Spark New Zealand FY18 Results Summary.

SIMON MOUTTER, MANAGING DIRECTOR
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Overall Performance

Financial Summary

Financial performance on plan with ongoing implementation of Quantum programme driving significant underlying benefits

- Reported EBITDA of $989m was at the upper end of guidance albeit down $27m (2.7%) on prior year due to Quantum programme implementation costs of $49m. Adjusted EBITDA of $1,038m, excluding Quantum implementation costs, was up $22m (2.2%) on prior year as a result of ongoing revenue growth across mobile, cloud, security and service management and reductions in net labour costs.
- Ongoing implementation of Quantum programme[1] resulted in a $37m reduction in net labour costs during FY18. Annualised net labour costs have subsequently reduced from $581m in June 2017 to $499m in June 2018 and are projected to decline further to ~$470m during H1 FY19.
- Reported YoY revenue growth of $35m, or 1.0%, taking revenue to $3,649m; predominantly driven by substantial revenue growth totalling $132m across mobile (up 6.9%) and cloud, security and service management (up 15.1%) partially offset by continuing declines in voice, managed data and networks revenues; down $100m in total. Mobile, cloud, security and service management now deliver over half of Spark's gross margin at 53.4%, up from 50.0% in FY17.
- Reported NPAT down $33m (7.9%) to $385m due to Quantum programme implementation costs. Adjusted NPAT, excluding Quantum implementation costs, was up $2m (0.5%) on prior year due to underlying EBITDA performance; partially offset by $4m (0.9%) increase in depreciation and amortisation due to a shift in capital investment towards newer server based assets, including cloud infrastructure, that have shorter asset lives and $4m (15.4%) increase in finance expenses on higher average net debt.
- Capital expenditure of $413m in line with prior year; achieving planned investment outcomes within targeted capital expenditure of 11%-12% of operating revenues.
- Cash conversion ratio[2] improved to 97% in FY18, up from 88% in FY17, due to ongoing benefits of refreshed working capital policies and favourable timing of restructuring expenses.
- Net debt increased by $184m during FY18 due to business acquisitions, top-up of dividends, continued mobile device receivable growth and timing of tax payments. Rate of net debt growth is expected to slow during FY19.
- H2 FY18 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.

$35m
+1.0%

Reported Revenue movement
vs. FY17

($27m)
- 2.7%

Reported EBITDA movement
vs. FY17

($33m)
- 7.9%

Reported NPAT movement
vs. FY17

[1] Page 14 of this document provides further detail on Quantum implementation costs and associated benefits
[2] Calculated as operating cash-flow (excluding tax and interest) divided by EBITDA (excluding impairments, net gains from divestments and share of associate and joint venture net losses)

Key Areas of Focus

Material progress made against our three key areas of focus; remain on track to achieve aspirations outlined at June 2017 Investor Day

Emphasis on Wireless

- Total mobile ARPU growth of 1.2%; driven by introduction of unlimited consumer mobile plan.
- More than 50% of broadband customers now on new broadband technologies with 116k customers connected to wireless broadband; generating $29m of YoY access cost reductions in FY18 and $51m of associated annualised benefits. Demonstrates solid progress towards our ambition to be mostly ex copper by 2020.
- 4.5G already live in 31 locations, further expanding network speed and capacity and making wireless broadband available to thousands more households.

Better serving price sensitive customers

- Skinny and Bigpipe sub-brands continue to resonate with price sensitive customers; delivering the majority of Spark's FY18 total broadband connection growth of 13k. Skinny and Bigpipe now account for 5% of Spark's total broadband base - up from 2% in June 2016.
- Skinny brand repositioned itself in the market with a new, more mature but still light-hearted brand campaign, reflecting Skinny's dual commitment to low prices and customer satisfaction.

Lowest cost operator

- Quantum programme successfully accelerated to realise financial benefits earlier; finishing the year with annualised net labour costs of $499m, down $82m (14.1%) from $581m in June 2017. Annualised net labour costs projected to decline further during H1 FY19 to ~$470m as benefits from programme acceleration are realised; bringing total expected annualised net labour benefits to ~$110m
- Ongoing implementation of simplification, automation and digitisation initiatives resulting in further improvement in customer experience and service costs; delivering an unprecedented 24% decline in HMB customer care voice interactions.
- To drive further service and cost improvement Quantum investment will continue into FY19 however associated implementation costs are expected to be at more typical levels.
- During FY18 Spark became the first large New Zealand business to transition to Agile ways of working at scale with around 40% of our people now transitioned to a full Agile operating model; further unlocking improved customer centricity, speed to market, and more empowered, engaged and productive people.

$51m

Wireless Broadband Migration
annualised gross reduction in access costs

~$110m

Quantum Programme
annualised net reduction in labour costs

41.5%
- 0.7 pp

Market Share of Broadband Connections [1] [2]
vs. FY17

38.9%
+0.9 pp

Market Share of Mobile Service Revenues [1]
vs. FY17

[1] Independent market share estimate
[2] Includes wireless broadband connections

Overall Performance

Financials

	FY18 $m	FY17 $m	CHANGE
Revenues	3,649	3,614	1.0%
Operating expenses[(1)]	(2,660)	(2,598)	2.4%
Reported EBITDA	**989**	**1,016**	**(2.7%)**
Depreciation and amortisation	(434)	(430)	0.9%
Net finance expenses	(30)	(26)	15.4%
Reported net earnings before income tax	**525**	**560**	**(6.3%)**
Income tax expense	(140)	(142)	(1.4%)
Reported net earnings after income tax	**385**	**418**	**(7.9%)**
Adjusted EBITDA[(2)]	**1,038**	**1,016**	**2.2%**
Adjusted net earnings after income tax[(3)]	**420**	**418**	**0.5%**
Capital expenditure	413	415	(0.5%)
Reported notional free cash flow[(4)]	576	601	(4.2%)
Reported EBITDA margin	27.1%	28.1%	(1.0pp)
Adjusted EBITDA margin	28.4%	28.1%	0.3pp
Reported effective tax rate	26.7%	25.4%	1.3pp
Capital expenditure to operating revenues	11.3%	11.5%	(0.2pp)
Reported Earnings per Share	21.0c	22.8c	(7.9%)
Adjusted Earnings per Share	22.9c	22.8c	0.4%
Total Dividend per Share	25.0c	25.0c	-

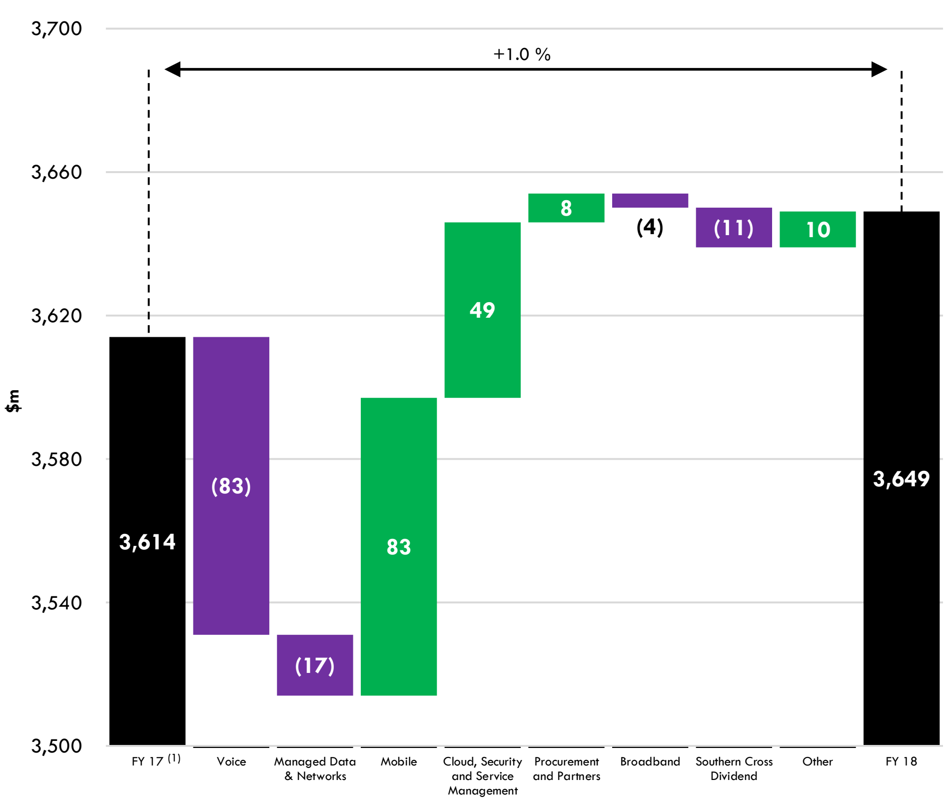
[(1)] FY17 and FY18 include share of associate and joint venture net losses. FY18 also includes Quantum implementation costs of $49m
[(2)] Adjusted FY18 EBITDA calculated as: reported EBITDA of $989m adjusted to exclude Quantum implementation costs of $49m
[(3)] Adjusted FY18 net earnings after tax calculated as: reported net earnings after tax adjusted to exclude Quantum implementation costs of $49m *less* tax effect on implementation costs of $14m
[(4)] Reported notional free cash flow calculated as: reported EBITDA less capital expenditure

Overall Performance

Revenue

Mobile, cloud, security and service management revenue growth continues to more than offset ongoing declines in voice, managed data and Southern Cross dividends

Revenues
FY17 vs FY18



Mobile, cloud, security and service management revenues now account for 45.3% of total revenues, an increase of 5.5pp over the past two years

Mobile revenue growth of $83m (6.9%) driven by:

- $36m (4.6%) increase in high margin service revenues on both ARPU and connection growth; and
- $47m (11.3%) increase in other mobile revenue due to customer demand for high-end mobile devices

Cloud, security and service management growth of $49m (15.1%) reflecting customer demand for the flexibility and benefits that cloud based "as a Service" products offer

Accelerated voice revenue decline of $83m (12.7%) driven by:

- Accelerated decline of Wholesale PSTN connections; and
- Reduced calling volumes

Managed data and networks revenue decline of $17m (8.2%) due to:

- Competitive pricing pressure; and
- Ongoing proactive customer migration off traditional managed data products onto new lower priced fibre based alternatives

Consistent with commentary given as part of FY17 results, Southern Cross dividend declined $11m (18.0%) to $50m:

- FY19 Southern Cross dividends are expected to decline significantly, to between $10m and $20m, as the level of pre-purchased capacity from large customers decreases

Other revenue growth includes:

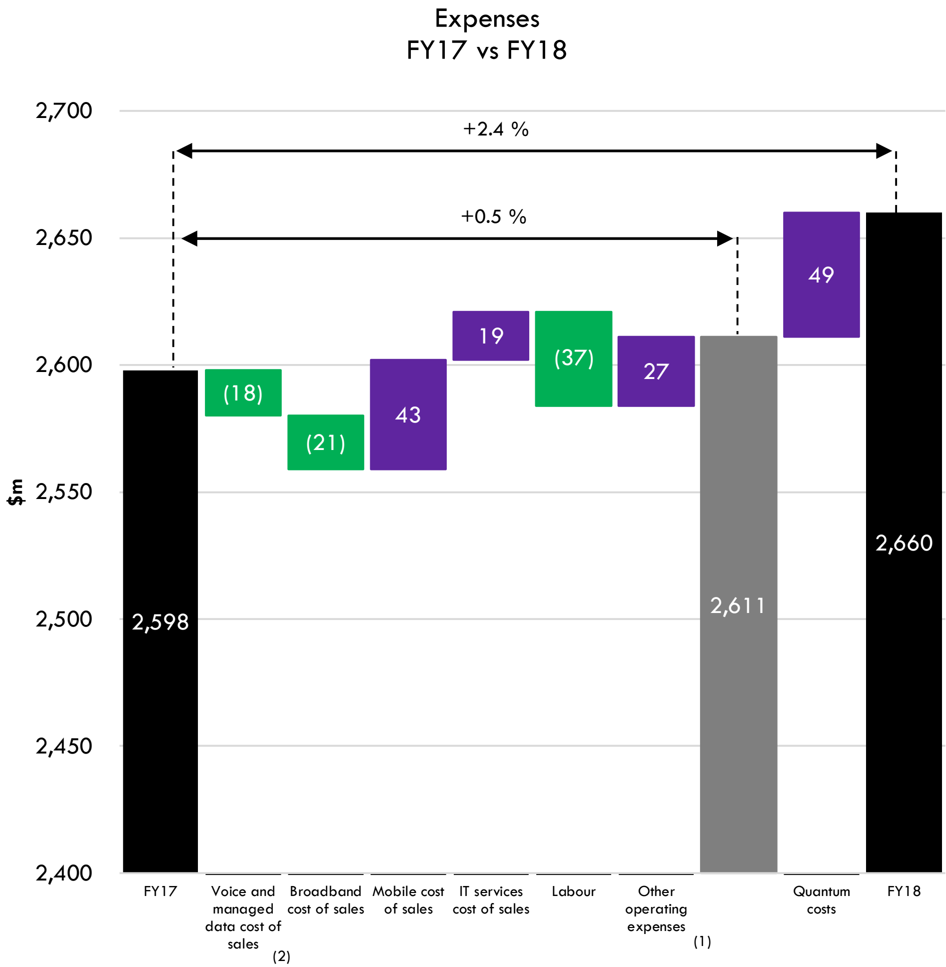
- Ongoing Qrious revenue growth including impact from July 2017 acquisition of Ubiquity;
- $10m gain from sale of 50% of Connect8; partially offset by
- Prior year $20m gain from sale of surplus Mayoral Drive carpark land

(1) Includes $20m net gain from sale of surplus Mayoral Drive carpark land

Overall Performance

Operating Expenses(1)

Cost increases in support of revenue growth and Quantum programme partially offset by Quantum-led reductions in labour cost



$18m or 7.1% decline in voice, managed data and network cost of sales due to further reductions in voice connections; particularly in Wholesale

Broadband cost of sales down $21m (4.8%) on prior year driven by:
- $29m YoY reduction in access costs due to adoption of wireless broadband; partially offset by
- Increases in wholesale access charges for both fibre and copper

Mobile costs of sales increased $43m (9.9%) reflecting:
- Customer demand for higher-end devices; and
- Adoption of value added services

IT services cost of sales increased $19m (4.5%) in support of growth in both higher-margin cloud and security products and low margin, customer demand driven, procurement revenues

Net labour reduction of $37m (6.7%) due to benefits of Quantum programme

Other expenses increased $27m, or 5.4% driven by:
- Higher advertising costs in support of key marketing campaigns and product launches;
- Increased Lightbox platform expenses due to customer base and usage growth; and
- Increased electricity costs due to high spot prices

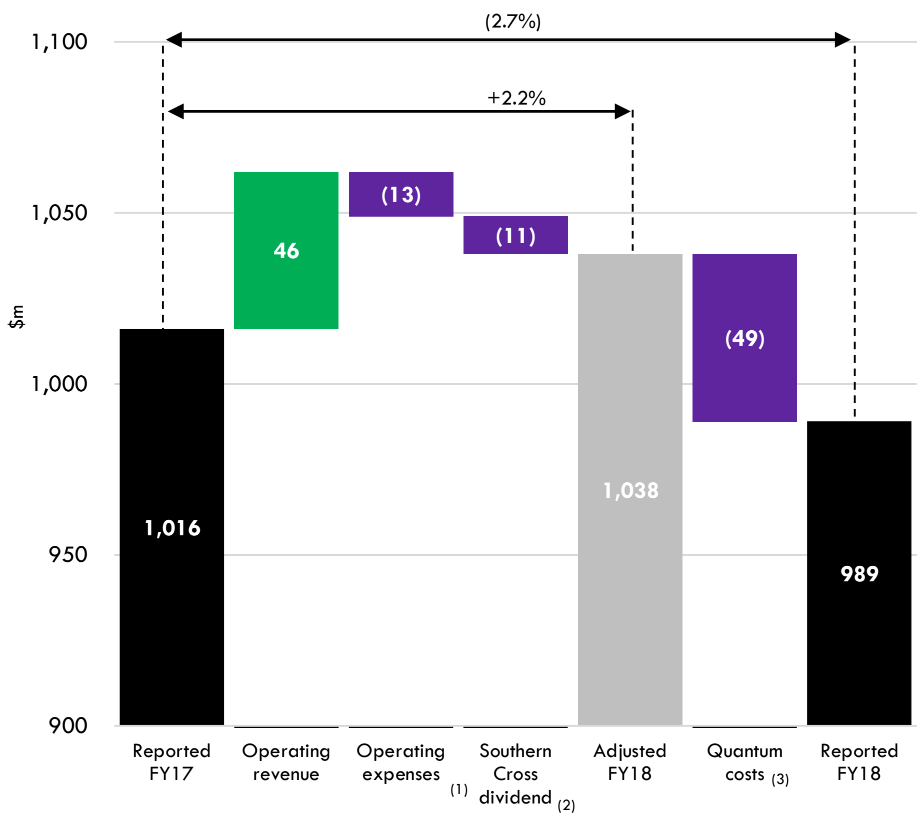
(1) Includes share of associate and joint venture net losses of $4m in FY17 and $3m in FY18
(2) Voice, managed data and network cost of sales include baseband and access charges, field services expenses and other intercarrier costs

Overall Performance

EBITDA

Reported EBITDA down $27m (2.7%) due to implementation costs associated with Quantum programme; partially offset by ongoing revenue growth across mobile, cloud, security and service management and net reductions in labour costs

EBITDA
FY17 vs FY18



Reported EBITDA margin of 27.1% down 1.0% pp on prior year due to:

- $49m of Quantum costs of change in FY18, delivering $42m of gross benefit during FY18 and $132m of annualised gross benefit;
- $11m (18.0%) reduction in Southern Cross dividends; and
- Expenditure in support of key marketing campaigns and product launches and higher electricity costs

Excluding Quantum costs of change, adjusted EBITDA grew $22m (2.2%) to $1,038m

Gross margin improved by $12m (0.6%) due to:

- 5.3% increase in mobile gross margin on both connection and ARPU growth;
- 15.6% increase in cloud, security and service management gross margin due to strong customer demand for "as a Service" products;
- 6.7% improvement in broadband gross margin, despite lower revenues, due to uptake of higher-margin wireless broadband; partially offset by
- Ongoing declines in voice and managed data; and
- Declining Southern Cross dividends

(1) Includes share of associate and joint venture net losses of $4m in FY17 and $3m in FY18
(2) Southern Cross dividends are externally reported within other operating revenue
(3) Quantum implementation costs are externally reported within other operating expenses

Product Performance

Mobile

Only New Zealand mobile provider to grow revenue market share, connections and ARPU during FY18

Total mobile revenue, up $83m (6.9%), accounting for 35.1% of total operating revenues; up 2.7pp on prior year. Growth driven by:

- Pay-monthly connection growth of 70k (6.3%); the highest in at least two years fuelled by successful launch of unlimited consumer mobile plan and increased migration from pre-paid to pay-monthly; and
- ARPU growth across both pre-paid and HMB pay-monthly. Renewed focus on growing pre-paid ARPU, rather than lower value and higher churn connections, resulted in 7.6% growth in pre-paid service revenues despite 12k decline in pre-paid connections

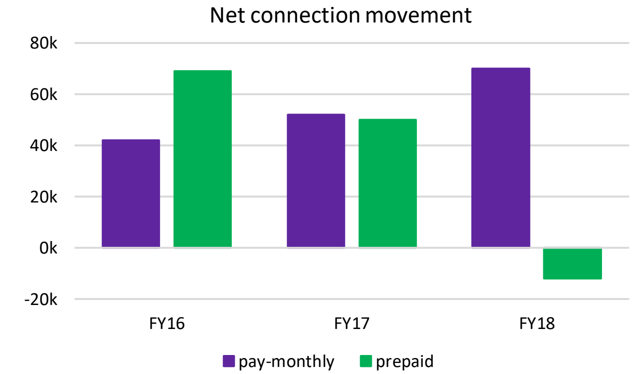
Mobile gross margin[1] up $40m (5.3%) on prior year due to:

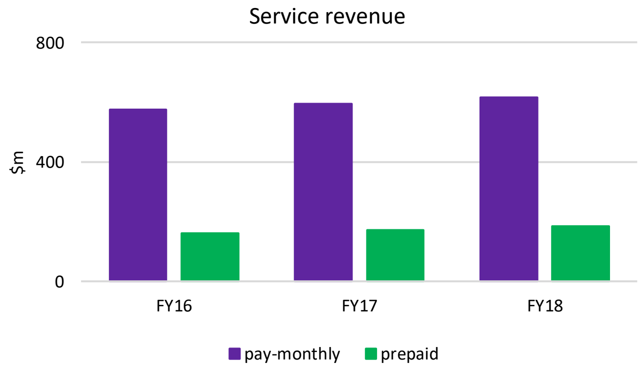
- Mobile services revenue growth of $36m (4.6%) driven by both ARPU and connection growth;
- Ongoing migration away from handset subsidies with 87% of HMB pay-monthly customers now on open term plans - up 2pp on prior year; and
- Skinny ARPU and margin growth as a result of new pre-paid propositions and improved channel performance; including successful withdrawal from The Warehouse Group

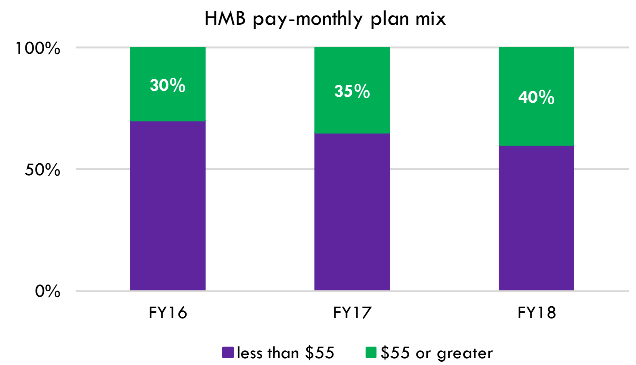
Continuation of ARPU growth; up 1.2% on prior year driven by:

- Total HMB ARPU growth of 3.1% on customer migration to higher value $55+ plans, in particular unlimited mobile; with 40% of HMB pay-monthly base now on a $55 plan or above, up 5pp on prior year.
- Low-cost higher data cap Skinny prepaid offerings leading to significant Skinny prepaid ARPU growth of 13.8% on prior year; partially offset by
- Ongoing Spark Digital ARPU declines due to competitive price pressure

4.5G now live in 31 locations with rollout continuing through FY19 to expand mobile performance and prepare for a 5G future. First 5G production outdoor trial completed and 18Gbps achieved on indoor speed tests; providing us with rich insights into the more intensive data use-cases that will be made possible by this technology.







[1] Mobile gross margin calculated as total mobile revenue *less* mobile cost of sales

Product Performance

Broadband

Market approaching saturation[1]. Benefits of wireless broadband adoption driving 6.7% growth in broadband gross margin[2]. However revenue and margin continue to be squeezed by aggressive acquisition pricing and increases in input costs which are proving difficult to pass through.

Despite market reaching saturation total Spark connections grew for the third consecutive period resulting in highest annual connection growth in two years; connections up 13k or 1.9% during FY18. Skinny and Bigpipe sub-brands resonating with price-sensitive customers; securing majority of total Spark connection growth.

Broadband revenue continues to decline despite connection growth; down $4m (0.6%) on prior year due to:

- Persistent, acquisition focussed, competitive price pressure;
- Further reductions in broadband access revenue as a greater proportion of customers opt for naked broadband services; and
- Migration of customers onto lower-priced, but higher-margin, wireless broadband services

Broadband gross margin up $17m (6.7%) driven by:

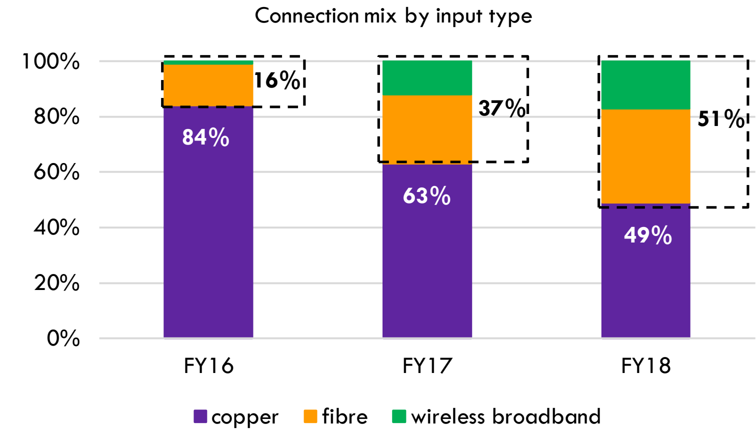
- 116k wireless broadband connections, delivering $29m reduction in broadband access costs during FY18 and associated annualised benefits of $51m; partially offset by
- Fibre-based modem expenses and increases in copper and fibre input costs

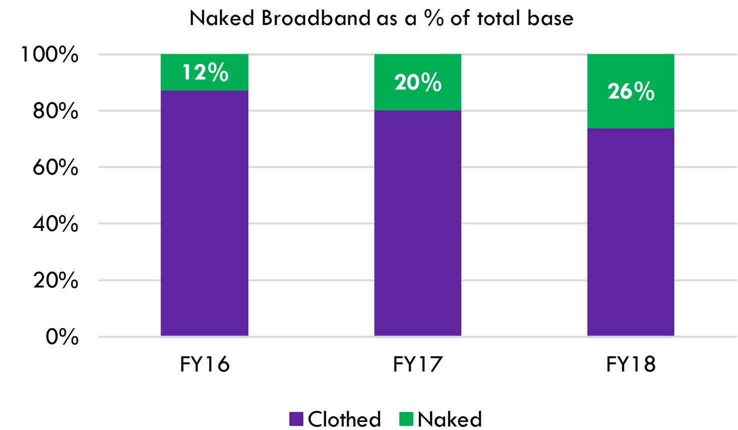
Rate of wireless broadband growth has slowed. Focus now shifting to retention of existing wireless broadband connections and migration of copper voice connections to wireless voice alternative

Despite falling short of both our UFB share of growth and wireless broadband connection aspirations, more than 50% of customers are now off copper and onto newer and more reliable wireless and fibre broadband technologies; supporting our strategic aspiration to be mostly ex-copper by 2020.

Customer demand for data continues to increase; evidenced by:

- Unlimited broadband plans now accounting for 57% of base;
- Average monthly GB usage per customer up 33%[3] on prior year; and
- Customer demand for video content continuing to grow with Lightbox subscriptions up 37% and adoption of other streaming services increasing in line with global trends





[1] Based on independent market growth estimates

[2] Broadband gross margin calculated as broadband revenue less broadband cost of sales

[3] Excludes Skinny, Bigpipe and Digital Island. Average monthly data usage per connection currently 138GB

Cloud, security and service management

Growth in higher-margin products and improvement in service management continues to drive increased gross margin

Topline revenue growth of $49m (15.1%) driven by:

- Customer demand for the benefits and flexibility that cloud-based "as a service" products offer;
- Project workload associated with transition of new customers onto Spark products; and
- Launch of new security products, to capture the growth potential in this market

Gross margin[1] up $41m (15.6%) as a result of:

- Topline revenue growth; coupled with
- Ongoing change in mix, with growth in higher-margin cloud and security products outpacing more labour intensive service management offerings

Significant new customer wins and previous wins now moving into transition creating the pipeline for FY19 revenue growth

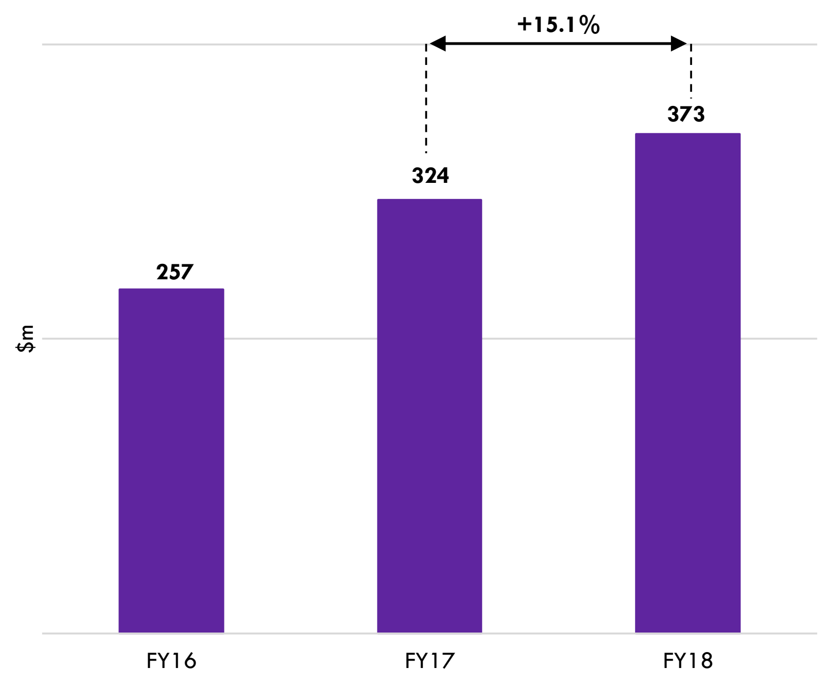
Focus on effective and efficient service management to drive growth in the profitability of our top clients continues

New self-service online capabilities added to Cloud Creator offering customers multi-cloud management features

While security revenue growth of 12.8% was short of aspiration further opportunities exist in FY19 through a focus on:

- Product development for new market segments,
- Attracting skilled resources; and
- Maturing our sales processes

Cloud, security and service management revenue



[1] Cloud, security and service management gross margin is provided in Spark's FY18 Detailed Financials workbook; this excludes associated labour costs to maintain consistency with the calculation of mobile and broadband gross margins.

Product Performance

Voice, Managed Data and Networks

Acceleration in rate of revenue and margin decline due to ongoing substitution of landline voice to other technologies and proactive migration away from traditional managed data products in support of simplification

Total voice, managed data and networks revenue declined by $100m (11.6%) on prior year; versus a $95m (9.9%) decline in FY17

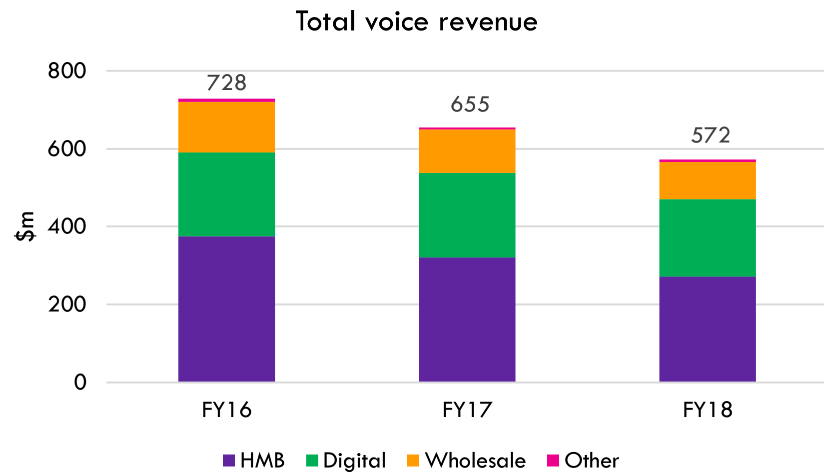
FY18 voice revenue[1] decline of $83m (12.7%) greater than prior period due to:

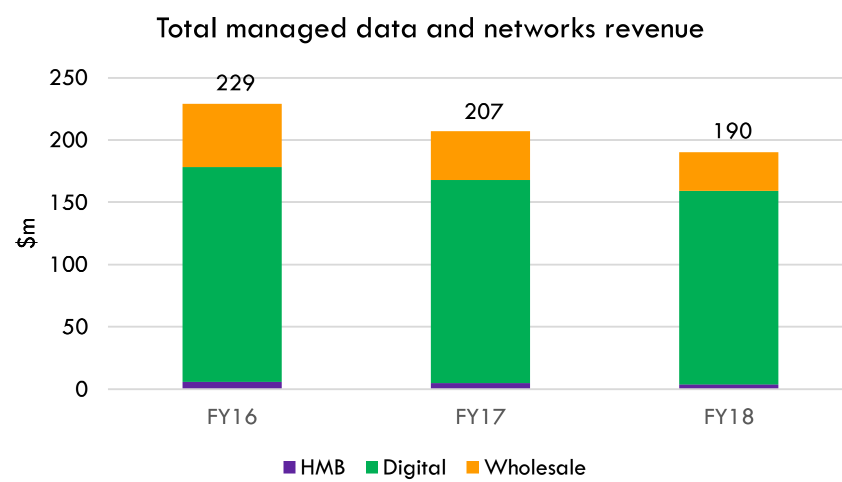
- $48m (16.1%) decrease in landline only[2] revenues due to consistent YoY declines in voice only connections across Spark HMB and Digital and acceleration of connection declines in Spark Wholesale; with a large wholesale customer migrating away from PSTN to an alternative technology during the year; and
- $32m (11.6%) decrease in higher-margin calling revenues due to a 14% YoY decline in total calling minutes

Managed data and networks revenue continues to decline albeit at a slower rate than prior periods. FY18 revenues down $17m (8.2%) driven by:

- Proactive migration of customers off legacy data platforms onto new lower-margin fibre based alternatives in support of core product simplification; and
- Ongoing competitive pricing pressure

Recent launch of new customer support systems for managed data product will create the foundation for improved customer experience and better self-service





[1] Voice revenue includes connections delivered over the mobile network (Voice over LTE)
[2] Landline only revenue includes revenue from ‘voice only’ access plans

Strategy: Progress Update

Quantum

Bold programme of simplification, automation and digitisation delivering material improvement in service experience, employee engagement and cost to serve

Simplification

178,000
Customers migrated onto new fit-for-purpose consumer plans

100's
Successfully removed hundreds of legacy products

1
One unified Cloud portfolio established across Spark

Automation

85%
Common Spark Digital service requests now automated (~3,300 requests per month)

40
Bots automating tasks across the business and proactively solving customer issues

75%
Simple cloud customer requests now automated via self-service portal

108,000
HMB virtual assist chat interactions since launch in December 2017

Digitisation

1,250,000 (24%)
YoY reduction of calls into HMB contact centres

77%
YoY Increase in HMB chat interactions

20%
Increase in organisations using MySparkDigital

840,000
Spark App users completing ~340,000 self-service interactions per month

6,000+
Business customers using "walk me" self-service tutorials

NPS

+9pts
Increase in employee NPS in the year

+15pts
Increase in Spark Digital relationship NPS in the year

+6pts
Increase in consumer and small business market NPS in the year

Strategy: Progress Update

Quantum: Agile Ways of Working

First large New Zealand business to transition to Agile ways of working at scale with around 40% of our people now transitioned to a full Agile operating model

It's early days yet as Spark's scale Agile operating model has only been fully formed and active for several weeks, but we are seeing promising progress across all three areas of expected benefit

Customer Centricity

- All Agile squads trained in customer experience frameworks and tools
- Hundreds of customers have been hosted in our customer experience lab sessions and have been directly engaged by tribes and included in sprints where appropriate

Speed to Market

- Customer facing pilot of new services undertaken within 6 weeks. Prior to adopting Agile a similar pilot took up to 6 months
- Development of automated testing capability delivered in half the time of previous iterations

Employee Engagement

- 98% acceptance rate by employees offered new Agile employment agreements; with ~1,100 employees graduating from Agile bootcamps to give them a jump start into Spark's new ways of working
- Early results indicate a 10-15 point improvement in eNPS among employees within the Agile heavy part of the business, compared with employees working in the traditional parts of the organisation
- Staff spend less time on email and in meetings and more time executing and delivering for our customers

When		
Planning and high level design	Completed	✓
Frontrunner tribes established	February	✓
Detailed structure design confirmed	March	✓
Employee training and transition to squad roles	April-June	✓
Agile at Scale implemented	Q1 FY19	✓
Agile implementation across other areas of the business "Agile Light"	H1 FY19	**WIP**

18
Tribes

35
Chapter Types

114
Squads

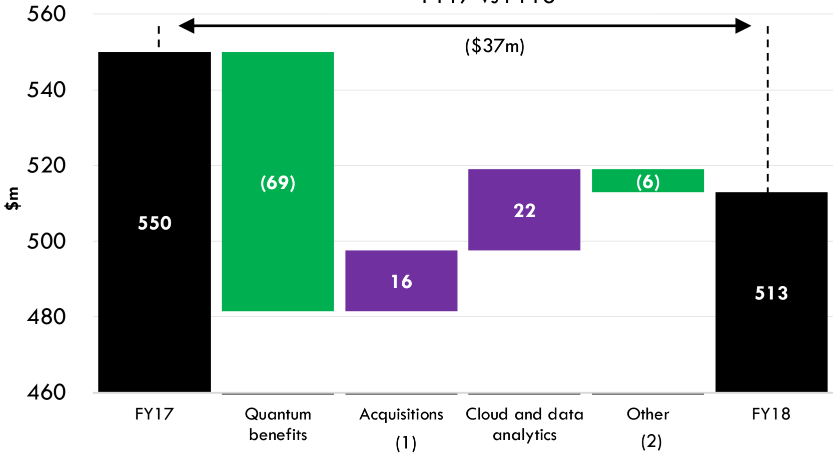
Transitioned to scaled Agile operating model whilst still maintaining operational performance

Strategy: Progress Update

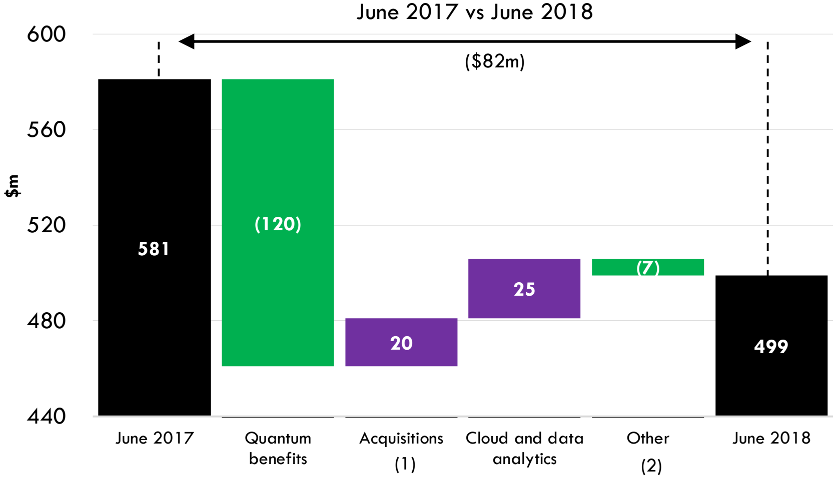
Quantum

During FY18 annualised net labour costs reduced by $82m to $499m; with benefits from acceleration of Quantum programme projected to reduce annualised net labour costs by a further ~$30m to ~$470m during H1 FY19

Reported Net Labour Costs
FY17 vs FY18



Annualised Net Labour Costs [3]
June 2017 vs June 2018



Quantum wave		Cost to implement	Gross FY18 benefit	Gross annualised benefit as at 30 Jun '18	Gross annualised benefit as at 31 Dec '18
1	Implemented H2 FY17	$8m	$27m	$30m	$30m
2	Implemented H1 FY18	$13m	$30m	$44m	$44m
3	Implemented H2 FY18	$12m	$12m	$46m	$46m
4	*Acceleration* Implemented H2 FY18	$24m	-	-	$42m
	Total	$57m	**$69m**	**$120m**	$162m

Total FY18 implementation costs of $49m, reported within other operating expenses, are comprised of:

- $26m restructuring expenses;
- $12m external subject matter expertise;
- $4m relocation and property lease costs;
- $3m programme office functions; and
- $4m product and system decommissioning costs

FY18 implementation costs were marginally below the range of $50m to $55m communicated in May 2018 as part of updated FY18 guidance; due to tight management of transition expenses

(1) Includes insourcing of Spark retail stores and acquisitions of Ubiquity and Digital Island
(2) Includes decline in Quantum implementation costs (reduction in size of programme office and completion of planned system decommissioning) and removal of Connect8 labour expenses (following partial divestment in May 2018)
(3) Equals 12 x actual monthly spend (after adjusting for timing of labour capitalisation and releases of holiday pay accruals)

Strategy: Progress Update

Media

General entertainment

Valuable differentiator as well as acquisition and retention driver for Spark broadband and mobile – customers with Lightbox more likely to recommend Spark and rate overall value of Spark services more highly[1]

Subscriber numbers continue to grow with Lightbox base increasing by 37% during FY18; up from 260,000 to over 355,000

Migration to new, future-proofed platform successfully completed in May 2018: migrated 350k customers overnight; brand new billing system; 15 new apps with newly designed interfaces

New revenue streams launched via new platform including pay-per-view movie service and kids area:10% of customers have redeemed a movie and gone on to buy at least one more

LIGHTBOX

Emerging sports proposition[2]

Focused on standalone monetisation of sports content. Targeting commercial returns, rather than retention or acquisition benefits

Secured content rights including World Rugby tournaments and English Premier League, from 2019 season

To be delivered via standalone world-class sports streaming distribution platform and technology partnerships

More content announcements to come; expecting to launch service in early 2019

Working with wider industry to ensure excellent 2019 Rugby World Cup service across the country

RUGBY WORLD CUP™ JAPAN日本2019

Premier League

[1] Based on independent market research
[2] For more information on Spark's sports proposition see market release dated 14 August 2018 on our Investor Centre Website: investors.sparknz.co.nz

Strategy: Progress Update

Business Sustainability(1)

Throughout FY18 Spark has continued to focus on environmental, social and governance matters. Spark is committed to doing the right thing by our shareholders, our people and our customers, which means being absolutely focussed on the sustainability and wellbeing of our business, the environment and the wider community

Focusing on long-term business sustainability

Spark is committed to delivering consistent earnings growth, sustainable business performance and dividends that in the long term are fully funded through earnings

Minimising the environmental impacts of our business operations and helping others be more sustainable

- Spark signed up to Climate Leaders Coalition: group of 60 New Zealand business leaders committing to tackle climate change
- Although a low emitter due to nature of our business, we robustly measure and are focused on reducing greenhouse gas emissions
- Continued to roll out more energy efficient technologies, for example the shut-down of PSTN network - will be replaced with a more efficient IP-based Converged Communication Network

Cultivating an inclusive workplace of diverse and engaged people

- Spark Board gender mix is now 50:50
- Appointed Spark's first female Board Chair, Justine Smyth
- Spark Leadership Squad is now 1/3 female
- Introduced Flexible Leave Policy and improved Paid Parental Leave Policy
- Launched Blue Heart Pledge to demonstrate our commitment to promoting diversity and inclusion in the workplace with more than 2,700 staff participating to date

Supporting the Spark Foundation to encourage generosity and unleash potential through digital learning

- Spark Jump: heavily subsidised broadband for families with school-aged children who cannot afford commercial broadband
- 1,049 families connected and we're expanding the programme with the support from 65 community partners in 82 locations
- Givealittle "powered by Spark" – New Zealand's crowdfunding platform for social good raised a total of $18m in donations in FY18 to help fellow New Zealanders in need
- Spark people donated 1,125 volunteer days in FY18, and donated over $840k in FY18 via Spark Give – Spark's payroll giving programme

Putting in place best practice governance and risk management procedures

- The Board and management are committed to ensuring that Spark maintains a high standard of corporate governance and adheres to high ethical standards.
- The Board also plays a pivotal role in overseeing the strategic direction of Spark and ensuring the strategy is well executed

(1) For more information on Spark's environmental, social and governance efforts please see Sparks Annual Report and ESG report which can be found on our Investor Centre Website: investors.sparknz.co.nz

Capital Management

Capital Expenditure

Targeted capital expenditure, of 11%-12% of revenue, continues to provide sufficient capacity to execute on our strategy

Capital Expenditure ($m)	FY16	FY17	FY18
Plant, network, core sustain and resiliency	79	67	62
IT systems [1]	59	112	113
Mobile [2]	77	102	115
Cloud	34	42	39
Other [3]	35	43	38
Converged Communications Network	3	15	32
International cable construction and capacity [4]	28	34	14
Re-engineering	66	-	-
CAPEX excl. mobile spectrum	**381**	**415**	**413**
CAPEX excl. mobile spectrum to operating revenue	10.9%	11.5%	11.3%
Spectrum	9	-	-
Total CAPEX	**390**	**415**	**413**
Total CAPEX to operating revenue	11.2%	11.5%	11.3%

[1] IT systems includes investments in core IT systems and Telecommunications-as-a-Service
[2] Mobile includes investment in standalone mobile assets including capacity in support of wireless broadband
[3] Other includes store refits, Lightbox, Qrious and IoT
[4] International cable includes capacity purchases on Southern Cross cable and investment in Tasman Global Access cable

Plant, network and core sustain includes ongoing fibre build programmes to support customer demand for services and traffic growth across the network, along with investments in Spark-owned properties

IT systems investment in support of simplification, automation and digitisation across our products, customer journeys and systems to remove manually intensive tasks and improve customer experience. Also includes continued build of Telecommunications as-a-Service IT platforms to support substantial take up of these services by eligible Government agencies

In line with Spark's changing revenue mix, the percentage of capital expenditure (excluding spectrum) spent on mobile increased to 28% in FY18; up from 25% in FY17. FY18 mobile investment funded continued deployment of Spark's single radio access network (SRAN) and Long-Term Evolution (LTE) sites, increased capacity and coverage for wireless broadband, and lifecycle investment across the mobile core

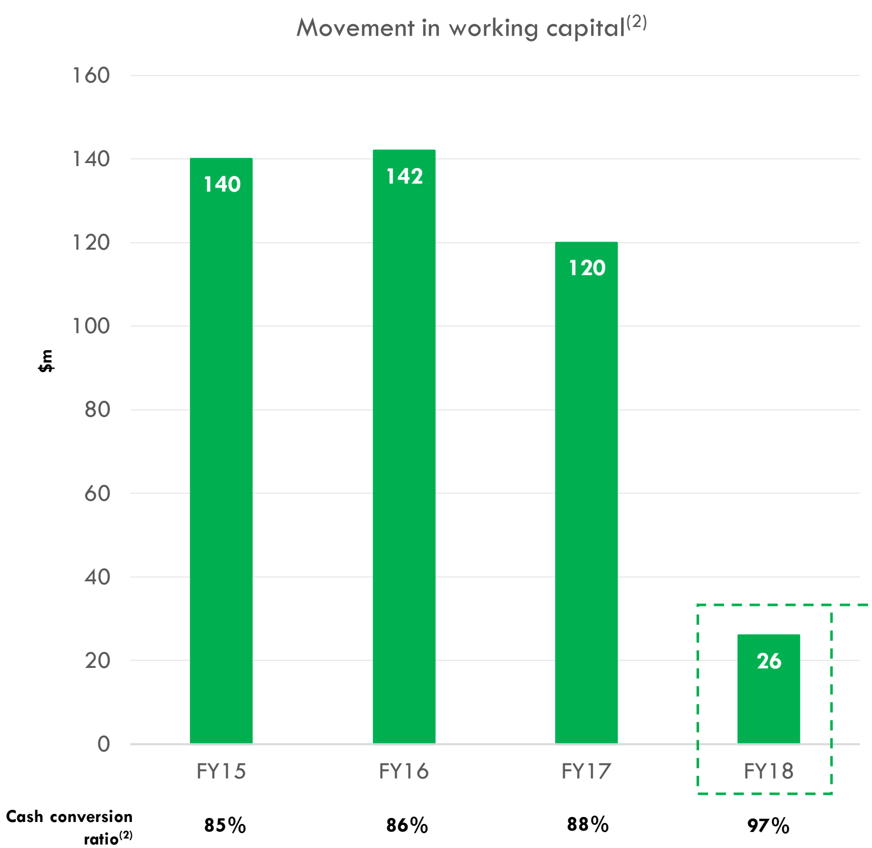
Multi-year Converged Communications Network (CCN) investment will replace the legacy PSTN network and enable the delivery of future IP based voice services

Reduction in international cable and construction investment following completion of Tasman Global Access (TGA) cable build in H2 FY17

Capital Management

Working Capital

Underlying improvement in cash conversion ratio[1] strengthened by timing of Quantum implementation costs, resulting in FY18 cash conversion of 97%. FY19 cash conversion projected to be ~95%, as favourable timing of payables unwinds



Key components of movement in working capital[2] between FY17 and FY18	
HMB mobile device receivable Volume of devices sold via a deferred arrangement up 8% on prior year; due to overall pay-monthly connection growth and increasing use of deferred payment options to purchase feature-rich, but higher priced, devices. Demonstrated by 16% increase in average device value[3] and strong customer preference for 24 month rather than 12 month terms; with 97% of deferred devices now on a 24 month term	$52m
Prepayments and accruals Primarily due to timing of expenditure in support of procurement and partners revenue growth	$8m
IT services contracts Further on-boarding of customers during FY18, with costs incurred at the beginning of the contract but recognised over the life of the contract	$6m
Timing of payables and receivables Due to benefits of refreshed working capital policies and favourable timing of expenses associated with acceleration of Quantum programme	($25m)
Inventory Due to reductions in the recognised value of content inventory (in line with remaining contract periods) and sell down of hardware in support of procurement and partners revenue	($15m)

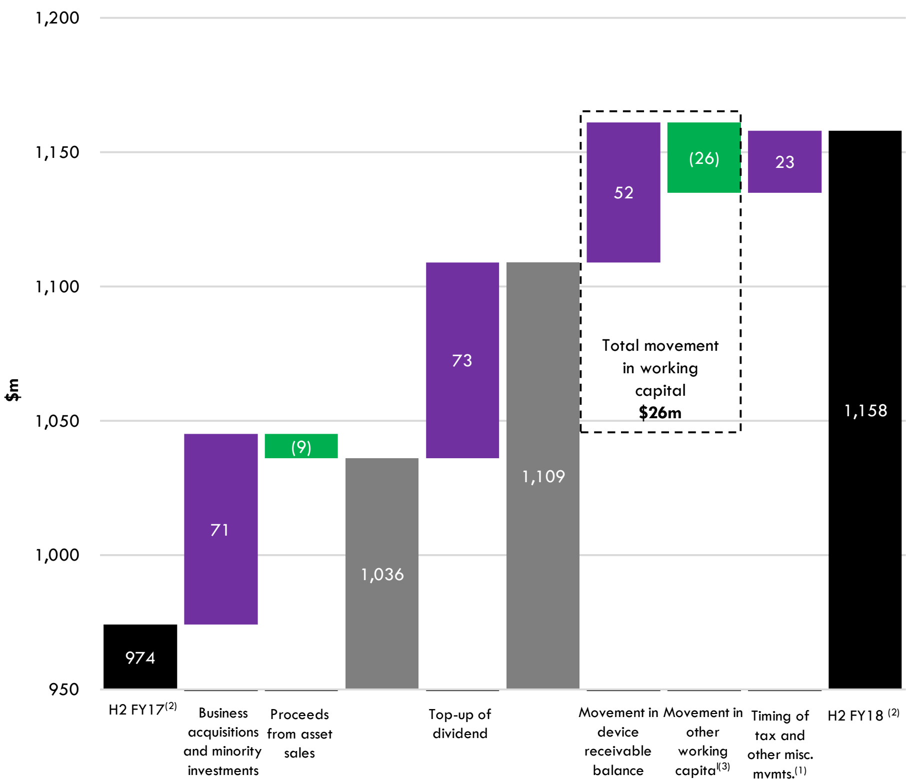
[1] Calculated as operating cash-flow (excluding tax and interest) divided by EBITDA (excluding impairments, net gains from divestments and share of associate and joint venture net losses)
[2] Calculated as EBITDA (excluding impairments, net gains from divestments and share of associate and joint venture net losses) *less* operating cash-flow (excluding tax and interest)
[3] Calculated as the average retail price (incl. GST) for devices sold via a deferred payment arrangement

Capital Management

Net Debt

Current net debt to EBITDA ratio continues to provide sufficient debt headroom within our S&P A- credit rating; with net debt increasing by $184m during FY18 due to business acquisitions, payment of dividends and continued growth in mobile device receivable balance

Movement in Net Debt between H2 FY17 and H2 FY18



[1] Miscellaneous movements include adjustment for fair value estimate of debt and timing of interest and lease payments
[2] Reported net debt at hedged rates as reported in note 5.3 of Spark's FY18 Annual Report
[3] Calculated as total FY18 increase in working capital of $26m *less* FY18 increase in mobile device receivable balance of $52m
[4] Includes adjustments for operating leases, share based compensations, a 25% 'haircut' of reported cash and captive finance operations
[5] As at 30 June 2018 equates to approximately 0.1x reduction in Spark's adjusted debt to EBITDA ratio

$71m	Minority investments, advances to Southern Cross and business acquisitions including Digital Island, Spark retail stores and Ubiquity
$73m	Dividend top-up; $13m higher than FY17 due to suppression of FY18 net earnings by Quantum implementation costs
$52m	Growth in mobile device receivable balance as HMB customers continue to adopt premium devices
($26m)	Improvement in other working capital[3] due to: • Ongoing benefits of refreshed working capital policies; and • Timing of redundancy payments associated with acceleration of Quantum programme

Spark's internal capital management policy is to ensure that on a long-run basis reported net debt[2] to EBITDA does not exceed 1.4x; which Spark estimates is approximately equivalent to Standards & Poor's 1.5x[4] adjusted debt to EBITDA threshold under Spark's A- credit rating. Spark's internal threshold of 1.4x accounts for Standard & Poor's adjustments in relation to Spark's captive finance operations[5].

Spark's 30 June 2018 reported net debt[2] to EBITDA ratio of 1.17x is consistent with our ongoing commitment to maintaining an A- S&P credit rating, and continues to provide sufficient funding for:

- Accretive business acquisitions and investments with focus remaining on transactions of ~$100m or less that are close to the core;
- Business as usual operations; and
- Withstanding normal business risks

Rate of net debt growth is expected to slow during FY19 as:

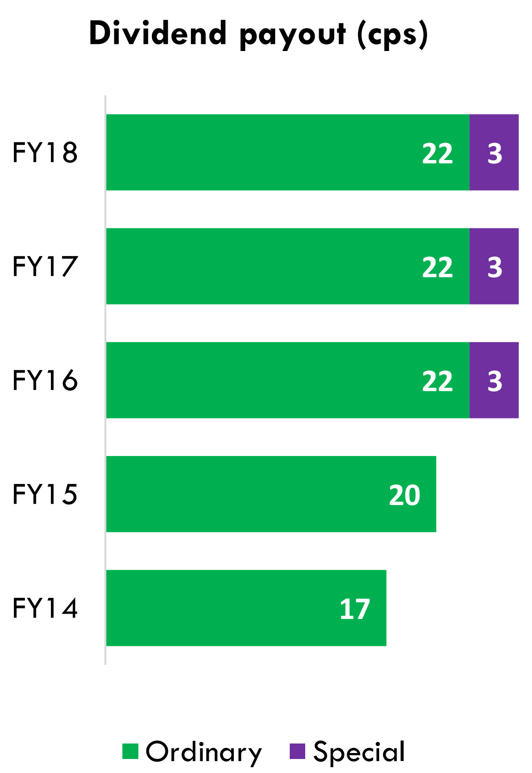
- Earnings growth provides additional funding headroom; and
- Application of refreshed working capital policies maintains cash conversion at ~95%

In the interim Spark is considering making an offer of unsubordinated, unsecured fixed rate bonds via its wholly owned subsidiary Spark Finance. If Spark Finance offers these bonds it is expected that full details of the offer will be released on 29 August 2018. No money is currently being sought and applications for the bonds cannot currently be made however if Spark Finance offers the bonds, the offer will be made in accordance with the Financial Markets Conduct Act 2013.

Capital Management

Dividend

Our preferred method of shareholder distribution is via a sustainable dividend per share that in the long-term is fully funded through earnings



Dividend sustainability

Our aspiration, communicated at Spark's 2017 Investor Day, is to deliver a sustainable total dividend that is fully funded by earnings per share of 25c or above

Debt may be used to supplement dividend payments while we remain on track to sustainably grow earnings per share to 25c or above:

- During FY18 $73m of debt was used to supplement dividends, due in part to suppression of net earnings by Quantum implementation costs
- During FY19 we expect earnings growth to reduce the amount of any debt required to supplement dividends
- However, annual dividend declarations remain a Board decision and will continue to be communicated via formal guidance

H2 FY18 dividend declaration

Spark confirms an H2 FY18 total dividend per share of 12.5c made up of:

- H2 FY18 ordinary dividend per share of 11.0c, to be 75% imputed; and
- H2 FY18 special dividend per share of 1.5c, to be 75% imputed

Overall Performance

FY18 Guidance

Financial performance on plan; resulting in all guidance metrics being met

	FY18 Guidance [1] [2]		FY18 Actual	
	Reported	*Adjusted* excluding Quantum implementation costs	*Reported*	*Adjusted* excluding Quantum implementation costs
Total Revenues	$3,594m to $3,666m		**$3,649m**	
EBITDA	$971m to $991m	$1,026m to $1,041m	**$989m**	**$1,038m**
Capex	~$410m		**$413m**	
Earnings per Share	~21c	~23c	**21.0c**	**22.9c**
Dividend per Share	Total 25.0cps at least 75% imputed		**Total 25.0cps 75% imputed**	

[1] FY18 guidance was relative to reported FY17 results excluding net gain from sale of surplus Mayoral Drive carpark land
[2] Reflects updated FY18 guidance communicated on 25 May 2018

Overall Performance

FY18 Indicators of Success

	Measures	Target 30 June 2018	Actual 30 June 2018
Strategic enablers	Spark HMB mobile and broadband connections migrated to new plans	200k	Solid progress
	Average time to approve custom pricing for Spark Digital contracts[1]	50% reduction	Achieved
	Transition to scaled Agile operating model	Implemented H2	Achieved
	Spark Digital offering tiered service model	Launched H2	Achieved
	Deployed 4.5G locations	30	Exceeded
	Foundation IMS capability deployed	Commissioned H2	Achieved
	Significant new automation and digitisation initiatives completed	5	Achieved
	Percentage of customer journeys designed digital first	70%	Achieved
	PSTN exchange closures	at least a further 40 closures	Exceeded
Lead indicators	Reduction in monthly Customer Care workload minutes[2]	10%	Exceeded
	Proportion of broadband customers on fibre or wireless broadband	50%	Achieved
	Market share of UFB connection growth	40-45%	Not achieved
	Wireless broadband connections	125k	Not achieved
Market outcomes	Market NPS	5 point lift	Solid progress
	Total mobile revenue growth	4%	Exceeded
	Cloud revenue growth	10-15%	Achieved
	New Ventures revenue growth incl. new wholesale	100%	Exceeded
	Cyber security revenue growth	30%	Not achieved

(1) This measure replaces the previous Spark Digital 'core product plan portfolio' metric as it more clearly tracks the benefits of product and plan simplification
(2) Workload minutes defined as: interactions answered **x** average handling time

FY19 Outlook

Updates to External Reporting

The presentation of Spark's financial results will change from FY19 onwards; following adoption of new accounting standards and changes to the disclosure of Spark's long-term investments. To simplify the comparison of FY19 results to prior years, restated FY17 and FY18 financials will be published ahead of Spark's interim FY19 result.

Adoption of new accounting standards[1]

NZ IFRS 15: Revenue from contracts with customers

- Required to be adopted during FY19;
- Expected to result in a material change to reported revenues and EBITDA

NZ IFRS 16: Leases

- Required to be adopted during FY20, however Spark will early adopt in FY19;
- Expected to result in the shift of operating lease costs, currently reported within other operating expenses, to interest, depreciation and amortisation
- Expected to result in a material change to reported EBITDA

FY19 guidance is being provided *excluding* impacts from adoption of these new standards.

Once restated FY17 and FY18 financials are published, FY19 guidance will be translated to *include* impacts from adoption of these new standards

New approach to disclosure of Spark's long-term investments[2]

Decision made to change the disclosure of Spark's long-term investments:

- To better align Spark's disclosure of operating revenue with "revenue from contracts with customers" as defined by NZ IFRS 15
- To apply more appropriate focus on the financial performance of the operational activities of the business, with returns from joint ventures and associates to now be reported separately

Will not result in a change in reported net earnings however the following will now be consistently recognised within a new 'investment income' category, reported outside of EBITDA:

- Dividend income from Southern Cross; and
- Spark's share of associates' and joint ventures' net profits and losses

FY19 guidance is being provided *including* impacts from this new approach to disclosure

[1] Further detail of Spark's adoption of new accounting standards is provided in Note 6.8 of Spark's FY18 Financial Statements

[2] Representative FY17 and FY18 financials, including impacts from the new approach to disclosure of Spark's long-term investments, are provided on page 28 of this presentation

FY19 Outlook

Guidance[1]

	FY18 Actual Updated for new approach to disclosure of Spark's long-term investments		FY19 Guidance [1] Updated for new approach to disclosure of Spark's long-term investments
	Reported	*Adjusted* excluding Quantum implementation costs	
Total Revenues	$3,599m excludes $50m Southern Cross dividend		**$3,600m to $3,670m** excludes projected $10m-$20m Southern Cross dividend
EBITDA	$942m excludes $50m Southern Cross dividend *and* ($3m) loss from associates' and joint ventures	$991m	**$1,025m to $1,055m** excludes projected $10m-$20m Southern Cross dividend *and* profits and losses from associates' and joint ventures'
Capex	$413m		**~$410m**
Earnings per Share	21.0c	22.9c	**23c to 24c**
Dividend per Share	*Total* 25.0cps 75% imputed		***Total* 25.0cps** **at least 75% imputed[2]**

[1] Guidance subject to no adverse change in operating outlook

[2] Likely to be made up of an ordinary dividend determined by earnings, topped up by a special dividend to maintain a total dividend per share of 25.0c

FY19 Outlook

Dividend and Imputation

Dividend

FY19 earnings per share expected to be between 23c and 24c

As part of our June 2017 Investor Update we outlined our dividend aspiration:

- To deliver a sustainable total dividend that is fully funded by earnings per share of 25c or above - timing uncertain
- While earnings per share remain below 25c Spark may choose to use debt to supplement earnings

Subject to no adverse change in operating outlook Spark anticipates paying a total FY19 dividend per share of 25.0c that is likely to be made up of:

- An ordinary dividend determined by earnings
- Topped up by a special dividend to maintain a total dividend per share of 25.0c

Imputation

Spark's capacity to fully impute dividends has progressively reduced over time due to:

- Maintaining a dividend payout ratio above 100% of earnings for a sustained period;
- Differences between reportable earnings and taxable earnings; and
- Timing differences between when dividends are paid, when provisional tax is paid and when the imputation measurement date occurs

Therefore to best balance long term yield and tax efficiency, Spark expects to at least 75% impute FY19 dividends. This will enable the fastest return to full imputation.

FY19 Outlook

Indicators of Success

	Measures	Target 30 June 2019
Technology evolution	Clear pathway to 5G including spectrum entitlements	by end of H2
	Proportion of broadband customers off copper	60%
	Launch of wireless broadband and Voice over LTE (VoLTE) products to rural customers using the Rural Connectivity Group (RCG) network	by end of H2
	PSTN exchange closures completed during FY19	at least a further 100 closures
	Voice-only copper connections substituted to wireless	double connections to 30k
	Sports media service tested and ready for RWC delivery	by end of H2
Ways of working	Full implementation of scale Agile operating model	by end of H1
	Percentage of Agile squads at or above level 3 Agile maturity	80%
	Diverse and inclusive workplace showing through in employee NPS	7 point lift
	Annualised net labour costs at $470m or less	by end of H1
Digital and data adoption	Percentage of new customer journeys implemented digital first	85%
	Reduction in monthly Customer Care workload minutes [1]	10% to 15%
Winning in market	Spark consumer market NPS	5 point lift
	Total mobile service revenue growth	5%
	Cloud, security and service management revenue growth	15%
	Number of Internet of Things products launched	4 to 6
	Increase in number of customers actively using two or more digital services	15%

[1] Workload minutes defined as interactions answered x average handling time

Appendix

FY19 Outlook

Updates to External Reporting

FY19 guidance is being provided *including* impacts from Spark's new approach to disclosure of long-term investments. To enable prior year comparisons FY17 and FY18 financials are provided below on a basis consistent with that used for FY19 guidance.

	Reported *excluding* impacts from new disclosures		Change in disclosure of Southern Cross Dividends		Change in disclosure of associates' and joint ventures' net profits and losses		**Reported** *including* impacts from new disclosures	
	FY17 $m	FY18 $m	FY17 $m	FY18 $m	FY17 $m	FY18 $m	FY17 $m	FY18 $m
Operating revenues and other gains	3,614	3,649	(61)	(50)			3,553	3,599
Operating expenses	(2,594)	(2,657)					(2,594)	(2,657)
Share of associates' and joint ventures' net losses	(4)	(3)			4	3	-	-
EBITDA	**1,016**	**989**	**(61)**	**(50)**	**4**	**3**	**959**	**942**
Depreciation and amortisation	(430)	(434)					(430)	(434)
Net finance expense	(26)	(30)					(26)	(30)
Investment income	-	-	61	50	(4)	(3)	57	47
Net earnings before tax	**560**	**525**	**-**	**-**	**-**	**-**	**560**	**525**
Income Tax expense	(142)	(140)					(142)	(140)
Net earnings	**418**	**385**	**-**	**-**	**-**	**-**	**418**	**385**

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.