

## **Market Release**

21 August 2015

### **SPARK NEW ZEALAND FY15 RESULTS**

## **Solid execution of strategy and a greater focus on customers leads to a return to sustainable EBITDA growth**

### **Dividends increasing on the back of growing confidence**

Spark New Zealand Chairman Mark Verbiest said the results for the financial year ended 30 June 2015 reflect years of hard work and confirm that the company is on track to deliver the Spark New Zealand turnaround story.

“A clear strategy with solid execution and a greater focus on customers has seen Spark New Zealand continue to gain customer numbers and return to sustainable EBITDA and free cash flow growth.

“We are generating positive market momentum, especially in mobile, despite a highly competitive market. We have strengthened our portfolio of digital services and related capabilities, reshaped our IT systems around our customers, invested in network leadership, and successfully focused on costs and capital management.

“The bold decision to rebrand as Spark New Zealand continues to be vindicated with the core Spark brands performing well, appealing to a broader customer base and registering big improvements in brand preference measures.

“Particularly pleasing is the significant underlying improvement in free cash flow which emerged in the second half of the year, demonstrating that the repositioning of the business is leading to better financial outcomes. This has provided the Board with the confidence to increase the dividend payment to shareholders from 17 cents per share in FY14 to 20 cents per share in FY15.

“The financial results support the Board’s view that a return to long-term, sustainable growth in free cash flow, revenue and earnings over the coming years is both realistic and achievable. As such, for FY16, Spark New Zealand anticipates paying an annual dividend of 22 cents per share and a special dividend of 3 cents per share as a means of returning excess capital, subject to there being no material adverse changes in operating outlook.”

### **Key Financial Results**

Operating revenues and other gains from continuing operations were down 2.9%, to \$3,531 million, with growth in mobile and IT services revenues being moderated by the ongoing decline in calling and access revenue.

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) from continuing operations were up 2.8% for the full year.

Spark New Zealand's net earnings after tax from continuing operations for FY15 were \$375 million, up 16.1%. Net earnings including discontinued operations were down 18.5% compared to FY14, noting that financial year result included a gain on the sale of AAPT.

Mobile connections continued to grow, up 172,000 in the 12 months to 30 June 2015. We have closed the connection number gap on our largest competitor, Vodafone, to just over 150,000, having been around 600,000 behind them just three years ago.

Total mobile revenue share grew by 2% to 41% driven by excellent growth in consumer revenue, however the market remains very competitive, especially in the business market.

Broadband revenues returned to modest growth in FY15, driven by a focus on higher value plans. Broadband connections increased 1.6% despite intense competition, particularly at the entry-level end of the market.

IT services revenue rose 5.5%, underpinned by our investment in Cloud computing services through Revera and Appserv, and in data centre infrastructure, including new and expanded facilities in main centres.

Ongoing tight management of operating costs saw expenses from continuing operations reduce 5.0% to \$2,566 million. The Turnaround Programme was completed at the end of June 2015, delivering significant improvement in sustainable free cash flow. The principles of the programme have now been embedded into each part of the business.

## **Key Operational Results**

Managing Director Simon Moutter said that the first phase of the Spark New Zealand strategy that commenced in 2013 is now complete.

"We have now stabilised and reset the business to reflect the fast-changing and increasingly digital world in which Spark New Zealand and our customers live.

"During that time we have reduced prices, cut costs, simplified products, overhauled IT platforms, rebuilt networks, established a new fast and competitive organisational culture and started winning in the market. We've also sold businesses that were no longer going to be part of Spark New Zealand's future, and invested in the new core Spark brands, together with brands and new businesses like Skinny, Bigpipe, Revera, Qrious, Lightbox and Morepork.

"The extent of the change the organisation has experienced over the last two years is profound. Customers are sensing the shift and responding positively with improved brand metrics and reputation measures across key customer segments.

"We've had sustained revenue and earnings growth in the Spark Home, Mobile & Business business unit for three halves now, driven by an excellent performance in the market.

"While the FY15 results for the Spark Digital business unit reflect the impact of market pressures, we have now finished repositioning the business model, and we're focused on closing high-quality sales and operating efficiency with a view to stabilising Spark Digital earnings in FY16.

"Investment in digital service growth options has continued, with Lightbox surpassing its first subscriber target, Qrious gaining a firm position in the emerging data analytics market, Cloud IT growing strongly and Morepork Smart Living beta-launched. Our end-to-end Cloud



computing capabilities have continued to expand with both Revera and Appserv exceeding performance expectations and attracting a significant number of new business customers.

“We believe our combined data network is second to none in New Zealand. This includes the quality and national reach of our 4G mobile network, our optical transport core network and our nationwide broadband and WiFi networks. We have accelerated our rollout of 4G mobile broadband services using the 700MHz spectrum to make the most of owning more spectrum in this band range than any other provider.

“Release 2 of the re-engineered IT systems has been delivered and our centralised Turnaround Programme to drive process and cost improvements has been completed, laying the foundation for future operational efficiency gains.

“All up, Spark New Zealand is in the best shape it’s been in for many years. We’re now shifting to the next phase of our strategy with even greater emphasis on digital self-service capability and leveraging our outstanding networks to create truly great customer experiences, and in turn generate sustainable margin and revenue growth.

“This is one of the key drivers behind our newly launched Digital First Programme. Digital First is the next step in transforming Spark New Zealand into a smarter, more agile, more efficient company, with great digital customer experiences at its heart.”

Mr Verbiest said, “The Board would like to acknowledge the people of Spark New Zealand. They have taken on the challenge of transforming this iconic New Zealand business and making a difference, and they have made massive strides towards that ambition.

“We are excited by the opportunity to build on the momentum created from the platform the Spark New Zealand team has developed over the past two years. We recognise the important and privileged role we have in helping New Zealanders and New Zealand businesses achieve their aspirations. We are determined to make a meaningful and sustainable contribution to New Zealand’s digital future.”

-ENDS-

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# FY15 Financial Results

**Simon Moutter**  
Managing Director

**Jolie Hodson**  
Chief Financial Officer

[sparknz.co.nz](http://sparknz.co.nz)

# FY15 Highlights

- Clear strategy with solid execution and a greater focus on customers leading to a return to EBITDA growth in a challenging market
- Brands continuing to perform strongly with improvements in preference measures and Net Promoter Score (NPS) scores across all segments
- Winning in the mobile markets with 2% growth in mobile revenue share and excellent connection gains
- Sustained revenue and earnings growth in Home, Mobile & Business for 3 halves
- Finished repositioning Spark Digital's business model, now focused on closing high-quality sales, operating efficiency and a return of the business unit to earnings stability in FY16
- Investing in digital service growth options, with Lightbox reaching first target, Qrious well-positioned, Cloud IT growing strongly and Morepork Smart Living beta-launched
- Release two of the re-engineered IT systems delivered and Turnaround Programme completed laying the foundation for future operational efficiency gains
- Successful divestment of three non-core legacy businesses generating \$169 million of cash flow and enabling commencement of \$100m on-market share buyback
- Dividends increased on the back of a good second half performance, growing confidence in earnings outlook and a step-change in forward cash generation

# Results scorecard

Key financials			Product revenue			Market share and connections		
	FY15	H2		FY15	H2		30 June 2015	Change
Revenue Growth	(2.9%)	(3.2%)	Mobile Revenue Growth	4.4%	6.4%	Mobile share (revenue)	41% <sup>(1)</sup>	2% <sup>(2)</sup>
						Mobile Customers	2,178k	8.6%
EBITDA Growth <sup>(3)</sup>	2.8%	8.7%	Broadband Revenue Growth	0.6%	0.6%	Broadband share (connections)	46% <sup>(1)</sup>	(1%) <sup>(2)</sup>
						Broadband customers	680k	1.6%
DPS	20 cps	11 cps	IT services Revenue Growth	5.5%	4.2%	IT services share (revenue)	14.5% <sup>(1)</sup>	0% <sup>(2)</sup>

<sup>(1)</sup> Market share estimate

<sup>(2)</sup> Percentage Point estimate vs June 2014

<sup>(3)</sup> H1 FY15 includes re-brand costs, while H2 FY15 includes \$32m gain on sale from divestments

# Strategy shifting into next phase

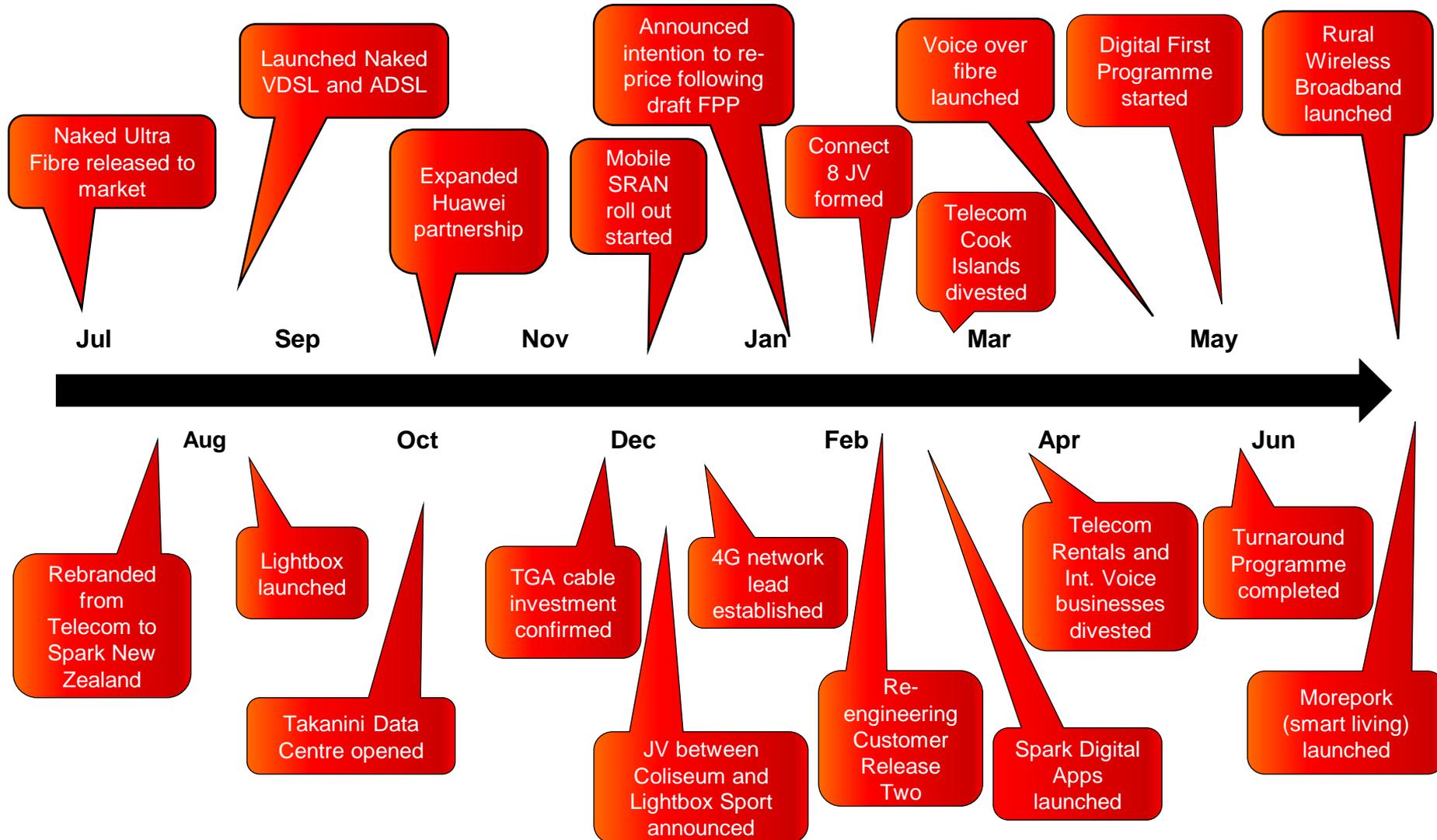
## **FY14 & FY15: Stabilised revenue/margin and reduced costs:**

- Reduced prices to compete
- Refocused on NZ market
- Rebranded as Spark New Zealand
- Divested non-core assets
- Completed Turnaround Programme
- Reduced costs for financial stability
- Invested in new growth areas and brands
- Expanded and upgraded data networks
- Re-engineered IT systems
- Built new organisational culture

## **FY16 & beyond: Drive market revenue/margin growth with continuing improvement in unit costs:**

- Invest in market-leading digital products and services
- Digital First Programme to lead the market on digital customer experiences
- Drive revenue growth through brand preference
- Shift focus from acquisition to monetising demand
- Continue evolving leading data networks and digital platforms
- Maintain disciplined management to reduce unit costs

# Executional discipline maintained



# Brands on the rise

- Decision to rebrand delivering uplift in brand preference measures across wider segments
- Spark New Zealand rising in reputation indices
- Net promoter scores (NPS) improved across all key areas – in HMB up 10 points for consumers and 13 points for business
- Increase in foot traffic and online traffic driving sales performance
- Multi-brand strategy paying off with key flanking brands performing well





# Reported Profit & Loss

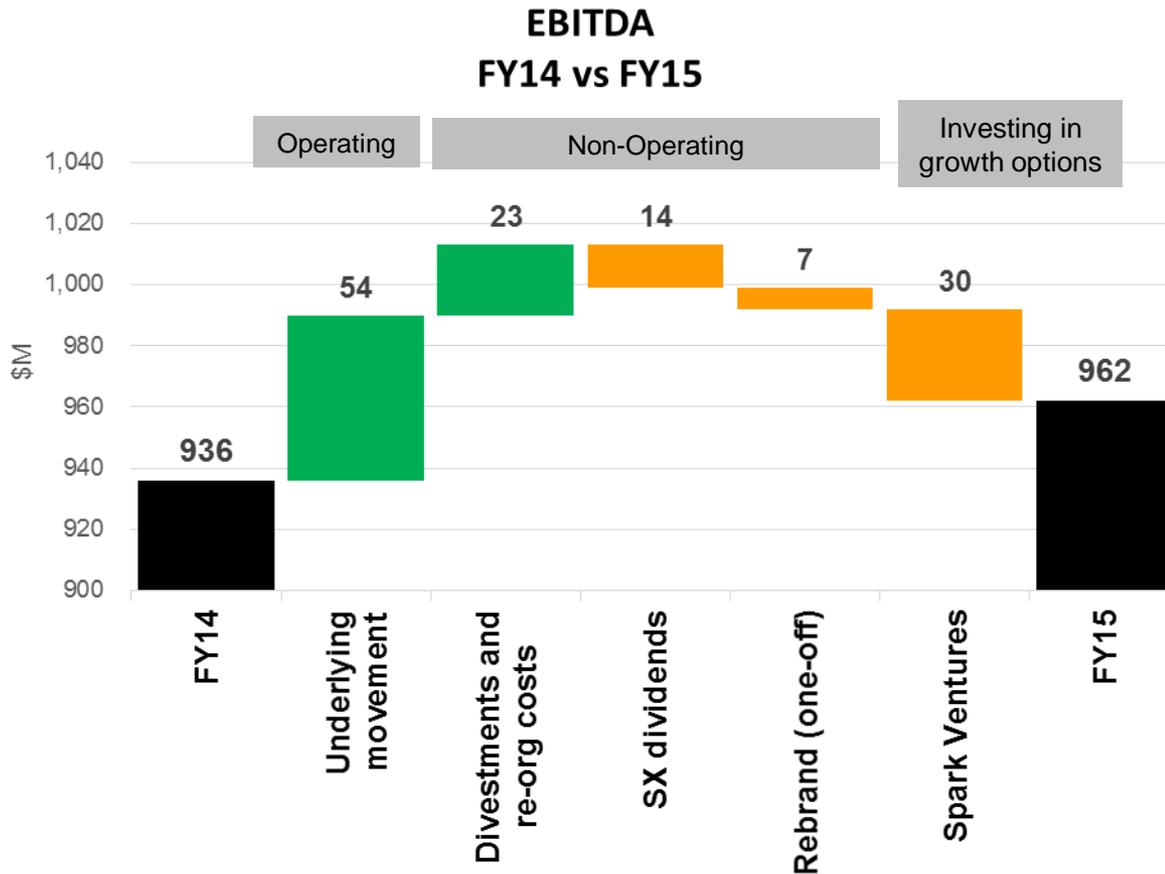
<b>Reported Results</b>	<b>FY15 \$M</b>	<b>FY14 \$M</b>	<b>CHANGE %</b>
Revenues	3,531	3,638	(2.9%)
Operating expenses <sup>(1)</sup>	2,569	2,702	(4.9%)
EBITDA from continuing operations	962	936	2.8%
Depreciation & amortisation	453	451	0.4%
Net finance expenses	27	31	(12.9%)
Income tax expense	107	131	(18.3%)
Net earnings from continuing operations	375	323	16.1%
Net earnings from discontinued operation	-	137	NM <sup>(2)</sup>
Net earnings	375	460	(18.5%)

(1) Includes share of Joint Ventures

(2) NM = Not Meaningful comparison

# EBITDA waterfall

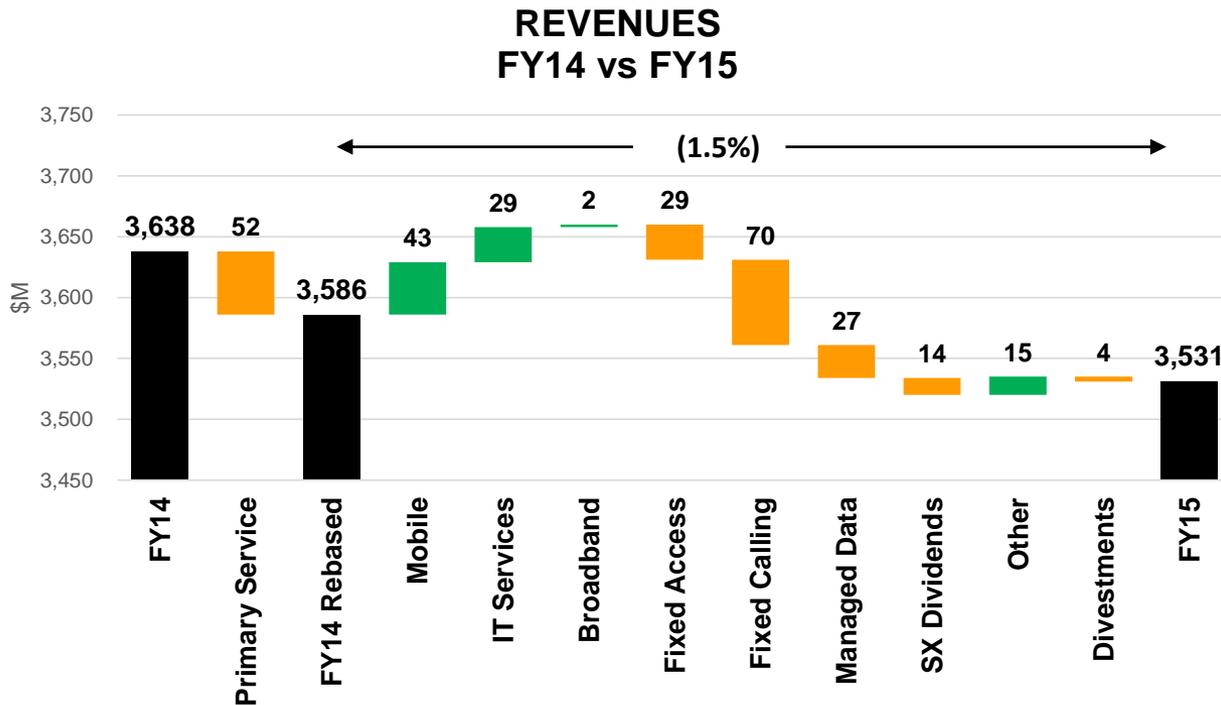
Underlying operating EBITDA improving on solid operational performance



- Underlying operating EBITDA improved on solid operational performance
- Divestments deliver one-off gains but are mostly offset by lower SX dividends and one-off rebrand costs
- Operating EBITDA funding investment in Spark Ventures' growth options

# Revenue waterfall

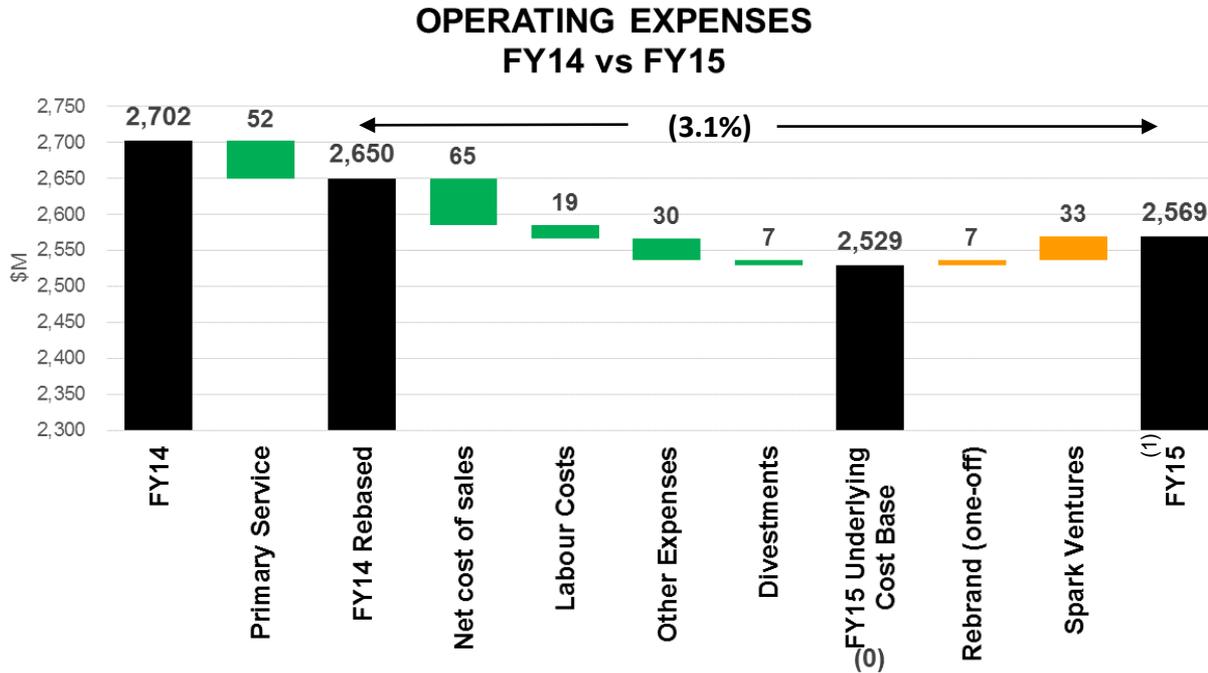
Revenue rate of decline slowing as fixed calling is offset by mobile and IT services growth



- \$52m reduction due to primary service regulatory changes (nil impact on margin)
- Strong growth in Mobile and IT Services
- Broadband revenue stabilised
- Access and calling revenue decline continues
- Managed data down due to competitive pricing pressure
- An increase in net gains on disposals reflected in Other revenues

# Operating Expenses waterfall

Productivity improvements funding growth



- \$52m reduction due to primary service regulatory changes (nil impact on margin)
- Cost of sales declined as UBA prices fell
- Labour efficiencies driven by H1 FY15 re-organisation offset by growth in IT Services and insourcing of Alcatel Lucent network operations contract
- Productivity benefits delivered under Turnaround Programme
- Investment in Rebrand and Spark Ventures growth options

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

# Spark Home, Mobile & Business

Excellent performance in market flowing to sustained revenue and EBITDA growth

	FY15 \$M	CHANGE %	H2 FY15 \$M	CHANGE %
Revenues	1,847	3.0%	935	4.7%
Fixed <sup>(1)</sup>	998	(2.4%)	497	(2.0%)
Mobile	807	8.5%	416	11.8%
IT Services & Other	42	55.6%	22	57.1%
Costs <sup>(2)</sup>	(1,125)	1.4%	(544)	1.5%
EBITDA	722	5.4%	391	9.5%

**NB: Results include Spark Ventures**

- Revenue and EBITDA growth, with increasing momentum in H2 FY15
- Excellent performance in Mobile with revenue up 8.5% and service revenue up 5.4%
- Post-paid Mobile plan refresh driving upgrades
- Broadband revenue growth achieved in H2 FY15, driven by a focus on higher value plans, albeit offset by unprofitable competitive pricing of lower end plans
- Appserv contributing IT Services revenue growth
- Lightbox now established as a quality product with engaged customers
- Costs reflect Turnaround efficiencies and impact of change in UBA input charges, offset by investment in Spark Ventures' growth options

<sup>(1)</sup> Broadband revenues exclude the impact of 1 Feb price increase

<sup>(2)</sup> Includes share of Joint Ventures

# Spark Digital

**Repositioning work completed, now focused on operational effectiveness and high-quality deal-flow to stabilise earnings in FY16**

	FY15 \$M	CHANGE %	H2 FY15 \$M	CHANGE %
Revenues	1,215	(5.7%)	593	(8.1%)
Fixed	400	(11.3%)	189	(14.9%)
Mobile	200	(9.5%)	93	(12.3%)
IT Services <sup>(1)</sup>	345	7.8%	180	11.8%
IT Procurement & Other	270	(8.8%)	131	(16.0%)
Costs	(841)	(5.4%)	(401)	(8.7%)
EBITDA	374	(6.3%)	192	(6.8%)

- Impact of repositioning, contract re-negotiations and market pressure evident in FY15 result
- H2 FY15 fixed revenues impacted by exit of Gen-i Australia
- Business now repositioned to focus on platform-centric telecommunications and IT Services growth
- Good growth achieved in core IT Services revenue, with low margin procurement revenues falling
- Sales pipeline healthy with large corporate and enterprise wins transitioning in over next six months
- Managed data and mobile performance key to improving revenue trajectory in FY16
- Major work underway on customer delivery performance and operating cost

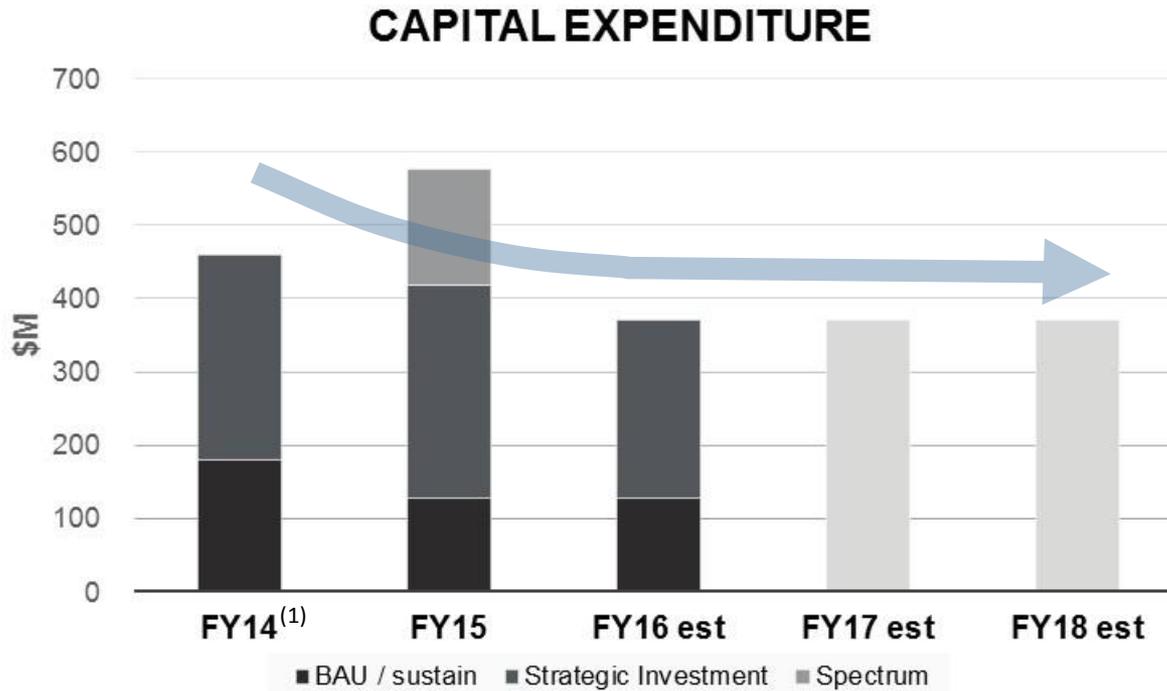
(1) Excludes IT procurement revenue

# Spark Ventures model creating options

Built and now returned to Spark core	In market and generating revenue	In fast start-up phase
  	   	 

- Spark Ventures model now proven
- Lessons learnt along the way
- Digital services design and agile development capability a real asset for the company

# Capital Expenditure now at target levels



- H2 FY15 Capex of \$169m included strategic investments in Single RAN and Re-engineering
- FY15 Capex (excl spectrum) to sales ratio of 11.8%

- Targeting sustainable long term Capex of below \$400m per annum
- Over time capital investment will be rebalanced from IT Re-engineering to other strategic programmes that deliver the best data network and digital services capability
- New Digital First Programme to be managed within this envelope

<sup>(1)</sup> Excludes \$35m of Capex relating to AAPT discontinued operations

# We said our FY15 performance should be measured by:

Measure	Progress
A winning culture which is inspired by customers, performance driven and highly competitive	Delivered
Spark brands programme driving greater brand differentiation, leadership, cut through and preference in key markets	Delivered
Successful deployment of 4G using 700 MHz spectrum supporting mobile market revenue share growth of 1.0 - 1.5pp <sup>(1)</sup>	Delivered with 2% growth
Broadband revenue market share maintained	Maintained in high value, declined in low value
High single digit revenue growth from networked ICT (including Cloud)	Delivered
Successful introduction of Lightbox, with 70k paying subscribers by 30 June 2015	Surpassed
Deliver Release two of the re-engineered IT system	Delivered
Complete the Turnaround Programme and embed the methodologies into business as usual	Delivered
Return to EBITDA and net profit growth	Delivered for continuing operations

<sup>(1)</sup> Percentage Point estimate vs June 2014

# Materially increasing shareholder returns

## Principles

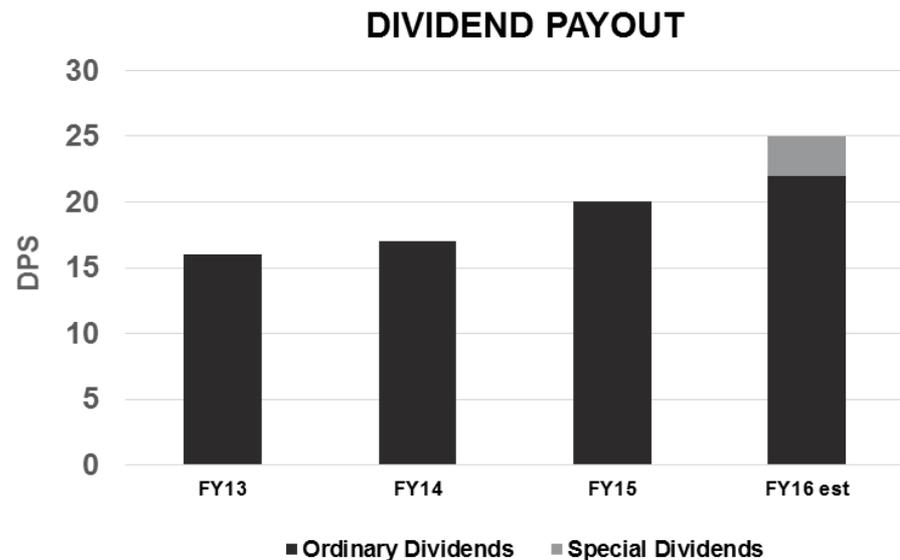
- Remain committed to conservative capital structure and single 'A Band' Credit Rating from S&P
- Preferred method of shareholder distributions is to sustainably grow ordinary dividends over time in line with earnings growth
- On-market share buybacks and special dividends used as appropriate to reset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

## On-market share buyback

- Intention to return proceeds from asset divestments via an on-market share buyback of up to \$100m during 2015 calendar year - 30.6% complete at 30 June 2015

## Dividends

- H2 FY15 dividend 11 cps, fully imputed. FY15 full year dividend 20 cps
- Anticipate FY16 ordinary dividend of 22 cps and special dividend of 3 cps (subject to no material adverse change in operating outlook). Imputation expected to be at least 75%
- FY16 dividend forecast up 25%
- DRP suspended



# Bold strategic plan strengthened for next phase

In May 2013 we set out a bold strategy to shift from a traditional fixed and mobile infrastructure company to a future-oriented, competitive provider of communication, entertainment and IT services delivered over our networks and the cloud. We're now shifting to the next phase with even greater emphasis on customer experience and digital self-service.



# Digital First Programme established

Being world class at digital services will allow us to win with our customers, our people and our shareholders

1

## Loyal customers

Deliver innovative, differentiated and convenient customer experiences

Deliver them mobile and digital first focussing on rich low friction experiences

2

## Outperform the market and our competitors

Move first and fast to a lean and agile operating model that delivers a step change in competitiveness

Profitably lead the market on both value for money and innovation



3

## Attract & grow the best talent

Deliver a creative and open workplace where experimentation is encouraged and the latest digital methodologies and innovations are embraced

Attract, retain and grow the best talent in NZ and future proof our business

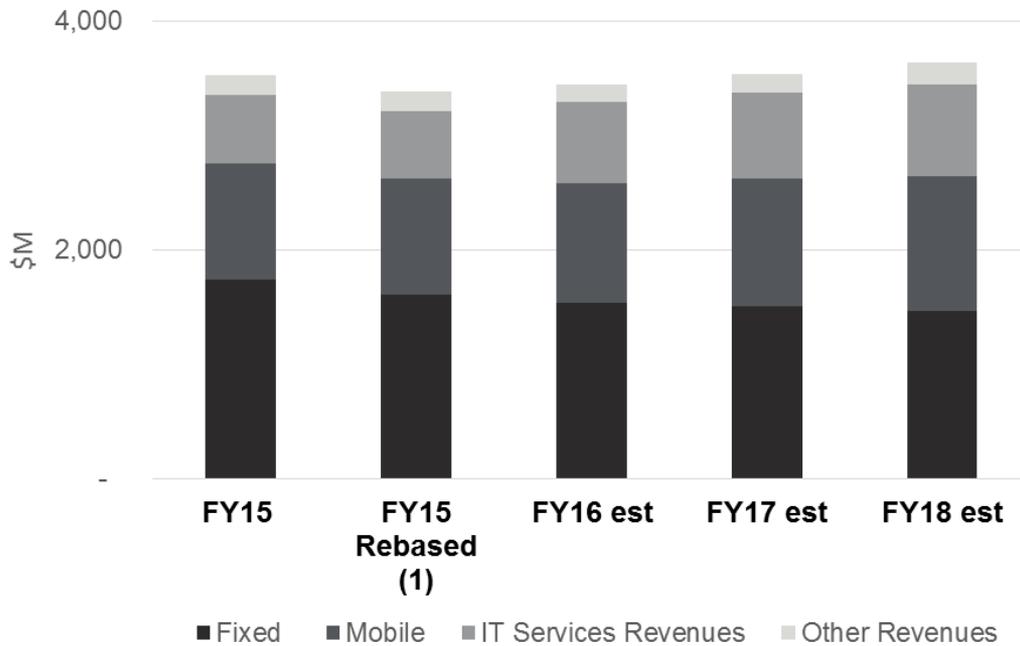
# With a clear plan for each product category

## Our approach within each key category

Category	Goal....	Whilst....	Through
Fixed voice, data and broadband	Optimise margin	Holding market share at low-end and driving uptake of high-end plans	A customer inspired approach, all-of-life provider and best digital experiences
Mobile	Achieve no.1 in revenue share – better brand preference, focus on key markets and optimised channels	Shifting focus from acquisition to monetising market demand by careful pricing management and upselling to higher value plans	Introducing products that grow engagement and data usage such as Lightbox, Spotify, Morepork, Putti, Spark Digital apps
IT services	Reset toward platform-centric IT and high growth segments like Cloud	Improving IT services' profitability through scalable standardised offerings, a lower cost delivery model and operational leverage	Investing in high growth segments, including Cloud, collaboration and security Focus on developing new business with existing customers and partnerships with global suppliers
New revenue sources	Build, buy or partner new options	Using an iterative agile development process with test and pivot in-market approach	Rapid development of new growth options. Passing back to the core as they mature, failing fast if not successful

# Aiming for modest revenue growth

## AMBITION FOR REVENUE GROWTH FY15 - FY18



### Modest revenue share growth

- Gains in Data (Broadband and Managed Data)
- Gains in Mobile

### Fast-growth segments

- On-demand video (Lightbox)
- Smart Living (Morepork)
- Big Data (Qrious)
- Cloud and Data Centres (Revera)

### Selective M&A

- Consider further bolt-ons

- Core Mobile & IT Services revenues are already on a growth trajectory with broadband stabilising and calling and access becoming a smaller part of the overall revenue mix
- Not intended as earnings guidance

# Productivity improvements will continue

Driven by technology and digital self-service enabling fundamental business change

- **Investments in networks, Re-engineering and Turnaround have laid the foundation**
- **Re-engineering and the Digital First Programme are a catalyst for ongoing productivity improvements**
- **Significant reduction in fixed cost of sales will be offset by volume driven growth in Mobile and IT Services**
- **Further productivity gains between Spark Connect and Spark Digital**
- **Planning for software defined networking and network function virtualisation (SDN & NFV)**

# FY16 Guidance

	<b>FY15 Actuals</b>	<b>FY16 Guidance</b>
<b>Reported EBITDA <sup>(1)</sup></b>	<b>\$962m</b>	<b>0-3% growth</b>
<b>Capex (excl spectrum)</b>	<b>\$418m</b>	<b>around \$380m</b>
<b>DPS <sup>(2)</sup></b>	<b>20 cps fully imputed</b>	<b>Ordinary Div 22 cps <sup>(2)</sup> +Special Div 3 cps At least 75% imputed</b>

(1) EBITDA guidance is relative to FY15 continuing operations and assumes copper broadband input costs based on IPP pricing to 1 Dec 2015 and then 2<sup>nd</sup> draft FPP pricing, with no backdating

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



**Two years ago, we set out our strategy to transform the company, in two clear phases:**

- 1. FY14 & FY15: Stabilise revenue/margin and reduce costs**
- 2. FY16 & beyond: Drive market revenue/margin growth with continuing improvement in unit costs**

**We've executed the first phase of our strategy exactly to plan, and the FY16 outlook confirms we are on track to deliver the Spark New Zealand turnaround story.**

**Note that an Investor Day will be held in October 2015 to provide more detail on the Spark New Zealand strategic roadmap.**

# 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, estimates and information currently available at the time such statements were made.

These forward-looking statements may be identified by words such as '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.

# Appendix 1: Regulated input charges

		FY14	FY15	FY16
			From 1 Dec 2014	From 1 Dec 2015
<b>Prices</b>	UCLL	\$23.52	\$23.52	\$26.74 <sup>(1)</sup>
	UBA	<u>\$21.46</u>	<u>\$10.92</u>	<u>\$11.15</u> <sup>(1)</sup>
		\$44.98	\$34.44	\$37.89 <sup>(1)</sup>
<b>Impact</b>		<ul style="list-style-type: none"> <li>Broadband plan prices lowered and value expanded in anticipation of lower UBA costs</li> </ul>	<ul style="list-style-type: none"> <li>Benefited from lower UBA costs for 7 months</li> <li>Voice and Broadband plan prices raised in February in anticipation of higher input prices from 1<sup>st</sup> draft FPP</li> <li>Commitment to pass benefit of February price increases back to customers if decision to not backdate is confirmed</li> </ul>	<ul style="list-style-type: none"> <li>Based on 2 July 2015 2<sup>nd</sup> draft FPP determination, UCLL and UBA input charges will increase from 1 December 2015, annualised impact \$42 million</li> <li>Impact will be partially offset by FY15 price rise</li> </ul>

<sup>(1)</sup> Based on Further Draft FPP determination at 2 July 2015

# Spark New Zealand

## Group result - continuing operations

	H1 FY13	H2 FY13	H1 FY14	H2 FY14	H1 FY15	H2 FY15
	\$m	\$m	\$m	\$m	\$m	\$m
Adjusted operating revenues and other gains	1,905	1,830	1,847	1,791	1,797	1,734
Adjusted operating expenses	1,425	1,335	1,395	1,307	1,361	1,205
Share of associates' and joint ventures' net (losses)	-	-	-	-	-	(3)
<b>Adjusted EBITDA</b>	<b>480</b>	<b>495</b>	<b>452</b>	<b>484</b>	<b>436</b>	<b>526</b>
Depreciation and amortisation expense	228	231	227	224	224	229
Net finance expense	22	20	17	14	12	15
Adjusted tax expense	62	62	61	70	53	54
<b>Adjusted net earnings after tax</b>	<b>168</b>	<b>182</b>	<b>147</b>	<b>176</b>	<b>147</b>	<b>228</b>

## EBITDA by business unit

	H1 FY13	H2 FY13	H1 FY14	H2 FY14	H1 FY15	H2 FY15
	\$m	\$m	\$m	\$m	\$m	\$m
<b>EBITDA</b>						
Spark Home, Mobile & Business	348	352	328	357	331	391
Spark Digital	202	200	193	206	182	192
Spark Connect	(67)	(47)	(64)	(46)	(60)	(53)
Corporate	(3)	(10)	(5)	(33)	(17)	(4)
	<b>480</b>	<b>495</b>	<b>452</b>	<b>484</b>	<b>436</b>	<b>526</b>

## Connections

Mobile connections (000)	1,723	1,815	1,923	2,006	2,114	2,178
Local service connections (000)	1,459	1,421	1,399	1,374	1,350	1,319
Broadband connections (000)	631	649	661	669	674	680

# Spark New Zealand

## Operating revenues and other gains by business unit

	H1 FY13	H2 FY13	H1 FY14	H2 FY14	H1 FY15	H2 FY15
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Operating revenues and other gains</b>						
Spark Home, Mobile & Business	904	877	901	893	912	935
Spark Digital	663	644	643	645	622	593
Spark Connect	339	312	294	280	267	191
Corporate	53	62	67	44	51	70
Eliminations	(54)	(65)	(58)	(71)	(55)	(55)
	<b>1,905</b>	<b>1,830</b>	<b>1,847</b>	<b>1,791</b>	<b>1,797</b>	<b>1,734</b>

## Group operating revenues and other gains by type - continuing operations

	H1 FY13	H2 FY13	H1 FY14	H2 FY14	H1 FY15	H2 FY15
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Operating revenues</b>						
Fixed revenue						
Access	419	410	399	394	378	334
Voice/Calling	327	285	272	250	241	209
Broadband	177	169	166	168	167	169
Managed data	126	122	117	118	110	98
Other fixed revenue	18	14	15	16	17	15
	<b>1,067</b>	<b>1,000</b>	<b>969</b>	<b>946</b>	<b>913</b>	<b>825</b>
Mobile revenue						
Service revenue	360	364	366	369	367	376
Other mobile revenue	105	92	126	115	137	139
	<b>465</b>	<b>456</b>	<b>492</b>	<b>484</b>	<b>504</b>	<b>515</b>
IT services	269	261	276	285	295	297
Other operating revenue	88	101	102	74	85	65
<b>Total operating revenues</b>	<b>1,889</b>	<b>1,818</b>	<b>1,839</b>	<b>1,789</b>	<b>1,797</b>	<b>1,702</b>
Other gains	16	12	8	2	-	32
<b>Total adjusted operating revenues and other gains</b>	<b>1,905</b>	<b>1,830</b>	<b>1,847</b>	<b>1,791</b>	<b>1,797</b>	<b>1,734</b>

# Spark New Zealand

## Impact of UBA as primary service and divestments

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. The revenue impact of UBA as a primary service has an equal offsetting effect on operating expenses.

### UBA as Primary Service:

	H1 FY13	H2 FY13	H1 FY14	H2 FY14	H1 FY15	H2 FY15
	\$m	\$m	\$m	\$m	\$m	\$m
Fixed revenue	47	45	44	43	35	-

### Divestments:

	H1 FY13	H2 FY13	H1 FY14	H2 FY14	H1 FY15	H2 FY15
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Operating revenues</b>						
Fixed revenue	63	46	56	41	57	38
IT services	1	2	1	-	1	2
Other operating revenue	10	9	10	9	13	2
	74	57	67	50	71	42

# Spark New Zealand

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

	H1 FY13	H2 FY13	H1 FY14	H2 FY14	H1 FY15	H2 FY15
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Adjusted operating revenues and other gains</b>						
Fixed	547	530	516	507	501	497
Mobile	340	334	372	372	391	416
IT services	1	1	1	1	5	6
Other operating revenue	15	12	12	13	13	15
Internal revenue	1	-	-	-	2	1
	904	877	901	893	912	935
<b>Adjusted operating expenses</b>						
Labour	61	53	56	56	62	59
Other operating expenses	478	453	501	462	500	463
Internal expenses	17	19	16	18	19	18
	556	525	573	536	581	540
Share of associates' and joint ventures' net (losses)	-	-	-	-	-	(4)
<b>Adjusted EBITDA</b>	<b>348</b>	<b>352</b>	<b>328</b>	<b>357</b>	<b>331</b>	<b>391</b>

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

	H1 FY13	H2 FY13	H1 FY14	H2 FY14	H1 FY15	H2 FY15
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Fixed revenue by type</b>						
Access	245	248	247	247	245	242
Voice/Calling	143	130	119	110	103	97
Broadband	149	142	141	143	145	150
Managed data	1	1	-	-	-	-
Other fixed revenue	9	9	9	7	8	8
	547	530	516	507	501	497
<b>Access and Broadband revenues by customer type</b>						
Broadband customers	284	288	293	300	302	307
Voice only customers	110	102	95	90	88	85
<b>Local service</b>						
Broadband connections (000)	612	630	640	648	653	659
Voice only connections (000)	337	303	273	246	232	211
Total connections (000)	949	933	913	894	885	870
FTE Permanent	1,615	1,435	1,432	1,429	1,454	1,433
FTE Contractors	138	131	136	155	137	165
FTE Total	1,753	1,566	1,568	1,584	1,591	1,598

# Spark New Zealand

## Financial breakdown by business unit - Spark Digital

	H1 FY13	H2 FY13	H1 FY14	H2 FY14	H1 FY15	H2 FY15
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Adjusted operating revenues and other gains</b>						
Fixed	255	239	229	222	211	189
Mobile	120	116	115	106	107	93
IT services	266	257	273	283	286	288
Other operating revenue	4	4	3	1	3	2
Other gains	-	2	3	-	-	-
Internal revenue	18	26	20	33	15	21
	<b>663</b>	<b>644</b>	<b>643</b>	<b>645</b>	<b>622</b>	<b>593</b>
<b>Adjusted operating expenses</b>						
Labour	146	120	120	113	118	105
Other operating expenses	296	304	310	308	302	280
Internal expenses	19	20	20	18	20	16
	<b>461</b>	<b>444</b>	<b>450</b>	<b>439</b>	<b>440</b>	<b>401</b>
<b>Adjusted EBITDA</b>	<b>202</b>	<b>200</b>	<b>193</b>	<b>206</b>	<b>182</b>	<b>192</b>

## Analysis & KPI's - Spark Digital

	H1 FY13	H2 FY13	H1 FY14	H2 FY14	H1 FY15	H2 FY15
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Fixed revenue by type</b>						
Access	56	52	51	49	45	41
Voice/Calling	83	76	71	67	64	60
Broadband	27	26	25	25	22	19
Managed data	88	85	81	78	77	67
Other fixed revenue	1	-	1	3	3	2
	<b>255</b>	<b>239</b>	<b>229</b>	<b>222</b>	<b>211</b>	<b>189</b>
<b>IT services revenue by type</b>						
IT services revenue	150	143	159	161	165	180
Procurement revenue	116	114	114	122	121	108
	<b>266</b>	<b>257</b>	<b>273</b>	<b>283</b>	<b>286</b>	<b>288</b>
<b>Local service</b>						
Total connections (000)	68	67	72	71	69	67
Broadband connections (000)	19	19	21	21	21	21
FTE Permanent	2,280	1,977	1,869	1,852	1,799	1,705
FTE Contractors	114	89	163	174	126	91
FTE Total	<b>2,394</b>	<b>2,066</b>	<b>2,032</b>	<b>2,026</b>	<b>1,925</b>	<b>1,796</b>

# Spark New Zealand

## Financial breakdown by business unit - Spark Connect

	H1 FY13	H2 FY13	H1 FY14	H2 FY14	H1 FY15	H2 FY15
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Adjusted operating revenues and other gains</b>						
Fixed	265	231	224	217	201	139
Mobile	5	6	5	6	6	6
IT services	1	1	1	1	3	1
Other operating revenue	47	43	40	31	33	22
Other gains	-	5	-	-	-	-
Internal revenue	21	26	24	25	24	23
	<b>339</b>	<b>312</b>	<b>294</b>	<b>280</b>	<b>267</b>	<b>191</b>
<b>Adjusted operating expenses</b>						
Labour	81	60	70	66	72	62
Other operating expenses	319	295	283	255	249	179
Internal expenses	6	4	5	5	6	4
	<b>406</b>	<b>359</b>	<b>358</b>	<b>326</b>	<b>327</b>	<b>245</b>
Share of associates' and joint ventures' net profits	-	-	-	-	-	1
<b>Adjusted EBITDA</b>	<b>(67)</b>	<b>(47)</b>	<b>(64)</b>	<b>(46)</b>	<b>(60)</b>	<b>(53)</b>

## Analysis & KPI's - Spark Connect

	H1 FY13	H2 FY13	H1 FY14	H2 FY14	H1 FY15	H2 FY15
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Fixed revenue by type</b>						
Access	118	110	101	98	88	51
Voice/Calling	101	79	82	73	74	52
Broadband	1	1	-	-	-	-
Managed data	37	36	36	40	33	31
Other fixed revenue	8	5	5	6	6	5
	<b>265</b>	<b>231</b>	<b>224</b>	<b>217</b>	<b>201</b>	<b>139</b>
<b>Analysis of international transits</b>						
International transit revenue	71	55	64	48	64	42
International intercarrier costs	55	43	54	41	56	37
<b>Local service</b>						
Total connections (000)	442	421	414	409	396	382
FTE Permanent	2,064	1,825	1,856	1,711	1,870	1,503
FTE Contractors	138	152	119	57	53	41
FTE Total	<b>2,202</b>	<b>1,977</b>	<b>1,975</b>	<b>1,768</b>	<b>1,923</b>	<b>1,544</b>

# Spark New Zealand

## Financial breakdown by business unit - Corporate

	H1 FY13	H2 FY13	H1 FY14	H2 FY14	H1 FY15	H2 FY15
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Adjusted operating revenues and other gains</b>						
IT services	1	2	1	-	1	2
Other operating revenue	22	42	47	29	36	26
Other gains	16	5	5	2	-	32
Internal revenue	14	13	14	13	14	10
	53	62	67	44	51	70
<b>Adjusted operating expenses</b>						
Labour	33	23	20	29	19	21
Other operating expenses	11	27	35	18	39	36
Internal expenses	12	22	17	30	10	17
	56	72	72	77	68	74
<b>Adjusted EBITDA</b>	<b>(3)</b>	<b>(10)</b>	<b>(5)</b>	<b>(33)</b>	<b>(17)</b>	<b>(4)</b>

## Analysis & KPI's - Corporate

Southern cross dividends - \$m	19	37	43	24	31	22
FTE Permanent	428	275	185	180	174	151
FTE Contractors	12	18	9	7	5	3
FTE Total	440	293	194	187	179	154

# Spark New Zealand

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

	H1 FY13	H2 FY13	H1 FY14	H2 FY14	H1 FY15	H2 FY15
<b>Mobile revenue</b>						
Service revenue - \$m	355	358	361	363	361	371
Other mobile revenue <sup>1</sup> - \$m	105	92	126	115	137	138
	460	450	487	478	498	509
<b>Average revenue per user (ARPU) - 6 month active</b>						
ARPU - \$ per month	33.75	33.55	32.78	30.10	29.77	28.61
Post-paid - \$ per month	56.43	54.84	52.79	50.08	48.56	46.94
Prepaid - \$ per month	11.32	11.92	11.90	11.39	11.57	11.39
<b>Number of mobile connections at period end - 6 month active</b>						
Post-paid (000)	863	908	948	979	1,018	1,045
Prepaid (000)	847	895	967	1,021	1,092	1,129
Internal post-paid (000)	13	12	8	6	4	4
Total mobile connections <sup>2</sup> (000)	1,723	1,815	1,923	2,006	2,114	2,178

<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 summary - continuing operations

	H1 FY13	H2 FY13	H1 FY14	H2 FY14	H1 FY15	H2 FY15
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Payments to telecommunications operators</b>						
Baseband and access charges	245	236	231	218	205	169
Other intercarrier costs	117	106	111	101	97	73
Broadband cost of sales	121	127	133	138	140	114
Field services	25	14	17	6	11	8
	<u>508</u>	<u>483</u>	<u>492</u>	<u>463</u>	<u>453</u>	<u>364</u>
<b>Mobile acquisition, procurement and IT services</b>						
Mobile cost of sales	175	163	193	173	204	194
IT services cost of sales	156	163	161	174	164	160
	<u>331</u>	<u>326</u>	<u>354</u>	<u>347</u>	<u>368</u>	<u>354</u>
Labour	321	256	266	264	271	247
<b>Other operating expenses</b>						
Direct network costs	42	27	44	30	31	18
Computer costs	39	35	38	33	37	39
Accommodation and co-location	51	57	43	46	48	44
Advertising, promotions and communication	39	32	44	25	46	32
Bad debts	6	8	16	6	7	6
Other	88	111	98	93	100	101
	<u>265</u>	<u>270</u>	<u>283</u>	<u>233</u>	<u>269</u>	<u>240</u>
<b>Total operating expenses</b>	<b><u>1,425</u></b>	<b><u>1,335</u></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>

## Group FTE's - continuing operations

FTE Permanent	6,387	5,512	5,342	5,172	5,297	4,792
FTE Contractors	402	390	427	393	321	300
FTE Total	<u>6,789</u>	<u>5,902</u>	<u>5,769</u>	<u>5,565</u>	<u>5,618</u>	<u>5,092</u>

# Spark New Zealand

## Group capital expenditure summary

	H1 FY13	H2 FY13	H1 FY14	H2 FY14	H1 FY15	H2 FY15
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Major programmes</b>						
Optical transport network and carrier ethernet	14	19	22	5	6	10
Re-engineering	8	17	44	31	29	43
Mobile network	29	55	89	41	57	35
Takanini data centre	-	-	-	-	61	-
	51	91	155	77	153	88
<b>Operating capital expenditure</b>						
Southern Cross	11	-	10	11	5	-
Customer growth and retention	109	105	101	105	91	81
	120	105	111	116	96	81
<b>Total relating to major programmes and operating expenditure</b>	<b>171</b>	<b>196</b>	<b>266</b>	<b>193</b>	<b>249</b>	<b>169</b>
Mobile spectrum	54	-	-	-	158	-
<b>Total capital expenditure from continuing operations</b>	<b>225</b>	<b>196</b>	<b>266</b>	<b>193</b>	<b>407</b>	<b>169</b>
Discontinued operation - AAPT	21	23	27	8	-	-
<b>Total capital expenditure</b>	<b>246</b>	<b>219</b>	<b>293</b>	<b>201</b>	<b>407</b>	<b>169</b>

Capital expenditure is presented on an accruals basis.