754</b>	<b>1,779</b>	<b>3,533</b>	<b>3,533</b>	<b>-</b>	<b>-%</b>

Operating revenues includes revenues from Consumer, Business, Wholesale and other customer segments.  
Wireless broadband revenues and connections are included in broadband revenues and connections.

## Operating revenues and other gains by customer segment

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
<b>Operating revenues and other gains</b>										
Consumer	787	781	786	787	790	815	1,573	1,605	32	2.0%
Business	835	849	866	866	867	857	1,732	1,724	(8)	(0.5%)
Wholesale and other	135	157	128	142	118	130	270	248	(22)	(8.1%)
Eliminations	(19)	(20)	(19)	(23)	(21)	(23)	(42)	(44)	(2)	(4.8%)
	1,738	1,767	1,761	1,772	1,754	1,779	3,533	3,533	-	-%

## Finance income

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
<b>Finance income</b>										
Finance lease interest income	8	7	7	7	7	7	14	14	-	-%
Other interest income	8	8	9	12	11	12	21	23	2	9.5%
	16	15	16	19	18	19	35	37	2	5.7%

## Net investment income

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
<b>Net investment income</b>										
Dividend income	35	26	28	22	-	15	50	15	(35)	(70.0%)
Share of associates' and joint ventures' net losses	(2)	(2)	(1)	(2)	-	(1)	(3)	(1)	2	66.7%
	33	24	27	20	-	14	47	14	(33)	(70.2%)



## Revenue classification changes

As part of the adoption of the Agile business model, the management of certain product lines have been reallocated from one part of the business to another. The details of the key changes and the associated impact on revenue reporting are as follows:

<b>Product name</b>	<b>Services provided</b>	<b>Previous category</b>	<b>New category</b>
Cellphone insurance	Insurance coverage for accidental loss or damage to purchased Mobile devices	Other operating revenue	Mobile service revenue
VoIP revenue	Provision of voice services over an internet based connection	Voice calling revenue	Voice access revenue
Value added voice services	Additional services over a voice line such as call diversion, caller identification and other smartphone services	Voice calling revenue	Other voice revenue
Managed internet	Provision of internet services for a managed data network	Broadband revenue	Managed data revenue

Additionally, the split of revenues between cloud, security and service management and procurement and partners has also been reviewed. The majority of reallocation relates to the treatment of revenue from subsidiaries.

# Spark New Zealand

## Group operating expenses

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
<b>Product costs</b>										
Mobile	235	228	257	248	246	250	505	496	(9)	(1.8%)
Voice	118	114	104	100	92	84	204	176	(28)	(13.7%)
Broadband	191	184	173	177	176	165	350	341	(9)	(2.6%)
Cloud, security and service management	21	22	27	28	32	41	55	73	18	32.7%
Procurement and partners	156	150	167	150	173	149	317	322	5	1.6%
Managed data and networks	50	50	50	46	45	48	96	93	(3)	(3.1%)
Other product costs	24	19	32	33	31	32	65	63	(2)	(3.1%)
	795	767	810	782	795	769	1,592	1,564	(28)	(1.8%)
Labour	278	272	276	237	250	225	513	475	(38)	(7.4%)
<b>Other operating expenses</b>										
Network support costs	31	29	31	31	37	24	62	61	(1)	(1.6%)
Computer costs	40	42	41	43	46	47	84	93	9	10.7%
Accommodation costs	26	25	32	29	37	30	61	67	6	9.8%
Advertising, promotions and communication	41	28	51	33	47	40	84	87	3	3.6%
Bad debts	9	9	7	9	6	6	16	12	(4)	(25.0%)
Impairment expense	2	-	1	6	5	(2)	7	3	(4)	(57.1%)
Costs of change	-	-	13	36	-	-	49	-	(49)	(100.0%)
Other	51	53	43	41	42	39	84	81	(3)	(3.6%)
	200	186	219	228	220	184	447	404	(43)	(9.6%)
<b>Total operating expenses</b>	<b>1,273</b>	<b>1,225</b>	<b>1,305</b>	<b>1,247</b>	<b>1,265</b>	<b>1,178</b>	<b>2,552</b>	<b>2,443</b>	<b>(109)</b>	<b>(4.3%)</b>
<b>Finance expense</b>										
Finance expense on debt	21	23	25	28	27	32	53	59	6	11.3%
Lease interest expense	16	16	15	14	15	15	29	30	1	3.4%
Leased customer equipment interest expense	2	2	1	2	2	2	3	4	1	33.3%
	39	41	41	44	44	49	85	93	8	9.4%
Capitalised interest	(2)	(3)	(4)	(4)	(4)	(4)	(8)	(8)	-	-%
	37	38	37	40	40	45	77	85	8	10.4%
<b>Depreciation and amortisation expense</b>										
Depreciation - property, plant and equipment	122	128	129	134	128	118	263	246	(17)	(6.5%)
Depreciation - right-of-use assets	27	26	24	26	25	31	50	56	6	12.0%
Depreciation - leased customer equipment assets	8	8	8	8	9	9	16	18	2	12.5%
Amortisation of intangibles	85	78	76	76	83	74	152	157	5	3.3%
	242	240	237	244	245	232	481	477	(4)	(0.8%)

## Adjusted operating expenses

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
Total operating expenses	1,273	1,225	1,305	1,247	1,265	1,178	2,552	2,443	(109)	(4.3%)
Less: costs of change	-	-	(13)	(36)	-	-	(49)	-	49	100.0%
Adjusted operating expenses	1,273	1,225	1,292	1,211	1,265	1,178	2,503	2,443	(60)	(2.4%)

# Spark New Zealand

## Analysis & KPI's - Mobile

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
<b>Mobile revenue by type (Consumer and Business)</b>										
Mobile service revenue	372	385	388	395	398	409	783	807	24	3.1%
Mobile non-service revenue <sup>1</sup>	189	187	208	210	206	224	418	430	12	2.9%
	561	572	596	605	604	633	1,201	1,237	36	3.0%
Wholesale and other customer segment mobile revenue <sup>2</sup>	15	19	17	19	18	16	36	34	(2)	(5.6%)
<b>Total mobile revenue</b>	<b>576</b>	<b>591</b>	<b>613</b>	<b>624</b>	<b>622</b>	<b>649</b>	<b>1,237</b>	<b>1,271</b>	<b>34</b>	<b>2.7%</b>
Mobile product costs <sup>3</sup>	(235)	(228)	(257)	(248)	(246)	(250)	(505)	(496)	9	1.8%
<b>Mobile gross margin</b>	<b>341</b>	<b>363</b>	<b>356</b>	<b>376</b>	<b>376</b>	<b>399</b>	<b>732</b>	<b>775</b>	<b>43</b>	<b>5.9%</b>
Mobile gross margin %	59.2%	61.4%	58.1%	60.3%	60.5%	61.5%	59.2%	61.0%	1.8%	3.0%
<b>Total mobile revenue by customer segment</b>										
Consumer	369	379	397	409	410	443	806	853	47	5.8%
Business	192	193	199	196	194	190	395	384	(11)	(2.8%)
Wholesale and other	15	19	17	19	18	16	36	34	(2)	(5.6%)
	576	591	613	624	622	649	1,237	1,271	34	2.7%
<b>Average revenue per user (ARPU) - 6 month active Consumer and Business</b>										
	\$ per month	\$ per month	\$ per month	\$ per month	\$ per month	\$ per month	\$ per month	\$ per month	\$ per month	%
Total ARPU	27.45	27.27	27.58	27.25	27.56	27.57	27.41	27.57	0.16	0.6%
Pay-monthly ARPU	45.05	45.02	44.29	43.31	42.82	42.43	43.79	42.62	(1.16)	(2.7%)
Prepaid ARPU	11.65	11.75	12.20	12.13	12.29	12.66	12.17	12.48	0.31	2.6%
<b>Number of mobile connections at period end - 6 month active - Consumer and Business</b>										
	000's	000's	000's	000's	000's	000's	000's	000's	000's	%
Pay-monthly connections	1,085	1,108	1,158	1,189	1,225	1,251	1,189	1,251	62	5.2%
Prepaid connections	1,231	1,248	1,245	1,236	1,206	1,232	1,236	1,232	(4)	(0.3%)
Internal connections	4	4	4	4	4	4	4	4	-	-%
<b>Total mobile connections</b>	<b>2,320</b>	<b>2,360</b>	<b>2,407</b>	<b>2,429</b>	<b>2,435</b>	<b>2,487</b>	<b>2,429</b>	<b>2,487</b>	<b>58</b>	<b>2.4%</b>

<sup>1</sup> Mobile non-service revenue includes handset sales and mobile interconnect.

<sup>2</sup> Includes MVNO revenue.

<sup>3</sup> Includes handset, interconnect and cellphone tower access costs.

# Spark New Zealand

## Analysis & KPI's - Voice

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
<b>Voice revenue by type</b>											
Access	160	149	136	124	109	105	260	214	(46)	(17.7%)	
Calling	112	105	98	95	87	83	193	170	(23)	(11.9%)	
Videoconferencing	28	28	26	29	25	20	55	45	(10)	(18.2%)	
Other voice revenue	39	36	33	32	29	28	65	57	(8)	(12.3%)	
<b>Total voice revenue</b>	<b>339</b>	<b>318</b>	<b>293</b>	<b>280</b>	<b>250</b>	<b>236</b>	<b>573</b>	<b>486</b>	<b>(87)</b>	<b>(15.2%)</b>	
Voice product costs <sup>1</sup>	(118)	(114)	(104)	(100)	(92)	(84)	(204)	(176)	28	13.7%	
<b>Voice gross margin</b>	<b>221</b>	<b>204</b>	<b>189</b>	<b>180</b>	<b>158</b>	<b>152</b>	<b>369</b>	<b>310</b>	<b>(59)</b>	<b>(16.0%)</b>	
Voice gross margin %	65.2%	64.2%	64.5%	64.3%	63.2%	64.4%	64.4%	63.8%	(0.6%)	(1.0%)	

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement		
	000's	000's	000's	000's	000's	000's	000's	000's	000's	000's	%
<b>Voice connections by type</b>											
POTS and ISDN	629	567	491	400	356	329	400	329	(71)	(17.8%)	
VoIP	41	44	47	52	57	62	52	62	10	19.2%	
Voice over wireless	-	11	14	14	18	26	14	26	12	85.7%	
<b>Total voice connections</b>	<b>670</b>	<b>622</b>	<b>552</b>	<b>466</b>	<b>431</b>	<b>417</b>	<b>466</b>	<b>417</b>	<b>(49)</b>	<b>(10.5%)</b>	

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement		
	000's	000's	000's	000's	000's	000's	000's	000's	000's	000's	%
<b>Voice connections by customer segment</b>											
Consumer	124	124	118	108	104	103	108	103	(5)	(4.6%)	
Business	211	198	185	180	177	178	180	178	(2)	(1.1%)	
Wholesale and other	335	300	249	178	150	136	178	136	(42)	(23.6%)	
<b>Total voice connections</b>	<b>670</b>	<b>622</b>	<b>552</b>	<b>466</b>	<b>431</b>	<b>417</b>	<b>466</b>	<b>417</b>	<b>(49)</b>	<b>(10.5%)</b>	

<sup>1</sup> Includes voice access (baseband), interconnect, international calling and videoconferencing platform costs.

## Analysis & KPI's - Broadband

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Total broadband revenue	337	336	331	334	344	341	665	685	20	3.0%
Broadband product costs <sup>2</sup>	(191)	(184)	(173)	(177)	(176)	(165)	(350)	(341)	9	2.6%
<b>Broadband gross margin</b>	<b>146</b>	<b>152</b>	<b>158</b>	<b>157</b>	<b>168</b>	<b>176</b>	<b>315</b>	<b>344</b>	<b>29</b>	<b>9.2%</b>
Broadband gross margin %	43.3%	45.2%	47.7%	47.0%	48.8%	51.6%	47.4%	50.2%	2.9%	6.0%

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement		
	000's	000's	000's	000's	000's	000's	000's	000's	000's	000's	%
<b>Broadband connections by technology</b>											
Copper	497	431	384	346	296	249	346	249	(97)	(28.0%)	
Fibre	138	172	206	238	273	306	238	306	68	28.6%	
Wireless	40	84	104	116	129	140	116	140	24	20.7%	
<b>Total broadband connections</b>	<b>675</b>	<b>687</b>	<b>694</b>	<b>700</b>	<b>698</b>	<b>695</b>	<b>700</b>	<b>695</b>	<b>(5)</b>	<b>(0.7%)</b>	

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement		
	000's	000's	000's	000's	000's	000's	000's	000's	000's	000's	%
<b>Broadband connections by segment</b>											
Consumer	589	597	601	604	598	593	604	593	(11)	(1.8%)	
Business	86	90	92	95	98	99	95	99	4	4.2%	
Wholesale and other	-	-	1	1	2	3	1	3	2	NM	
<b>Total broadband connections</b>	<b>675</b>	<b>687</b>	<b>694</b>	<b>700</b>	<b>698</b>	<b>695</b>	<b>700</b>	<b>695</b>	<b>(5)</b>	<b>(0.7%)</b>	

<sup>2</sup> Includes broadband access (UBA/UCLL/Fibre), modem and e-mail platform support costs.

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## Analysis & KPI's - Cloud, Security and Service management

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
Cloud, Security and Service management revenue	150	166	179	191	195	205	370	400	30	8.1%
Cloud, Security and Service management product costs	(21)	(22)	(27)	(28)	(32)	(41)	(55)	(73)	(18)	(32.7%)
<b>Cloud, Security and Service management gross margin</b>	<b>129</b>	<b>144</b>	<b>152</b>	<b>163</b>	<b>163</b>	<b>164</b>	<b>315</b>	<b>327</b>	<b>12</b>	<b>3.8%</b>
Cloud, Security and Service management gross margin %	86.0%	86.7%	84.9%	85.3%	83.6%	80.0%	85.1%	81.8%	(3.4%)	(4.0%)
Contribution margin (approximated) % <sup>1</sup>	34.0%	44.6%	36.9%	46.6%	36.9%	42.0%	41.9%	39.5%	(2.4%)	(5.7%)

<sup>1</sup> Contribution margin is defined as reported gross margin less labour and other costs that are directly attributable to the implementation and ongoing support of specific contract services.

## Analysis & KPI's - Procurement and Partners

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
Procurement and partners revenue	178	173	184	173	191	174	357	365	8	2.2%
Procurement and partners product costs	(156)	(150)	(167)	(150)	(173)	(149)	(317)	(322)	(5)	(1.6%)
<b>Procurement and partners gross margin</b>	<b>22</b>	<b>23</b>	<b>17</b>	<b>23</b>	<b>18</b>	<b>25</b>	<b>40</b>	<b>43</b>	<b>3</b>	<b>7.5%</b>
	12.4%	13.3%	9.2%	13.3%	9.4%	14.4%	11.2%	11.8%	0.6%	5.1%

## Analysis & KPI's - Managed data and networks

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
Managed data and networks revenue	112	113	104	103	96	101	207	197	(10)	(4.8%)
Managed data and networks product costs <sup>2</sup>	(50)	(50)	(50)	(46)	(45)	(48)	(96)	(93)	3	3.1%
<b>Managed data and networks gross margin</b>	<b>62</b>	<b>63</b>	<b>54</b>	<b>57</b>	<b>51</b>	<b>53</b>	<b>111</b>	<b>104</b>	<b>(7)</b>	<b>(6.3%)</b>
	55.4%	55.8%	51.9%	55.3%	53.1%	52.5%	53.6%	52.8%	(0.8%)	(1.6%)

<sup>2</sup> Includes wide area network access, international data and network backhaul costs.

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## Statement of cash flows

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
<b>Cash flows from operating activities</b>										
Cash received from customers	1,724	1,686	1,768	1,721	1,770	1,654	3,489	3,424	(65)	(1.9%)
Interest receipts	14	15	16	18	18	17	34	35	1	2.9%
Dividend receipts	22	44	7	43	-	15	50	15	(35)	(70.0%)
Payments to suppliers and employees	(1,328)	(1,207)	(1,266)	(1,252)	(1,314)	(1,169)	(2,518)	(2,483)	35	1.4%
Payments for income tax	(79)	(64)	(70)	(97)	(44)	(91)	(167)	(135)	32	19.2%
Payments for interest on debt	(18)	(18)	(14)	(23)	(22)	(23)	(37)	(45)	(8)	(21.6%)
Payments for interest on leases	(14)	(14)	(14)	(14)	(13)	(17)	(28)	(30)	(2)	(7.1%)
Payments for interest on leased customer equipment assets	(1)	(2)	(1)	(2)	(2)	(2)	(3)	(4)	(1)	(33.3%)
<b>Net cash flows from operating activities</b>	<b>320</b>	<b>440</b>	<b>426</b>	<b>394</b>	<b>393</b>	<b>384</b>	<b>820</b>	<b>777</b>	<b>(43)</b>	<b>(5.2%)</b>
<b>Cash flows from investing activities</b>										
Proceeds from sale of property, plant and equipment	-	27	-	1	-	1	1	1	-	-%
Proceeds from sale of business	-	-	-	8	-	-	8	-	(8)	(100.0%)
Proceeds from long-term investments	-	6	-	-	-	2	-	2	2	NM
Payments for purchase of businesses	(2)	(2)	(46)	(5)	-	-	(51)	-	51	100.0%
Payments for, and advances to, long-term investments	(2)	(3)	(6)	(14)	(6)	-	(20)	(6)	14	70.0%
Payments for purchase of property, plant and equipment and intangibles	(211)	(187)	(236)	(178)	(258)	(157)	(414)	(415)	(1)	(0.2%)
Payments for capitalised interest	(2)	(4)	(4)	(4)	(3)	(5)	(8)	(8)	-	-%
<b>Net cash flows from investing activities</b>	<b>(217)</b>	<b>(163)</b>	<b>(292)</b>	<b>(192)</b>	<b>(267)</b>	<b>(159)</b>	<b>(484)</b>	<b>(426)</b>	<b>58</b>	<b>12.0%</b>
<b>Cash flows from financing activities</b>										
Net proceeds from debt	153	(25)	184	(10)	182	(28)	174	154	(20)	(11.5%)
Receipts from finance leases	2	1	2	3	3	3	5	6	1	20.0%
Payments for dividends	(229)	(229)	(229)	(229)	(229)	(230)	(458)	(459)	(1)	(0.2%)
Payments for leases	(18)	(18)	(18)	(19)	(19)	(17)	(37)	(36)	1	2.7%
Payments for leased customer equipment assets	(7)	(10)	(8)	(9)	(8)	(9)	(17)	(17)	-	-%
<b>Net cash flows from financing activities</b>	<b>(99)</b>	<b>(281)</b>	<b>(69)</b>	<b>(264)</b>	<b>(71)</b>	<b>(281)</b>	<b>(333)</b>	<b>(352)</b>	<b>(19)</b>	<b>(5.7%)</b>
<b>Net cash flow</b>	<b>4</b>	<b>(4)</b>	<b>65</b>	<b>(62)</b>	<b>55</b>	<b>(56)</b>	<b>3</b>	<b>(1)</b>	<b>(4)</b>	<b>NM</b>
Opening cash position	52	56	52	117	55	110	52	55	3	5.8%
<b>Closing cash position</b>	<b>56</b>	<b>52</b>	<b>117</b>	<b>55</b>	<b>110</b>	<b>54</b>	<b>55</b>	<b>54</b>	<b>(1)</b>	<b>(1.8%)</b>



# Spark New Zealand

## Analysis & KPIs - Free cash flows

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
Net cash flows from operating activities	320	440	426	394	393	384	820	777	(43)	(5.2%)
Payments for purchase of property, plant and equipment and intangibles	(211)	(187)	(236)	(178)	(258)	(157)	(414)	(415)	(1)	(0.2%)
Payments for capitalised interest	(2)	(4)	(4)	(4)	(3)	(5)	(8)	(8)	-	-%
Payments for leases	(18)	(18)	(18)	(19)	(19)	(17)	(37)	(36)	1	2.7%
Payments for leased customer equipment assets	(7)	(10)	(8)	(9)	(8)	(9)	(17)	(17)	-	-%
Receipts from finance leases	2	1	2	3	3	3	5	6	1	20.0%
<i>excluding</i>										
Dividend receipts	(22)	(44)	(7)	(43)	-	(15)	(50)	(15)	35	70.0%
Increase/(decrease) in working capital	71	43	(45)	52	38	99	7	137	130	NM
<b>Underlying free cash flow</b>	<b>133</b>	<b>221</b>	<b>110</b>	<b>196</b>	<b>146</b>	<b>283</b>	<b>306</b>	<b>429</b>	<b>123</b>	<b>40.2%</b>
<i>including</i>										
(Increase)/decrease in working capital	(71)	(43)	45	(52)	(38)	(99)	(7)	(137)	(130)	NM
<b>Free cashflow</b>	<b>62</b>	<b>178</b>	<b>155</b>	<b>144</b>	<b>108</b>	<b>184</b>	<b>299</b>	<b>292</b>	<b>(7)</b>	<b>(2.3%)</b>

## Analysis & KPIs - Movement in working capital

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
EBITDAI	465	542	456	525	489	601	981	1,090	109	11.1%
<i>excluding</i>										
Impairments	(2)	-	(1)	(6)	(5)	2	(7)	(3)	4	(57.1%)
Other gains	-	20	-	10	-	15	10	15	5	50.0%
<b>EBITDAI excluding impairments and other gains</b>	<b>467</b>	<b>522</b>	<b>457</b>	<b>521</b>	<b>494</b>	<b>584</b>	<b>978</b>	<b>1,078</b>	<b>100</b>	<b>10.2%</b>
Net cash flows from operating activities	320	440	426	394	393	384	820	777	(43)	(5.2%)
<i>excluding</i>										
Interest receipts	14	15	16	18	18	17	34	35	1	2.9%
Dividend receipts	22	44	7	43	-	15	50	15	(35)	(70.0%)
Payments for income tax	(79)	(64)	(70)	(97)	(44)	(91)	(167)	(135)	32	(19.2%)
Payments for interest on debt	(18)	(18)	(14)	(23)	(22)	(23)	(37)	(45)	(8)	21.6%
Payments for interest on leases	(14)	(14)	(14)	(14)	(13)	(17)	(28)	(30)	(2)	7.1%
Payments for interest on leased customer equipment assets	(1)	(2)	(1)	(2)	(2)	(2)	(3)	(4)	(1)	33.3%
<b>Net cash flows from operating activities excluding dividends, tax and net interest</b>	<b>396</b>	<b>479</b>	<b>502</b>	<b>469</b>	<b>456</b>	<b>485</b>	<b>971</b>	<b>941</b>	<b>(30)</b>	<b>(3.1%)</b>
EBITDAI excluding impairments and other gains	467	522	457	521	494	584	978	1,078	100	10.2%
<i>less</i>										
Net cash flows from operating activities excluding dividends, tax and net interest	396	479	502	469	456	485	971	941	(30)	(3.1%)
<b>Increase/(decrease) in working capital</b>	<b>71</b>	<b>43</b>	<b>(45)</b>	<b>52</b>	<b>38</b>	<b>99</b>	<b>7</b>	<b>137</b>	<b>130</b>	
Cash conversion	85%	92%	110%	90%	92%	83%	99%	87%		

# Spark New Zealand

## Group capital expenditure

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
Cloud	22	20	19	20	26	10	39	36	(3)	(7.7%)
Converged Communications Network (CCN)	3	12	17	15	20	11	32	31	(1)	(3.1%)
International cable construction and capacity purchases	14	20	14	-	11	1	14	12	(2)	(14.3%)
IT systems	60	52	64	49	70	62	113	132	19	16.8%
Mobile network	69	33	89	26	89	29	115	118	3	2.6%
Plant, network and core sustain and resiliency	36	31	38	24	36	27	62	63	1	1.6%
Other	20	23	21	17	12	13	38	25	(13)	(34.2%)
<b>Total capital expenditure</b>	<b>224</b>	<b>191</b>	<b>262</b>	<b>151</b>	<b>264</b>	<b>153</b>	<b>413</b>	<b>417</b>	<b>4</b>	<b>1.0%</b>

Capital expenditure is presented on an accruals basis, and includes purchase of property, plant and equipment and intangible assets, capacity purchases (including Southern Cross) but excludes leased customer equipment assets.

## Analysis & KPI's - Capital expenditure depreciation and amortisation

On adoption of NZ IFRS 16 *Leases*, assets associated with capacity arrangements which were previously recognised within intangible assets have been reclassified to right-of-use assets. Payments for capacity purchases remain within Spark's definition of capital expenditure. Total depreciation on property plant and equipment, depreciation on capacity right-of-use assets and amortisation of intangibles is reconciled below:

	H1 FY17	H2 FY17	H1 FY18	H2 FY18	H1 FY19	H2 FY19	FY18	FY19	Movement	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
Depreciation - property, plant and equipment	122	128	129	134	128	118	263	246	(17)	(6.5%)
Depreciation - right-of-use assets <sup>1</sup>	8	9	10	10	9	13	20	22	2	10.0%
Amortisation of intangibles	85	78	76	76	83	74	152	157	5	3.3%
<b>Total capital expenditure depreciation and amortisation</b>	<b>215</b>	<b>215</b>	<b>215</b>	<b>220</b>	<b>220</b>	<b>205</b>	<b>435</b>	<b>425</b>	<b>(10)</b>	<b>(2.3%)</b>

<sup>1</sup> Includes depreciation on capacity right-of-use assets only as these are included within Spark's definition of capital expenditure.