Spark New Zealand
H1 FY19 Results Summary

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Overall Performance

Key Result Themes

Financial and market share results are on plan, with focus on customer experience and operational efficiency driving performance in a challenging market.

Implementation of Agile operating model completed across the business. Already delivering expected benefits in customer centricity, speed to market, productivity and employee engagement.

Focus on wireless maintained, albeit market forces seeing slowing usage revenue growth - somewhat compensated by margin improvement. Mobile market shifting focus to customer value and profitability with some changes in handset buyer behaviour also evident.

Expect 5G to be a driver of innovation for both our industry and the New Zealand economy. In trial/demo phase now and working towards commercial launch by July 2020 at the latest.

Pricing initiatives influencing positive margin performance in broadband with copper pricing increased and upfront contract incentives being heavily reduced. Wireless broadband uptake continuing to grow with consequent customer experience and margin benefits flowing.

Cloud, security and service management revenue growth maintained with continuing strong customer demand; albeit moderated by rising competitive intensity from local and global providers.

Decision by Southern Cross to withhold dividends pending investment in potential build of Southern Cross Next cable - impacting short term earnings in favour of long-term investment returns.

Spark Sport platform build on track, with beta version to launch in March 2019. Spark Sport subscription pricing of $19.99 per month announced today. Confidently progressing with all preparations needed for successful delivery of the Rugby World Cup in September 2019 (RWC 2019).

Spark's H1 FY19 result is reported in accordance with previously announced changes to Spark's disclosure of long-term investments and Spark's recent adoption of NZ IFRS 15 *Revenue from contracts with customers* and NZ IFRS 16 *Leases*. While these changes have no impact on cash flow they do alter the presentation of Spark's financial results – primarily due to:

- Dividend income from Southern Cross (and other investments) together with Sparks share of associates' and joint ventures' net profit and losses being included in a new 'net investment income' category outside of EBITDAI;
- A shift from operating revenue to interest income to reflect the credit risk on interest free mobile device sales;
- A reduction in operating revenues and operating costs to reflect the netting-off of Spotify and Netflix expenses that are now treated as agency arrangements; and
- A change in the classification of operating lease costs to depreciation and interest expenses.

The impact of these changes on FY17 and FY18 financial statements are summarised in Appendix 1[1].

[1] Further information in relation to Spark's updated approach to external reporting can be found on our investor centre website investors/sparknz.co.nz. See announcement and accompanying explanatory presentation from 4 December 2018.

Overall Performance

Key Areas of Focus

Further progress made against three key areas of focus

Emphasis on Wireless

- Solid progress towards being mostly ex copper by 2020 with 58% of broadband customers now on new broadband technologies – up 13pp in the last twelve months
- Customer uptake of wireless broadband continues; with base increasing by a further 13k connections in H1. 18% of broadband customers (129k) now benefiting from wireless broadband; further demonstrating the potential for expanded speed and capacity of 4.5G and 5G networks to satisfy customer demand
- Adoption of 'Unlimited' mobile plans, including shareable plan launched during H1 FY19, demonstrates customer demand for price certainty. Number of customers on an 'Unlimited' mobile plan doubled during H1, fuelling a 2pp YoY increase in the proportion of consumer pay monthly customers on a $55+ plan

Better serving price sensitive customers

- Skinny's lower priced high data-cap mobile plans continue to perform well; contributing to significant ARPU growth of 10% YoY and a 16% YoY increase in Skinny customers on recurring plans
- Skinny sub-brand secured connection growth in a hyper-competitive broadband market
- Introduction of new SD-WAN[3] products providing lower priced connectivity solutions to business customers; associated margin supported by a lower cost to serve via improved customer experience and self-service options

Lowest cost operator

Quantum programme[4] of simplification, digitisation and automation has delivered a transformative improvement in service experience and productivity:

- Met H1 target for annualised net labour costs – reducing a further ~$30m to ~$470m during the half. Total Quantum implementation costs of $57m have now delivered net annualised benefits of ~$110m.
- Delivered further reductions in consumer customer care voice interactions during the half; down 30% YoY whilst improving interaction NPS
- Growth in wireless broadband customer base generated a further $8m YoY reduction in broadband access costs during H1 FY19; bringing annualised benefits to a total of ~$62m

Implementation of scaled Agile operating model complete; new ways of working already demonstrating benefits across customer experience, speed to market and employee engagement

[1] Independent market share estimate
[2] Includes wireless broadband connections
[3] Software Defined Wide Area Network
[4] No material Quantum costs of change incurred during H1 FY19

~$62m

Wireless Broadband Migration
annualised gross reduction in access costs

~$110m

Quantum Programme
annualised net reduction in labour costs

40.9%
- 1.0 pp

Market Share of Broadband Connections [1] [2]
vs. H1 FY18

39.1%
+0.5 pp

Market Share of Mobile Service Revenues [1]
vs. H1 FY18

Financial Summary

EBITDAI growth underpinned by margin expansion and Quantum programme benefits reducing cost base

EBITDAI of $489m up $33m (7.2%) on reported prior year EBITDAI and up $20m (4.3%) on adjusted prior year EBITDAI. Underpinned by gross margin growth and a $40m (3.1%) reduction in total operating expenses - including a further $26m (9.4%) YoY reduction in net labour costs delivered via Spark's Quantum programme – partially offset by a $5m fair value adjustment of Spark's investment in a global IoT start-up. Annualised net labour costs reduced to ~$470m during H1 FY19, down ~$110m since June 2017.

Gross margin up $8m (0.8%) on prior year despite reported revenue decline of $7m (0.4%); due to improved gross margin percentages across mobile, broadband and managed data and networks.

- Revenue growth totalling $25m across mobile (up 1.5%) and cloud, security and service management (up 8.9%) and a return to growth in a challenging broadband market (up 3.9%) partially offsetting continued declines in voice, managed data and networks revenues; down $51m in total.
- Mobile, cloud, security and service management now account for 56% of Spark's gross margin; up 3pp since H1 FY18.

NPAT down $9m or (5.6%) versus reported prior year NPAT and down $18m or (10.5%) on adjusted prior year NPAT; with EBITDAI growth more than offset by:

- $28m decline in Southern Cross dividend (no dividend was declared in H1 FY19) and associated increase in Spark's effective income tax rate[1];
- Depreciation and amortisation up $8m (3.4%) due to shortened asset life of a single software solution that Spark is migrating away from; and
- Increase in finance expenses of $3m (8.1%) on higher average net debt.

Net debt increased by $132m during H1 FY19 primarily due to top-up of dividends and device receivable growth. Rate of net debt growth is expected to slow significantly during H2 FY19.

- H1 FY19 capital expenditure in line with prior year; on track to remain within targeted capital expenditure of 11%-12% of operating revenues for FY19.
- Cash conversion ratio[2] of 92% consistent with expected full year conversion ratio of 95%; underlying improvements in cash conversion partially offset by timing of Quantum implementation costs and slower than expected sell-through of higher end mobile device inventory.

H1 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. Reported net debt[3] to EBITDA ratio of ~1.2x is consistent with our ongoing commitment to maintaining an A- S&P credit rating.

($7m)
(0.4%)

Revenue movement
vs. H1 FY18

$33m
7.2%

EBITDAI movement
vs. reported H1 FY18

($9m)
(5.6%)

NPAT movement
vs. reported H1 FY18

[1] New Zealand tax rules treat Spark's 50% share of SX earnings as taxable and any SX dividend income as tax exempt. With no SX dividends paid in the current period Sparks H1 FY19 tax expense (and effective tax rate) are higher as tax will still be paid on Spark's share of underlying earnings.
[2] Calculated as net cash flow from operations (excluding tax, dividend receipts and interest) divided by EBITDAI (excluding net gains from divestments and impairments)
[3] Reported net debt at hedged rates as reported in note 6 of Spark's H1 FY19 Interim Financial Statements

Overall Performance

Financials

	H1 FY19 $m	H1 FY18 $m	CHANGE
Operating revenues	1,754	1,761	(0.4%)
Operating expenses	(1,265)	(1,305)	(3.1%)
Reported EBITDAI	**489**	**456**	**7.2%**
Depreciation and amortisation	(245)	(237)	3.4%
Net investment income	-	27	(100%)
Finance income	18	16	12.5%
Finance expense	(40)	(37)	8.1%
Net earnings before tax expense	**222**	**225**	**(1.3%)**
Tax expense	(69)	(63)	9.5%
Net earnings after tax expense	**153**	**162**	**(5.6%)**
Adjusted EBITDAI[1]	**489**	**469**	**4.3%**
Adjusted net earnings after income tax[2]	**153**	**171**	**(10.5%)**
Capital expenditure	264	262	0.8%
Underlying free cash flow[3]	146	110	32.7%
Reported EBITDAI margin	27.9%	25.9%	2.0pp
Adjusted EBITDAI margin	27.9%	26.6%	1.3pp
Reported effective tax rate	31.1%	28.0%	3.1pp
Capital expenditure to operating revenues	15.1%	14.9%	0.2pp
Reported Earnings per Share	8.3c	8.8c	(5.7%)
Adjusted Earnings per Share	8.3c	9.3c	(10.8%)
Total Dividend per Share	12.5c	12.5c	-

(1) Adjusted H1 FY18 EBITDAI calculated as: reported EBITDAI of $456m adjusted to exclude Quantum implementation costs of $13m

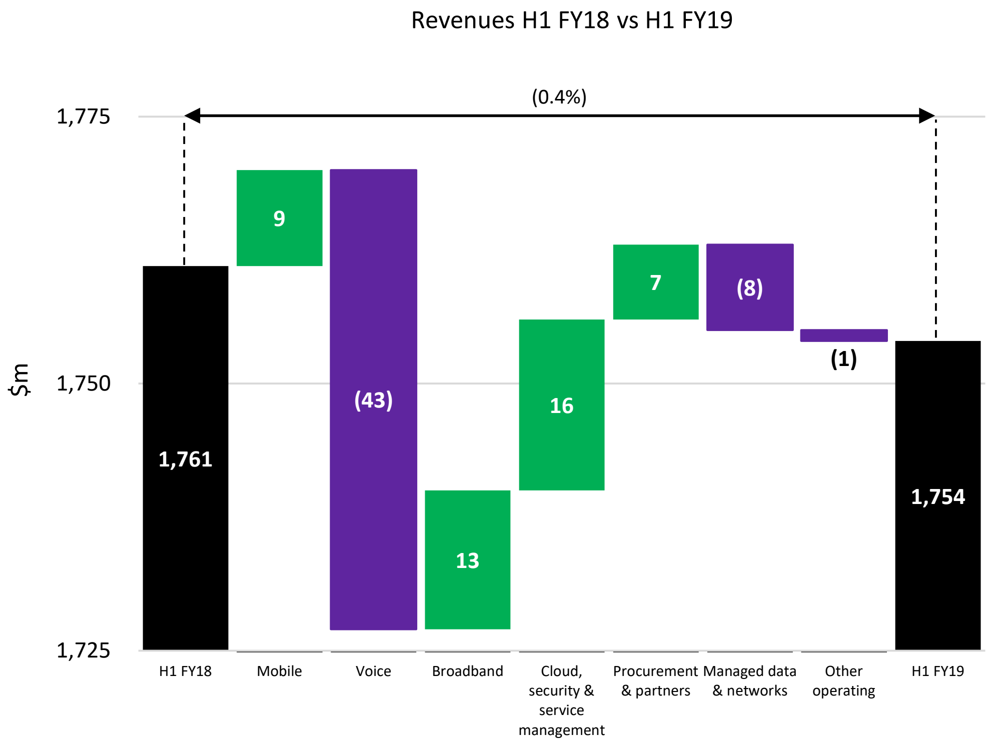
(2) Adjusted H1 FY18 net earnings after tax calculated as: reported net earnings after tax adjusted to exclude Quantum implementation costs of $13m *less* tax effect on implementation costs of $4m

(3) For further information refer to appendix 3

Overall Performance

Revenue

Revenue growth moderating across key products in line with market trends but focus on costs has expanded margins



Mobile revenue growth of $9m or 1.5% driven by:

- Higher margin service revenue growth of $8m (2.0%) on connection growth and improving pre-paid ARPU, partially offset by persistent pricing pressure in the business segment; and
- $1m (0.5%) increase in low margin mobile non-service revenue with ongoing, although moderating, consumer demand for premium devices offset by declines in business device sales

Voice and collaboration revenue decline of $43m (14.7%) versus prior period decline of $46m (13.6%) - due to full-period impact of increased Wholesale connection churn seen during H2 FY18. Wholesale churn has since moderated

Return to broadband revenue growth up $13m (3.9%) - despite connection loss - following increase in retail price of copper plans and cessation of acquisition credits alongside launch of 'Unplan'

Cloud, security and service management growth of $16m (8.9%) demonstrating ongoing customer demand for the flexibility and benefits that cloud based "as a Service" products offer – albeit at levels slightly moderated from those seen in previous periods

Increase in low margin procurement revenues of $7m (3.8%) driven by customer demand

Managed data and networks revenue decline of $8m (7.7%) in line with prior period

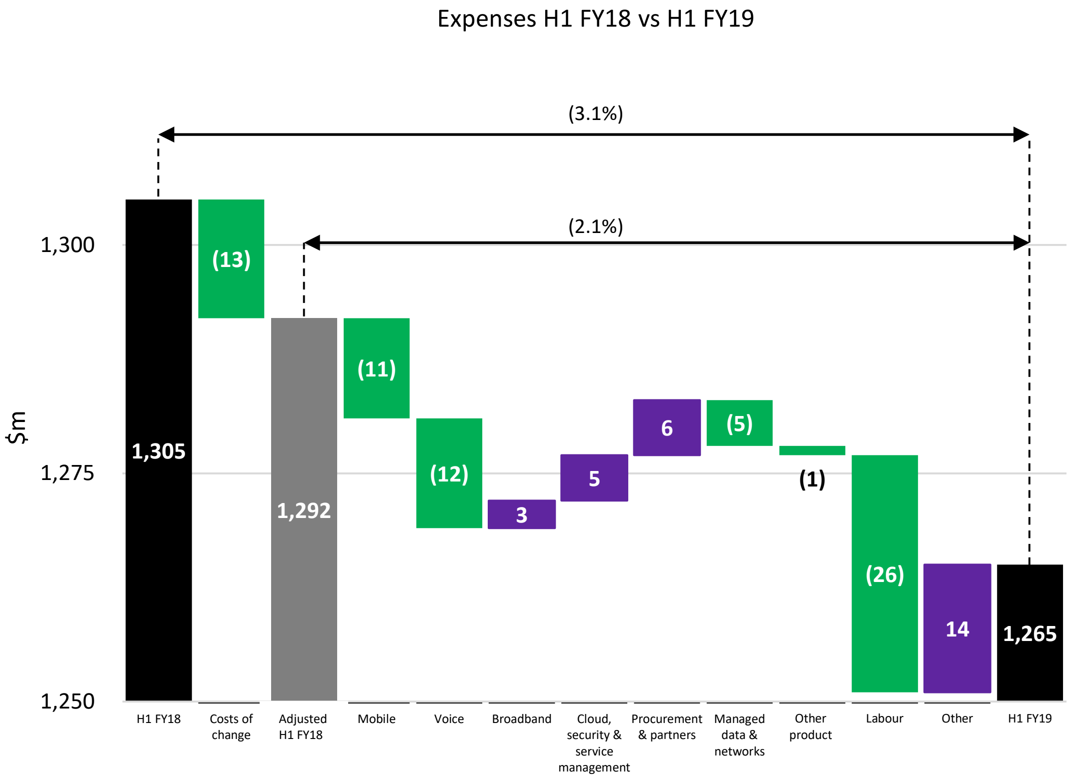
Other revenue movements include:

- 100% increase in Lightbox revenue driven by premium subscription and TVOD services launched in H2 FY18; offset by
- Reduction in shared services income due to customer migration off shared IT platforms

Overall Performance

Operating Expenses

Quantum programme of simplification, digitisation and automation continues to deliver significant cost reductions



Mobile product costs down $11m (4.3%) due to:

- Lower external commission costs following insourcing of retail stores in late H1 FY18; and
- Reduced mobile insurance costs driven by improvements in repair and claims processes

Voice product costs reduced by $12m (11.5%) due to declines in voice connections - primarily in Wholesale - partially offset by increase in regulated access charges

Broadband product costs up $3m (1.7%) on prior year driven by:

- $8m YoY reduction in access costs due to further adoption of wireless broadband; offset by
- Increase in non-standard fibre installation costs; and
- Increases in wholesale access charges for both fibre and copper

Cloud, security and service management product costs increased (up $5m or 18.5%) at a faster rate than revenue growth due to a shift in revenue mix towards service management

Increase in procurement and partners product costs in line with growth in associated low-margin revenues

Managed data and network product costs decreased (down $5m or 10.0%) at a faster rate than revenue due to platform cost savings enabled by proactive customer migration off traditional managed data products on to newer technology platforms

Net labour costs reduced $26m (9.4%) following successful implementation of Quantum initiatives – FTE down 5.3% YoY and 7.9% since June 2017

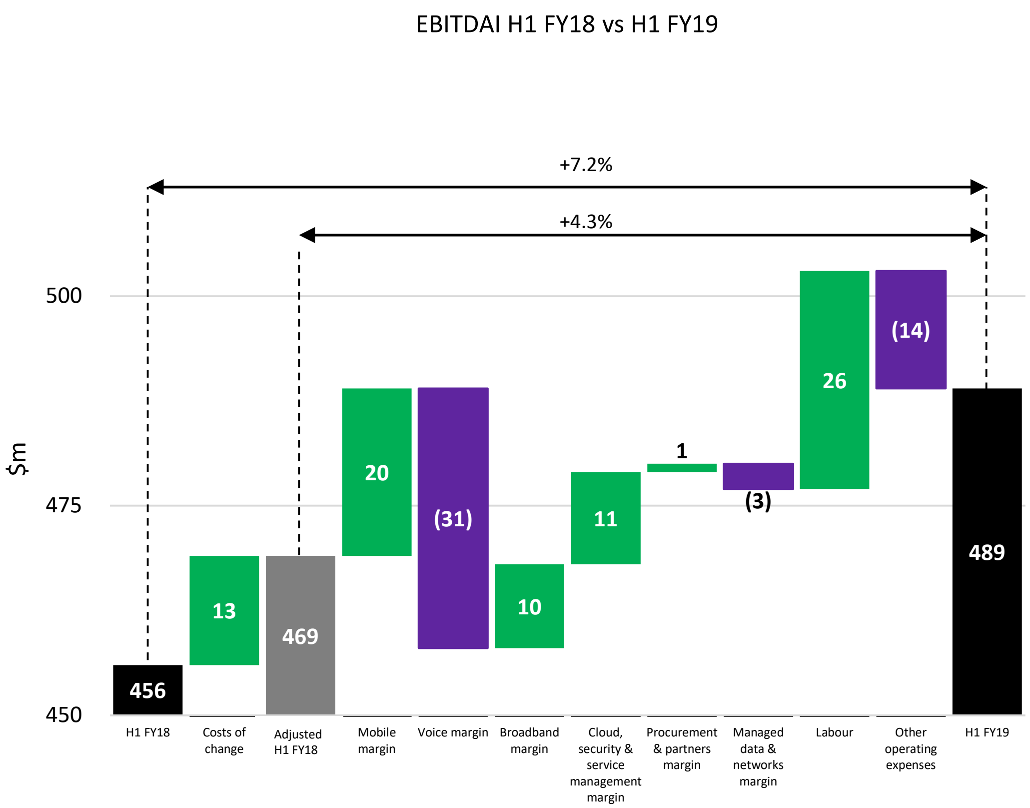
Excluding $13m Quantum implementation costs incurred in H1 FY18, other expenses increased $14m, or (6.8%) driven by:

- $5m fair value adjustment of investment in a global IoT start up;
- Ongoing impact of high electricity spot-prices; and
- Support costs associated with maintaining Spark's mobile and data networks

Overall Performance

EBITDAI

Reported EBITDAI up $33m (7.2%) due to margin growth in mobile, cloud, security, service management and broadband coupled with labour cost reductions



Gross margin improved by $8m (0.8%) due to:

- 5.6% increase in mobile gross margin on increase in connections, strong ARPU growth in Skinny and mobile product cost reductions;
- 7.2% increase in cloud, security and service management gross margin due to ongoing revenue growth - primarily in cloud; and
- 6.3% improvement in broadband gross margin due to both a return to revenue growth and increased adoption of higher-margin wireless broadband services

Reported EBITDAI margin of 27.9% up 2.0% pp on prior year due to:

- Margin improvement across mobile, broadband and managed data and networks;
- Quantum led initiatives delivering $26m (9.4%) YoY reduction in net labour; partially offset by
- Ongoing declines in high-margin voice revenues; and
- Increases in other operating expenses; including $5m fair value adjustment of investment in global IoT start up

Excluding H1 FY18 Quantum costs of change, EBITDAI grew $20m (4.3%) to $489m

Product Performance

Mobile

Market forces have required a shift in focus from service revenue growth to margin expansion as rate of overall market revenue growth slows[1]

Total mobile revenue, up $9m (1.5%), accounting for 35.5% of total operating revenues; a 0.7pp increase on prior year due to:

- Pay-monthly connection growth of 67k (5.8%) – accounting for 43.5% of total H1 FY19 pay-monthly market growth[1]; total pay-monthly connections now greater than total prepaid connections for the first time in more than 10 years; partially offset by
- 39k YoY decline in pre-paid connections due to loss of lower-value customers on 'casual' pricing plans. Prepaid customer mix benefiting from more active and higher value customers – evidenced by a 16.1% YoY increase in the number of Skinny customers on a recurring top up plan; and
- Modest growth in low margin non-service revenue (up $1m versus $21m YoY growth in H1 FY18) due to a continued, albeit moderated, decline in the number of consumer handsets sold and modest growth in average consumer handset prices (up only 3% versus 18% YoY growth in H1 FY18) coupled with a significant decline in business other mobile device revenue (including tablets, radio handsets etc) due to the presence of a large one-of device deal in FY18 – partially offset by strong growth in consumer other mobile device revenue

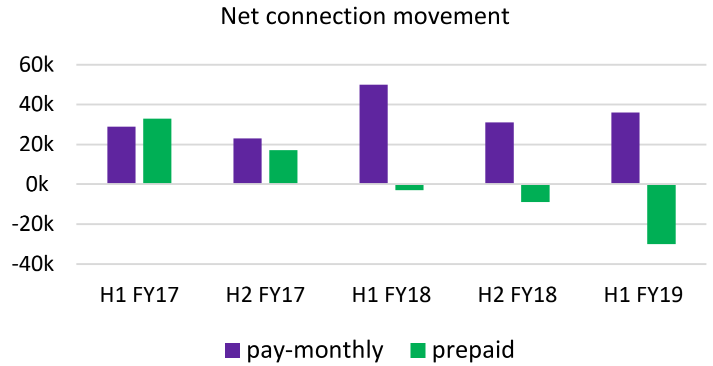
Market connection and revenue growth has slowed[1]; aspiration for FY19 mobile service revenue growth has been subsequently revised down from 5% to 3%

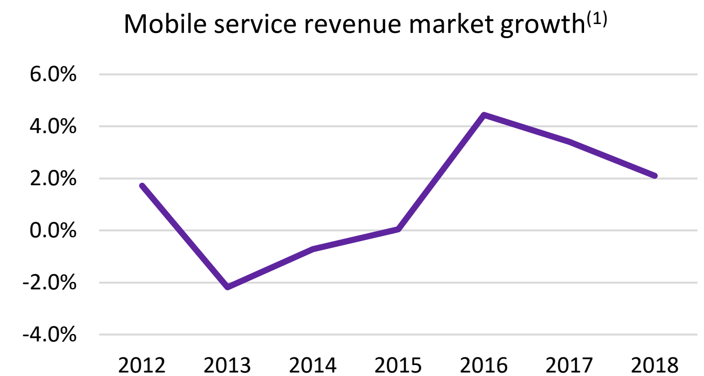
Focus shifted to margin improvement to support profitability, resulting in $20m (5.6%) increase in mobile gross margin and a 2.4pp improvement in mobile gross margin percentage (to 60.5%) due to:

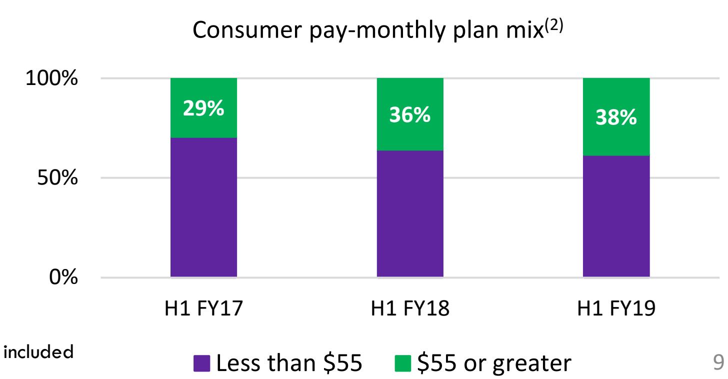
- Mobile services revenue growth of $8m (2.0%) largely driven by consumer pay-monthly connection growth;
- Lower external commission costs following insourcing of retail stores in late H1 FY18; and
- Ongoing migration away from device subsidies with 97%[2] of consumer pay-monthly base now on open term plans - up 3pp on prior year

Total mobile ARPU stable YoY:

- Stable consumer pay monthly ARPUs with 38% of customers now on higher value $55+ plans;
- Skinny prepaid offerings continuing to resonate with price sensitive customers driving ARPU growth of 10%; offset by
- ARPU declines in business segment due to persistent competitive pressure







[1] Based on independent market growth estimates

[2] Updated from previously communicated results to only include consumer pay-monthly connections. Calculation previously included SME connections which are now classified as business within Spark's new segmental reporting

Wireless Technology Pathway

5G Update

Planning to roll-out 5G prior to July 2020 however decisions on spectrum are needed

5G can enable additional capacity to be provided at a lower incremental unit cost than under 4G and 4.5G

Strong commercial incentive to rapidly build 5G network capability - once 5G is available to deploy - as the primary means of:

- Keeping ahead of growing customer demand for more data at faster speeds; and
- Supporting innovation and new services coming to market.

International markets moving ahead at pace with some already launching initial services. Spark leading out on investment and moving ahead to ensure New Zealand is not left behind.

Spark having to make decisions in absence of any clear government policy on when spectrum will be available and in what bands

Allocation processes for spectrum needs to be completed as soon as possible as Spark continues to have to make decisions contingent on securing additional 5G spectrum.

Disappointed with initial GCSB decision in relation to proposed use of Huawei RAN equipment in Spark's 5G network. Still in discussions, have yet to make any decision on whether or when we should submit a revised proposal to GCSB. However, confident that this will not affect plans to launch 5G network as Spark is multi-vendor capable.

Spark expects to fund the first phase of 5G network development (excluding spectrum) within its existing capital expenditure envelope of 11%-12% of revenues.

Plan to launch Spark's 5G network by 1 July 2020 at the latest, subject to the necessary spectrum being made available by the New Zealand Government

Outdoor and indoor trials completed early 2018.

5G Innovation Lab launched to allow partner companies to test and develop applications over a pre-commercial 5G network.

Build programme to increase the number of cell sites in existing mobile network underway to meet near-term capacity demand and lay groundwork for network densification required for 5G.

A refresh of Spark's Mobile core has completed in readiness for 5G and RAN integration of the Next Generation Core has been completed in the innovation lab.

Product Performance

Broadband

Broadband revenues returned to growth despite modest connection decline in a challenging and saturated market[1]. Further margin expansion as migration to wireless broadband services continues

Broadband market remains challenged; tier 2 players continue to offer aggressive price based bundles to secure growth in a saturated market[1]; 2018 market connection growth of ~3% was the lowest in more than 7 years

In this environment Spark successfully returned to broadband revenue growth up $13m (3.9%) on prior year due to:

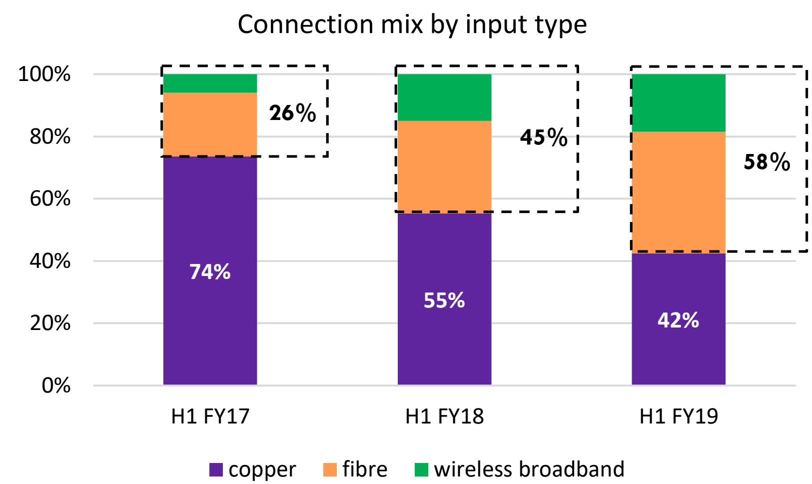
- Increase in retail price of copper plans and cessation of acquisition credits alongside launch of innovative 'Unplan'; and
- Ongoing increase in unlimited customer base with unlimited plans now accounting for 60% of base – up 7pp on prior year

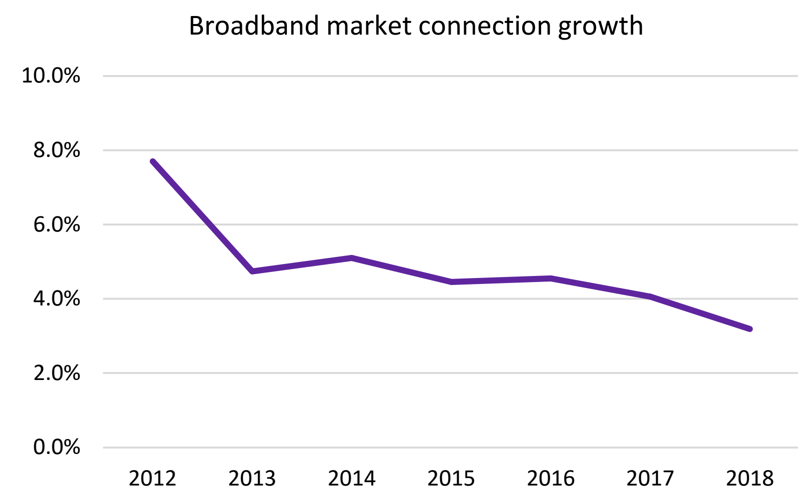
Broadband gross margin expansion continues; up $10m (6.3%) driven by revenue growth and:

- Launch of 'Unplan' driving another wave of wireless broadband uptake; now at 129k connections, delivering a further $8m reduction in broadband access costs during the period and ~$62m of annualised gross benefits; partially offset by
- Higher non-standard fibre install costs across both consumer and business; and
- Increases in copper and fibre input costs

Despite overall Spark connection decline (down 2k in H1) growth in SME and Skinny sub-brand connections continues. Skinny propositions, supported by lower cost to serve and fewer inclusions, continue to resonate with price-sensitive customers

Customer demand for data steadily rising; with average monthly data usage per connection of ~150GB up 13.4%[2] on prior year





(1) Based on independent market growth estimates
(2) Excludes Skinny, Bigpipe and Digital Island

Cloud, security and service management

Revenue growth fuelled by continued adoption of cloud services; further expansion in gross margin reflecting service management efficiency gains

Topline revenue growth of $16m (8.9%) however momentum has slowed. Ongoing demand and volume growth being partially offset by:

- Emerging price pressure on renewals driven by increased competition from local and global providers;
- Customer transitions proving to be slower and more complex as we move into 'middle-market' segment of the adoption curve for cloud; and
- Delayed roll-out of new digital workplace and security offerings due to refinement of customer proposition

Fundamental drivers of revenue growth continue to be:

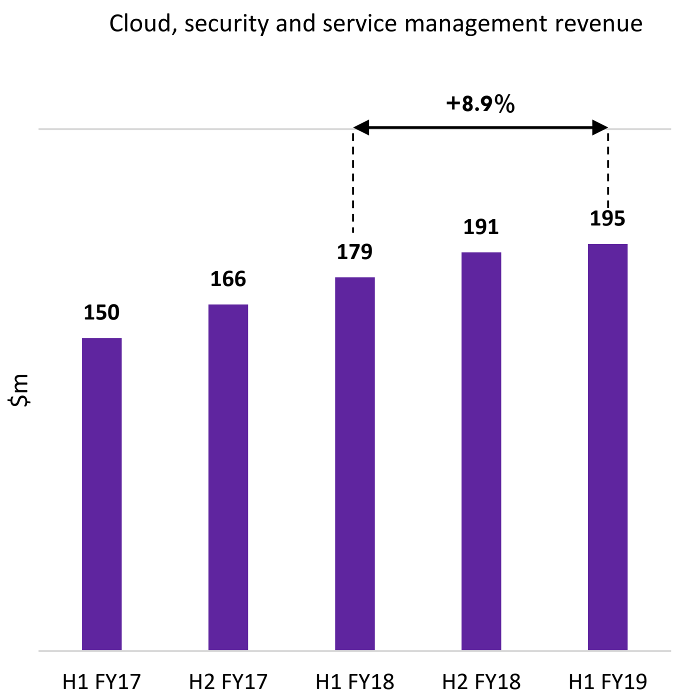
- Long pipeline of organic sales opportunities due to relatively low market penetration; and
- Global trends favouring cloud solutions

However due to emergence of moderating influences we are revising our FY19 revenue growth aspiration from 15% to 10%

Contribution margin[1] of 36.9% in line with H1 FY18 but down on H2 FY18 due to cyclical nature of project completion and customers moving to run state

Ongoing performance will be supported by a focus on:

- Product development for new market segments;
- Attracting skilled resources; and
- Continuing to mature our sales processes



[1] 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

Product Performance

Voice, Managed Data and Networks

Acceleration in rate of voice revenue decline as expected; due to impact of increased Wholesale connection churn seen during H2 FY18. Proactive migration away from traditional products driving improvement in managed data margins

Total voice, managed data and networks revenue declined by $51m (12.8%) on prior year; versus $54m (12.0%) YoY decline in H1 FY18.

H1 FY19 voice revenue[1] decline of $43m (14.7%) - versus prior period decline of $46m (13.6%) - due to:

- $27m (19.9%) decrease in landline only[2] revenues primarily due to full period impact of a large wholesale customer migrating away from PSTN to an alternative technology during H2 FY18; and
- $11m (11.2%) decrease in higher-margin calling revenues due to a 18% YoY decline in total calling minutes

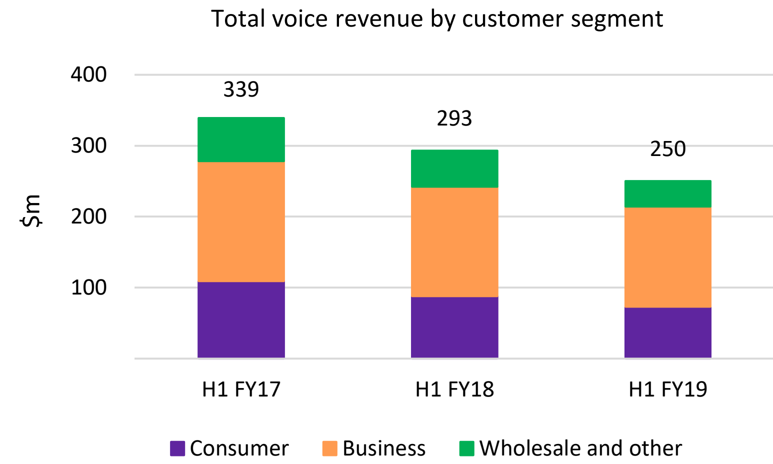
Voice product costs down $12m (11.5%) principally due to connection decline and lower international calling costs in line with reduced total calling minutes

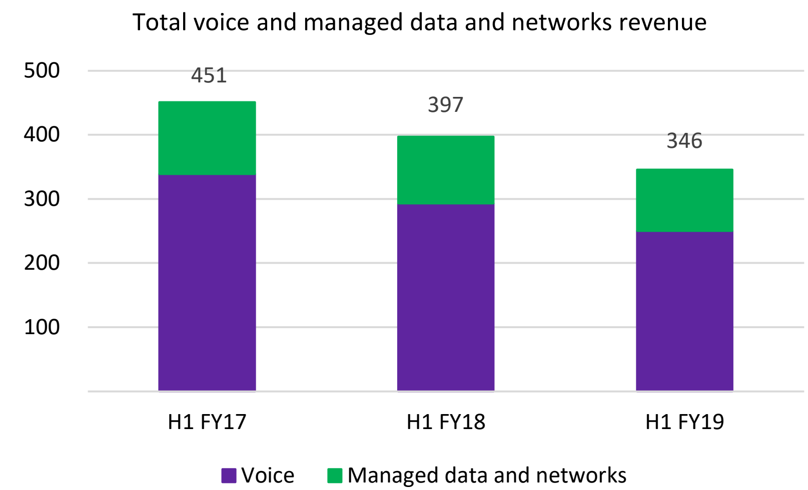
Wireless voice connection growth of 4k (28.6%) to 18k slower than expected; due to challenges in identifying the optimal sales approach to voice only customer base. Currently lagging behind growth aspiration to double base to 30k by the end of FY19; however we intend to accelerate wireless voice connections in H2

Managed data and networks revenue decline of $8m (7.7%) consistent with YoY decline seen in H1 FY18. However gross margin percentage up 1.2pp on prior year, to 53.1%, due to:

- Proactive migration of customers off legacy data platforms - onto new lower-margin fibre based alternatives largely complete; and
- Cost to serve benefits of support systems launched in FY18 - offering customers better self-service and improved customer experience. Delivery of WAN services reduced by 45+ days

Foundational customer experience and delivery work complete - focus now shifting to stabilisation of churn





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

Strategy: Progress Update

Spark Sport

Creating a future-focussed sports media business that meets the evolving needs of New Zealand sports viewers

Targeting commercial returns, rather than retention or acquisition benefits

Disciplined investment approach with considered moves into sports content; focused on a package of rights that can be commercialised with confidence

Well-balanced portfolio of initial content secured, demonstrating Spark's ambition to become a key player in the local sports market and a provider of international sports coverage

Cloud and App based platform minimises fixed cost infrastructure and costly investment in set-top boxes

Platform build tracking to plan with internal testing underway

Contracted a world-class streaming partner iStreamPlanet; currently supporting large scale international sporting codes and events such as:

- Super Bowl
- NBA League Pass; and
- Winter Olympics

Expect to launch beta version in early March 2019, in time for streaming F1 Australian Grand Prix which will be simulcast on TVNZ

On track to have platform stress tested and ready for Rugby World Cup 2019

Pricing for Spark Sport service (excl. RWC 2019) announced today

Spark Sport subscriptions will be $19.99 per month, with a one-month free trial available at launch

Pricing and packages for Rugby World Cup 2019 will be announced and on sale early in Q4 FY19 once the service is out of beta

RUGBY WORLD CUP JAPAN 2019 · Premier League · LFCTV · RUGBY WORLD CUP WOMEN'S · MUTV · NBA TV · FIH · WRC FIA WORLD RALLY CHAMPIONSHIP · F1

Strategy: Progress Update

Quantum: Agile Ways of Working

Full implementation of scale Agile operating model now complete. Focus shifting to optimisation and maturing of ways of working

Case Study: Network for Learning (N4L) migration

Network for learning have partnered with Spark to provide network connectivity to schools across NZ

- **2,400+ schools serviced by N4L network, 825k+ users per school day**

"Previously we had to liaise with many different people across different Spark teams, and we had concerns there wasn't the focus or urgency given to key projects. Today we are dealing with one multi-disciplinary team and we are making important decisions together, collaborating in real time, and resolving issues as they arise. There is full transparency and we now see this as one of our most positive and productive partnerships."
Larrie Moore, N4L CEO

Pre-Agile

- Customer excluded from internal design and build process
- Traditional hierarchical approach
- Pilot in 9 months
- Migration underway in 12 months
- 8 schools migrated a day
- Migration completed after 40 months

Post-Agile

- Customer involved in squad
- Collaborative design and build approach
- Pilot in 5 weeks
- Migration underway in 6 months
- 16 schools migrated a day
- Migration on schedule to complete in 14 months

Significant improvement in Managed Data tribe eNPS now at world class level above 70 (~30 before Agile transformation)

Agile transformation providing foundation for a sustained long-term competitive advantage.

Capital Management

Capital Expenditure

Capital envelope continues to provide sufficient capacity to execute strategy, with FY19 investment weighted towards H1 as expected

Capital Expenditure ($m)	H1 FY18	H1 FY19
Plant, network, core sustain and resiliency	38	36
IT systems [1]	64	70
Mobile [2]	89	89
Cloud	19	26
Other [3]	21	12
Converged Communications Network	17	20
International cable construction and capacity	14	11
Total CAPEX	**262**	**264**
Total CAPEX to operating revenue	14.9%	15.1%

[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, IoT and Morepork

Plant, network and core sustain includes ongoing fibre build programmes and investments in Spark-owned properties.

IT systems investment to enhance product offerings, improve customer experience and maintain business operations.

Mobile investment of $89m in line with H1 FY18 expenditure, with the single radio access network (SRAN) programme completed in H1 FY19.

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

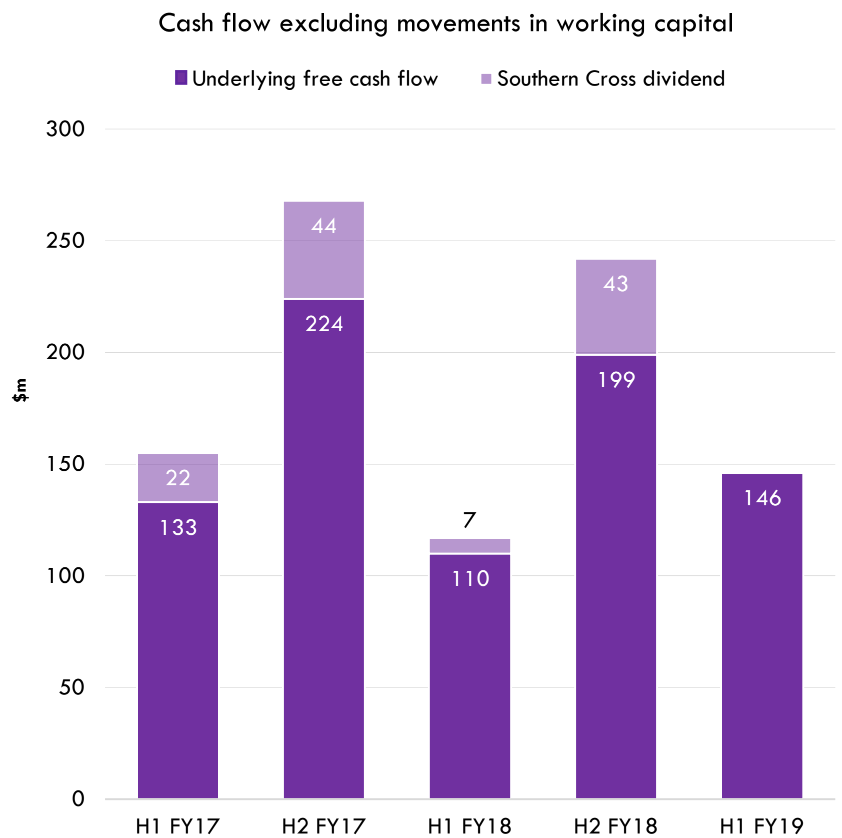
International cable includes capacity purchases on Southern Cross cable and investment in Tasman Global Access cable

Continue to operate within annual capital expenditure envelope of between 11% to 12% of operating revenues

Capital Management

Cash flow

Underlying free cash flow[1] up $36m or 33% on H1 FY18; benefits generated by Quantum programme more than offsetting diminishing, and currently withheld, Southern Cross dividends



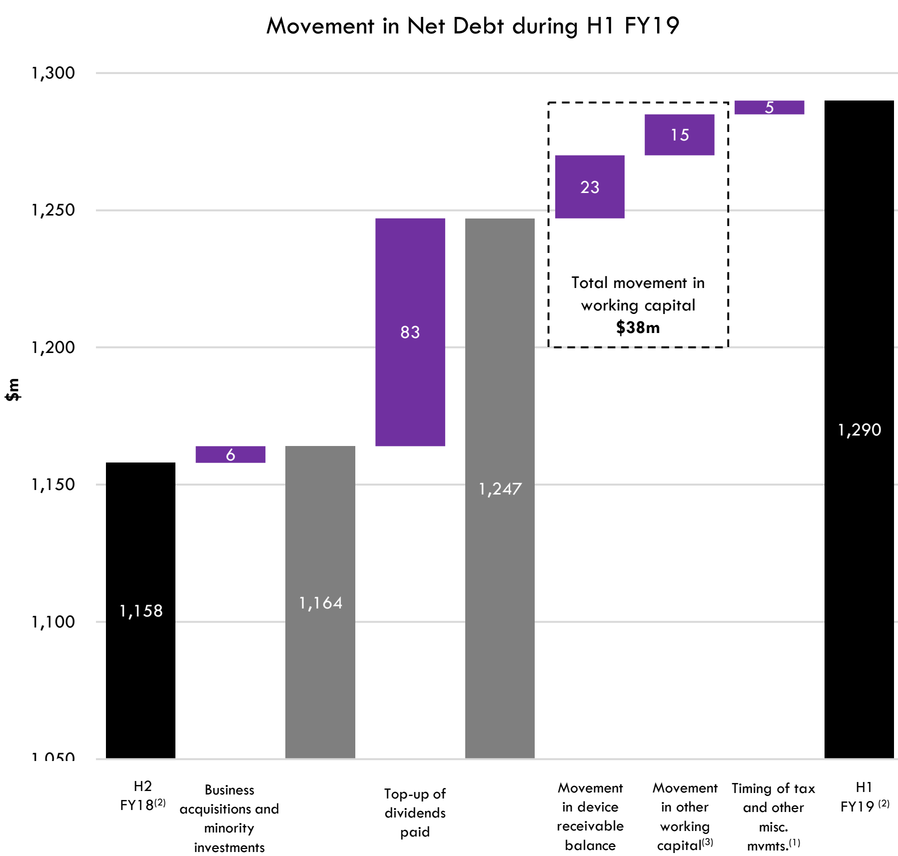
Key components of $36m growth in underlying free cash flow[1] between H1 FY18 and H1 FY19	
Net cash flow from operating activities minus movements in working capital and dividends received from Southern Cross Predominantly driven by EBITDAI growth - due to gross margin expansion and benefits of Quantum Programme	$58m
Payments for purchase of property, plant, equipment and intangibles Increase in cash payments for capital assets due to timing of FY18 purchases – H1 FY19 cash payment of $258m was in line with reported capital expenditure of $264m	($22m)
Net payments for leases including customer equipment assets No YoY change in cash payments; stable at $23m in both H1 and H2 of each financial year	-

[1] For further information refer to appendix 3

Capital Management

Net Debt

Current net debt to EBITDAI ratio of ~1.2x continues to provide sufficient debt headroom within our S&P A- credit rating; with net debt increasing by $132m during H1 FY19 primarily due to payment of dividends and continued growth in device receivable balance



[1] Miscellaneous movements include adjustments for fair value estimate of debt and timing of interest, capex and lease payments

[2] Dividend top calculated as total dividends paid less underlying free cash flow and dividends received from Southern Cross

[3] Net debt at hedged rates as reported in note 6 of Spark's FY19 Interim Financial Statements

[4] Calculated as total H1 FY19 increase in working capital of $38m *less* H1 FY19 increase in mobile device receivable balance of $23m

[5] Drivers of movement in working capital movements are outlined further in appendix 2

[6] Includes adjustments for leases, share based compensations, a 25% reduction in reported cash and captive finance operations

[7] As at 30 June 2018 equates to approximately 0.1x reduction in Spark's adjusted debt to EBITDAI ratio

$6m Various minority investments

$83m Dividend top-up[2] $29m less than H1 FY18 due to growth in underlying free cash flow; partially offset by decline in cash dividends received from Southern Cross. Debt support for dividend higher in H1 of each financial year with only ~37% of full year cashflow normally delivered during H1

$23m Ongoing growth in device receivable balance due to increases in both the average retail price of mobile devices and the volume of accessories sold via a deferred payment arrangement

$15m Increase in other working capital[4] [5] due to:

- Increased mobile device inventory; and
- Payment of Quantum implementation costs recognised in FY18; partially offset by
- Cyclical nature of payment due dates for a key supplier

Spark's net debt[3] to EBITDAI ratio of ~1.2x is consistent with:

- Our ongoing commitment to maintain an A- S&P credit rating; and
- Spark's internal capital management policy to ensure that on a long-run basis reported net debt[3] to EBITDAI does not exceed 1.4x; which Spark estimates is approximately equivalent to Standards & Poors' 1.5x[6] adjusted debt to EBITDAI 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[7].

During H1 FY19 Spark adopted the new NZ IFRS 15 and NZ IFRS 16 accounting standards. While adoption of these standards has altered the presentation of Spark's financials - as summarised in appendix 1 - Spark's Standard & Poors' A- credit rating remains unchanged.

The rate of net debt growth is expected to slow significantly in H2 FY19 as:

- Earnings growth provides additional funding headroom;
- Application of refreshed working capital policies improves underlying cash conversion; and
- Mobile device inventory is reduced

FY19 Outlook

Guidance[1]

FY19 guidance unchanged. However, if Southern Cross dividends continue to be withheld as pre-funding for build of Southern Cross Next cable then FY19 earnings per share - and associated FY19 guidance - will reduce by ~1c. A market update will be provided in the event that Southern Cross dividends are withheld for the remainder of FY19

	FY18 actual[2]		FY19 guidance [1] [2]	Change to previous FY19 guidance
	Reported	*Adjusted* excluding Quantum implementation costs		
Total Revenues	$3,533m		**$3,530m to $3,600m**	-
EBITDAI	$981m	$1,030m	**$1,065m to $1,095m**	-
Capex[3]	$413m		**~$410m**	-
Earnings per Share	19.9c	21.8c	**22c to 23c**	-
Dividend per Share	*Total* 25.0cps 75% imputed		***Total* 25.0cps** **at least 75% imputed[4]**	-

[1] Guidance subject to no adverse change in operating outlook
[2] Includes restatements for: new approach to disclosure of Spark's long-term investments; and adoption of NZ IFRS 15 and NZ IFRS 16 accounting standards
[3] Includes purchase of property, plant and equipment and intangible assets, capacity purchases (including Southern Cross) but excludes leased customer equipment assets
[4] 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

Indicators of Success

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

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

Appendices

Appendix 1

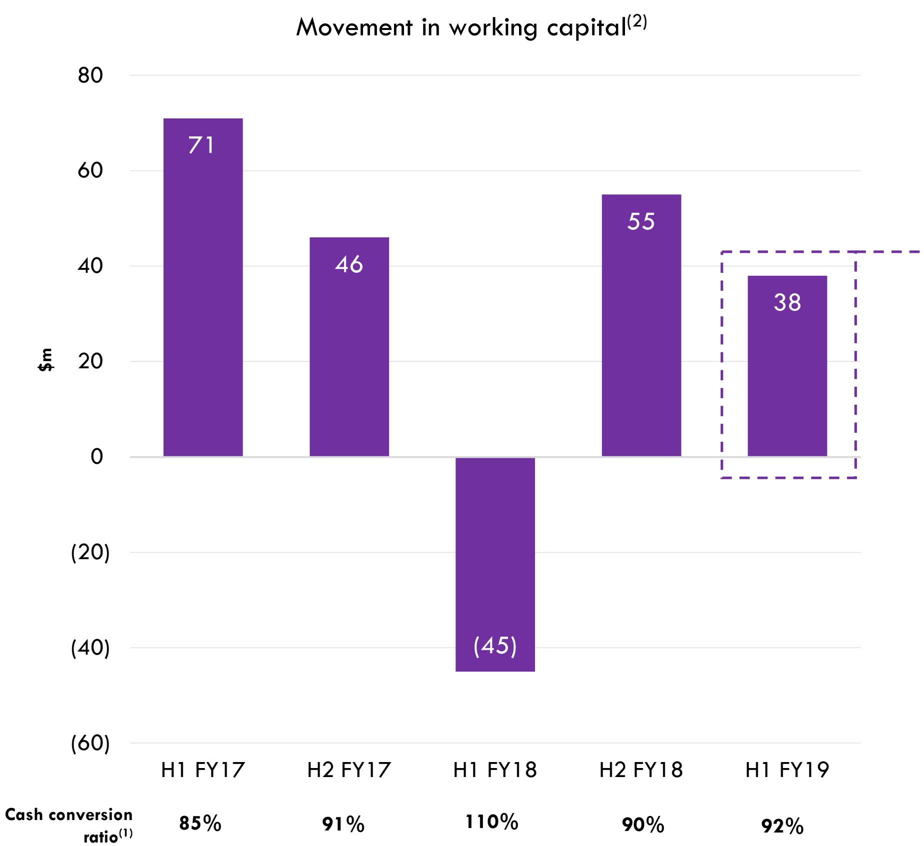
Adoption of IFRS 15 and IFRS 16

The resulting impact on reported FY17 and FY18 earnings is summarised below

	Reported *excluding* impacts from new disclosures		Adoption of NZ IFRS 15 *Revenue from contracts with customers*		Adoption of NZ IFRS 16 *Leases*		Change in disclosure of Spark's long-term investments		**Restated** *including* impacts from new disclosures	
	FY17 $m	FY18 $m	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	(50)	(69)	2	3	(61)	(50)	3,505	3,533
Operating expenses	(2,594)	(2,657)	26	39	70	66	-	-	(2,498)	(2,552)
Share of associates'	(4)	(3)	-	-	-	-	4	3	-	-
EBITDAI	**1,016**	**989**	**(24)**	**(30)**	**72**	**69**	**(57)**	**(47)**	**1,007**	**981**
Depreciation and amortisation	(430)	(434)	-	-	(52)	(47)	-	-	(482)	(481)
Net investment income	-	-	-	-	-	-	57	47	57	47
Finance income	16	16	14	18	1	1	-	-	31	35
Finance expense	(42)	(46)	-	-	(33)	(31)	-	-	(75)	(77)
Net earnings before income tax	560	525	(10)	(12)	(12)	(8)	-	-	538	505
Tax expense	(142)	(140)	-	-	-	-	-	-	(142)	(140)
Net earnings after income tax	**418**	**385**	**(10)**	**(12)**	**(12)**	**(8)**	**-**	**-**	**396**	**365**
EBITDAI Margin (%)	28.1	27.1							28.7	27.8
Earnings per share (cents)	22.8	21.0	(0.5)	(0.7)	(0.7)	(0.4)	-	-	21.6	19.9

Appendix 2
Working Capital

H1 FY19 cash conversion ratio(1) of 92% remains in line with expected full year conversion ratio of 95%; underlying improvements in cash conversion partially offset by timing of Quantum implementation costs and increased mobile device inventory



(1) Calculated as net cash flow from operations (excluding tax, dividend receipts and interest) divided by EBITDAI (excluding impairments and net gains from divestments)
(2) Calculated as EBITDAI (excluding impairments and net gains from divestments) *less* operating cash-flow (excluding tax, dividend receipts and interest)
(3) Retail price including GST

Key components of movement in working capital(2) during H1 FY19	
Device receivable Slowing rate of growth (versus H1 FY18 increase of $29m) due to: • Increase in average price of mobile devices - demonstrated by 8pp increase in proportion of deferred mobile device purchases sold at a retail price(3) of $1,500 or more; and • Increase in volume of accessories and other consumer devices purchased via deferred payment; partially offset by • 3% YoY reduction in volume of mobile devices purchased via deferred payment – due to emergence of longer consumer refresh cycles	$23m
Prepayments and accruals Biennial software licence renewals and payments for content ahead of Spark Sports launch – with content only classified as inventory once it is available for distribution	$20m
IT services contracts Primarily due to a cash neutral reclassification from receivables - to more accurately reflect contract assets	$18m
Timing of payables and receivables Mostly driven by: • Underlying cyclical nature of payment due dates for a key supplier; and • Cash neutral reclassification from receivables - to more accurately reflect contract assets; partially offset by • Payment of Quantum implementation costs recognised in H2 FY18	($55m)
Inventory Slower than expected sales of high-capacity flagship mobile devices; due to emergence of a consumer 'price ceiling'	$32m

Appendix 3

Cash flow

Following adoption of new accounting standards and changes to the disclosure of Spark's long-term investments Spark has introduced a new measure to better communicate cash flow

When first announced, this measure specifically excluded payments for the purchase of spectrum. However it has since been refined to also exclude:

- All movements in working capital[1] including the intermittent YoY cash flow impact (of over $80m) resulting from cyclical payment due dates for a key supplier; and
- Southern Cross dividends - to provide a clearer view of cash flow generated by the operational activities of the business

The refined measure will be identified as "underlying free cash flow" and will be provided as part of ongoing external financial reporting

To enable reconciliation of this measure to Spark's cash flow statement, a new category has been created within Spark's cash flow statement called "payments for purchase of spectrum"

	H1 FY17 $m	H2 FY17 $m	H1 FY18 $m	H2 FY18 $m	H1 FY19 $m
Net cash flows from operations	320	438	426	394	393
Payments for purchase of property, plant, equipment and intangibles	(211)	(187)	(236)	(178)	(258)
Payments for capitalised interest	(2)	(4)	(4)	(4)	(3)
Payments for leases	(17)	(17)	(17)	(17)	(17)
Payments for leased customer equipment assets	(7)	(8)	(8)	(9)	(8)
Receipts from finance leases	1	-	1	1	1
excluding					
(Increase)/decrease in working capital[1]	(71)	(46)	45	(55)	(38)
Dividends received from Southern Cross	22	44	7	43	-
Underlying free cash flow	**133**	**224**	**110**	**199**	**146**

[1] Calculated as EBITDAI (excluding impairments and net gains from divestments) *less* operating cash-flow (excluding tax, dividend receipts and interest)

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.

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