Spark New Zealand H1 FY20 Results Summary

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Result Highlights

Relentless focus on delivery and execution driving strong financial performance and market momentum. Resulting in highest revenue growth in three years, up $70m or 4.0% on prior year, driven by:

- Stand-out performance in mobile, securing 5.5% growth in high-margin mobile service revenue. Market share of mobile service revenue now at 40.1%, up 1.2pp on prior year[(1)] - its highest level since 2012;
- Continued growth in cloud, security and service management revenue, up $24m or 12.3% on prior year;
- Entry into sports media via Spark Sport; and
- Moderation in the rate of legacy voice declines as this becomes a smaller part of the Spark business.

Operating expenses increased as the benefits of cost-out activities were reinvested to partially fund current and future revenue growth, resulting in EBITDAI growth of $11m or 2.2% on prior year.

Continue to invest in a wireless future for New Zealand. First-to-market 5G rollout progressing well in heartland New Zealand. Completion of early access 5G spectrum auction, which commences in March 2020, is a key enabler of a broader rollout.

Broadband market remains challenging. Moderation in wireless broadband growth the result of planned slow-down in sales activity before and during the Rugby World Cup (RWC), but expect to benefit from new broadband offerings during H2 FY20.

Continued focus on implementing Agile ways-of-working is delivering better experiences for our customers and our people. Customer satisfaction scores are already ahead of full-year targets and total customer care interactions[(2)] are down 15% on prior year.

Tightened focus on core through divestment of Lightbox and CCL's network assets[(3)] and merger of cloud and ICT businesses Revera and CCL. Also secured critical long-term access to international capacity, with build of Southern Cross Next cable now underway.

Next three-year strategy, encompassing the period out to and including FY23, will build-on the momentum and foundational capabilities we have established through the successful execution of our current strategy. Further context and detail will be communicated at our Investor Day on 2 April 2020.

Maintain FY20 EBITDAI, capital expenditure and dividend guidance, including FY20 dividend guidance of 25 cents per share at least 75% imputed[(4)].

(1) Market share estimates sourced from IDC
(2) Total customer care interactions include voice, chat and virtual assistant interactions
(3) The Lightbox and CCL network asset transactions completed in January 2020. As such a) H1 FY20 includes six months of normal trading activity for both entities and b) any transaction impacts will be recognised in H2 FY20
(4) Subject to no adverse change in operating outlook

Creating a wireless future: 5G update

Investment in network innovation enabling efficient growth in data capacity and first-to-market launch of 5G wireless broadband services

First-to-market with 5G in November 2019

Launched with service of most immediate value for New Zealanders - 5G wireless broadband.

Already testing 5G solution 'out on the water' with Emirates Team New Zealand; in support of their defence of the America's Cup.

5G lab continues to be a catalyst for the research and development of 5G services and applications. Now collaborating with 'pioneer' enterprise customers.

Early access 3.5GHz 5G spectrum imminent – critical enabler of full suite of 5G services

Early access 3.5GHz spectrum auction process to begin in March 2020. Will provide short-term access until full spectrum band is available late 2022.

Expect consultation on long-term spectrum auction process to continue through the second half of 2020.

Long-term spectrum rights now assumed to be auctioned in early 2021.

Well positioned for progressive 5G network roll-out

Have already completed substantial capacity upgrade across Spark's wireless network.

Capital investment will remain weighted towards mobile in support of 5G roll-out. Remain confident of ability to fund roll-out within existing capital envelope.

Network vendors selected in line with multi-vendor approach. Will provide flexibility to take advantage of 'best-of-breed' technologies.

Financial Summary

Revenue momentum – created by successful delivery of our strategy – fuelling EBITDAI and earnings growth

EBITDAI of $500m, up $11m or 2.2% on prior year, benefiting from improved market momentum across all key product lines.

Revenue up $70m or 4.0% on prior year. Substantial growth across total mobile revenues, up $31m or 5.0%, and cloud, security and service management, up $24m or 12.3%, more than offsetting moderated declines in voice and other managed services.

Operating expenses up $59m or 4.7% on prior year, including $29m of gross cost-out benefits reinvested in support of both current and future revenue growth opportunities.

NPAT growth of $14m or 9.2%, primarily driven by:

- Increased EBITDAI of $11m or 2.2%; and
- Reduction in depreciation and amortisation of $11m or 4.5%; following end-of-life of several software assets in H1 FY19; partially offset by
- Increase in finance expenses of $6m or 15.0% on higher average net debt.

Improvement in working capital performance with growth of $31m, a $50m improvement on normalised prior year[1], due to expected unwind of FY19 receivables growth. However H1 FY20 free cash flow impacted, as expected, by phasing of capital expenditure and timing of tax payments.

Net debt grew by $210m during H1 FY20; but is expected to reduce during H2 FY20 on improved generation of free cash flow. Remain confident in ability to generate sufficient H2 FY20 free cash flow to deliver full-year free cash flow of ~ $460m.

H1 FY20 dividend per share of 12.5c to be 75% imputed. Subject to no adverse change in operating outlook maintain full year FY20 dividend guidance for a total dividend per share of 25.0c at least 75% imputed.

+$70m
4.0%

Revenue movement
vs. H1 FY19

+$11m
2.2%

EBITDAI movement
vs. H1 FY19

+$14m
9.2%

NPAT movement
vs. H1 FY19

[1] Six monthly payments were made to Chorus in H1 FY20 versus only five monthly payments in H1 FY19. If six monthly payments had been made to Chorus in H1 FY19 - consistent with H1 FY20 - then H1 FY19 working capital would have increased by $81m rather than $38m as reported.

Financial Performance

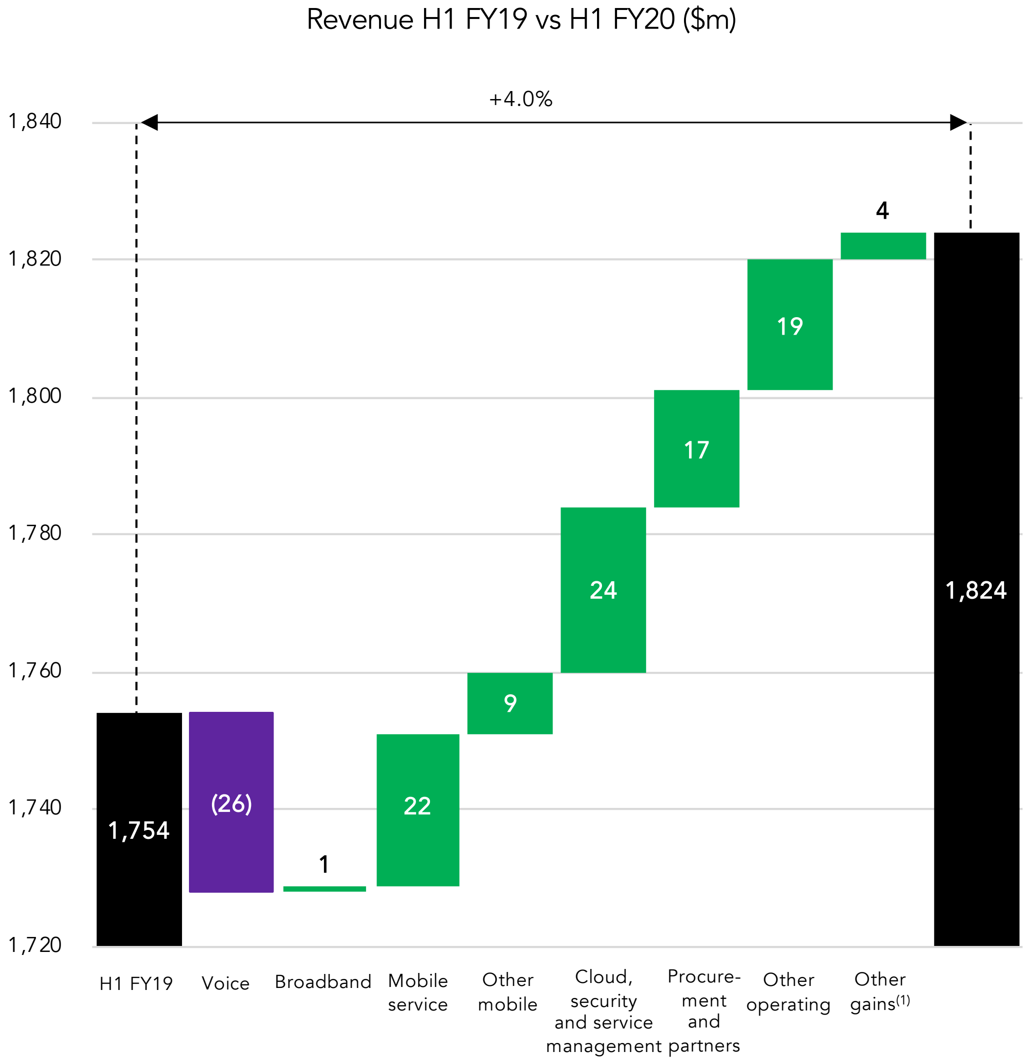
Financials

	H1 FY19 $m	H1 FY20 $m	CHANGE
Operating revenues	1,754	1,824	4.0%
Operating expenses	(1,265)	(1,324)	(4.7%)
EBITDAI	**489**	**500**	**2.2%**
Finance income	18	18	-
Finance expense	(40)	(46)	(15.0%)
Depreciation and amortisation	(245)	(234)	4.5%
Net investment income	-	(1)	NM
Net earnings before tax expense	**222**	**237**	**6.8%**
Tax expense	(69)	(70)	(1.4%)
Net earnings after tax expense	**153**	**167**	**9.2%**
Capital expenditure	264	247	(6.4%)
Free cash flow[1]	108	50	(53.7%)
EBITDAI margin	27.9%	27.4%	(0.5pp)
Effective tax rate	31.1%	29.5%	(1.6pp)
Capital expenditure to operating revenues	15.1%	13.5%	(1.6pp)
Earnings per Share	8.3	9.1	9.6%
Total Dividend per Share	12.5c	12.5c	-

[1] The calculation of free cash flow is defined within the 'cash flows' worksheet of the H1 FY20 detailed financials

Revenue

Positive revenue momentum now evident across all key products; benefiting from improved speed to market, customer experience and product performance



Growth in high-margin mobile service revenue due to successful monetisation of mobile data – via adoption of 'unlimited' plans.

Cloud, security and service management growth benefiting from further penetration of cloud services and onboarding of new contracts that were delayed during FY19.

Moderation in rate of voice declines – in line with expectation as voice becomes a smaller part of the business.

Broadband market remains challenging – albeit with revenue remaining stable despite modest connection decline.

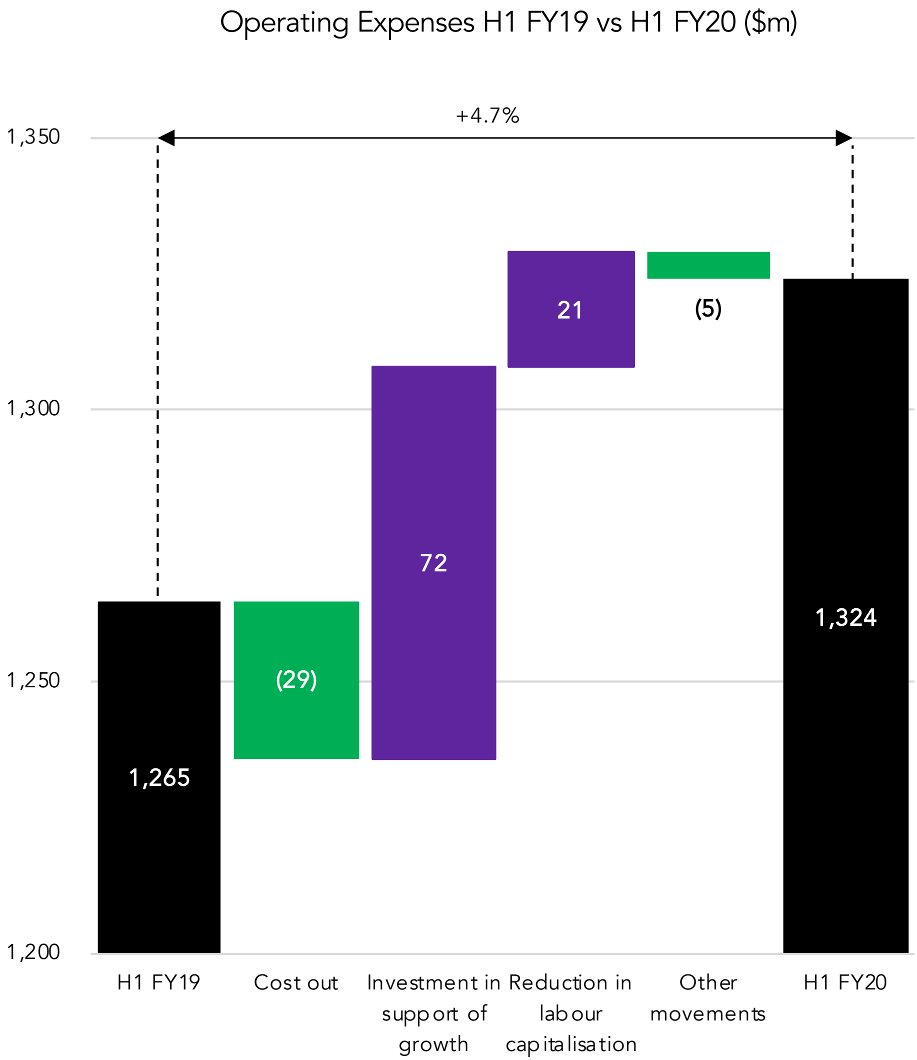
Other revenue benefiting from entry into sports media via Spark Sport, IoT growth and expansion of Qrious data and analytics business.

(1) Other gains from sale of surplus equipment and other sundry divestments

Overall Performance

Operating Expenses

Benefits of cost management being successfully reinvested in support of current and future revenue growth



$29m of cost-out delivered across product costs, labour and other expenses including:

- Mobile product costs held in-line with prior year – despite significant revenue growth; and
- Wireless broadband benefits more than offsetting margin erosion from annual increases in input prices for both fibre and copper.

Cost out benefits reinvested in support of:

- Revenue growth across established cloud, security, service management and analytics offerings; and
- Entry into new markets including; sports media via Spark Sport, IT consultancy via Leaven and emerging technologies business Mattr.

Labour costs up $17m on prior year due to:

- Investment in support of revenue growth; and
- Increase in portion of labour costs that are expensed. Following completion of large IT programs more effort now spent on simplification and optimisation of existing products, rather than building new capital assets; partially offset by
- Reduction in labour costs associated with legacy offerings.

Productivity and efficiency disciplines embedded into core operations, in support of ongoing improvement in EBITDAI margin.

Cost Management

Focus on cost leadership continues to drive operational discipline and create capacity for targeted investments

Proven disciplines and delivery approaches are embedded into our 'way of operating'

Successful cost management hinges on a simple but effective framework:

- Establish efficiency targets across every part of the business;
- Take a programmatic approach – operating on a weekly cadence – to implementing the actions required to deliver each opportunity; and
- Build momentum by ensuring performance against targets is visible.

$29m of gross savings delivered in H1 FY20, with further savings targeted for H2 FY20

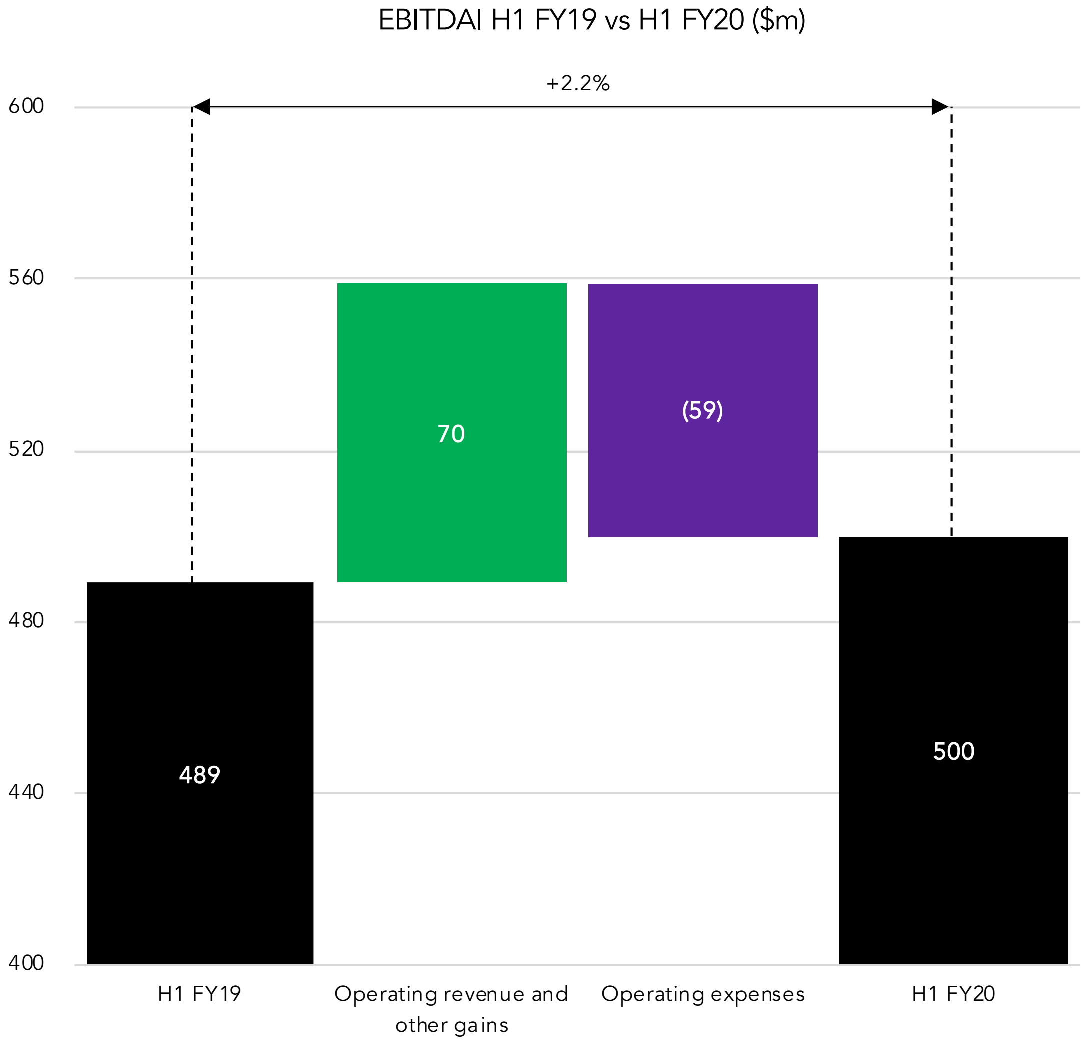
Savings centred on a number of key areas:

- Further simplification of product offerings such as introduction of 'one number' capability for wearables and cessation of legacy data offers;
- Ongoing process automation including digitisation of common customer journeys to remove complexity and improve experience;
- Further adoption of wireless broadband;
- Productivity gains through utilisation of new network and IT system technologies; and
- Unlocking supply chain efficiencies via commercial models and partnerships.

Overall Performance

EBITDAI

EBITDAI growth driven by strong revenue and margin performance across all key products



Gross margin growth of $26m or 2.7% attributable to:

- Mobile connection and ARPU growth;
- Cloud revenue growth;
- Ongoing benefits of wireless broadband adoption; and
- Benefits of cost management activities.

Mobile, cloud, security and service management now deliver 59.0% of Spark's gross margin, up from 49.8% in H1 FY17.

H1 FY20 EBITDAI margin of 27.4% down 0.5pp on prior year due to increase in lower-margin procurement and mobile non-service revenues and investment in sport.

Remain on-track for full-year EBITDAI margin target of at least 31%. H2 FY20 EBITDAI margin expansion expected to be driven by:

- Continuation of revenue growth; and
- Ongoing focus on cost management across the business.

Product Performance

Mobile

Market-leading revenue growth the result of excelling across all aspects of mobile proposition

Secured ~90% of total market growth[1] in high-margin service revenue during H1 FY20 – up $22m or 5.5% on prior year driven by:

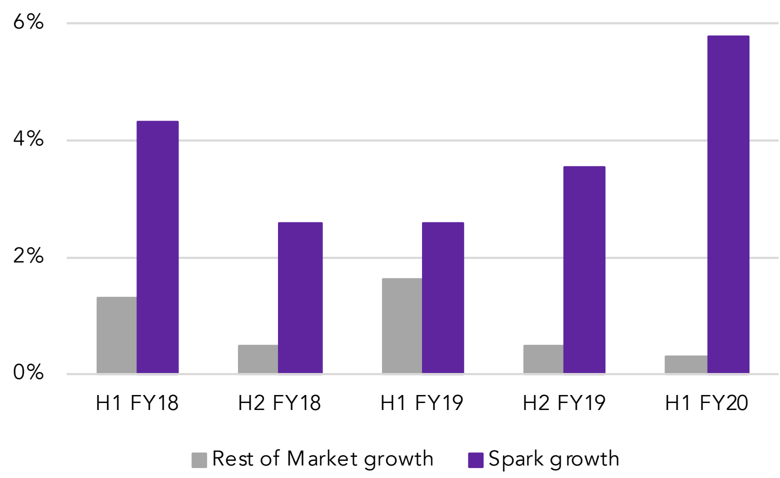
- Pay-monthly connection growth, up 62k;
- Further adoption of 'unlimited' plans – with the number of 'unlimited' connections more than doubling YoY; and
- Implementation of new data propensity-to-buy models to improve the effectiveness of customer offers.

Gross margin up $29m or 7.7% due to growth in service revenues, combined with further migration away from subsidised plans. Open-term plans now account for 99% of consumer pay-monthly base.

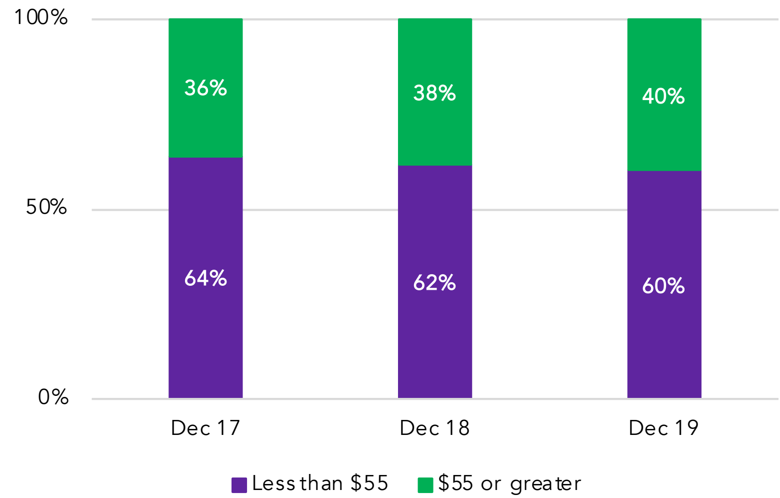
Pay-monthly ARPU stabilised, for the first time in at least three years, due to moderation in rate of business ARPU declines. Competitive pricing pressure remains, however headwinds created by migration off legacy business plans to 'shareable' offerings is abating.

As a result of H1 FY20 growth momentum we have increased our full-year mobile service revenue growth target from 2-3% to 4-5%.

Percentage growth in mobile service revenue versus prior year[1]



Consumer pay-monthly plan mix



[1] Market estimates sourced from IDC - exclude wholesale mobile revenues

Product Performance

Broadband

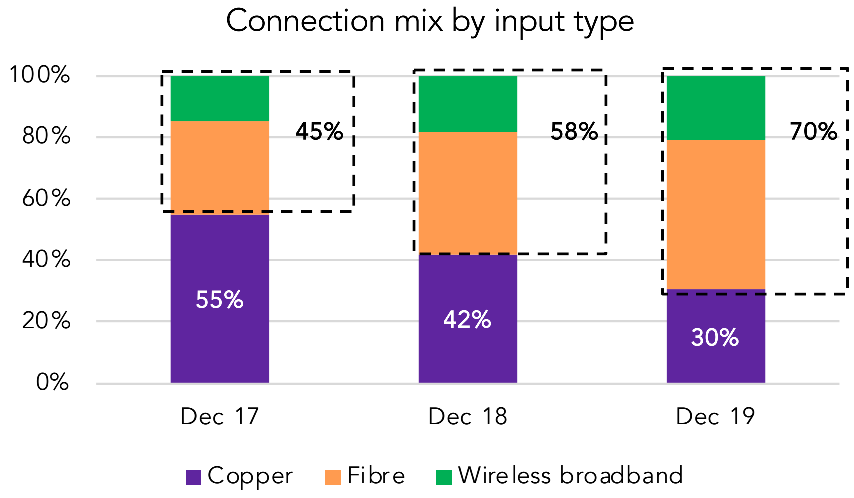
Continued gross margin improvement, despite connection share loss, in a highly competitive and saturated market[1]

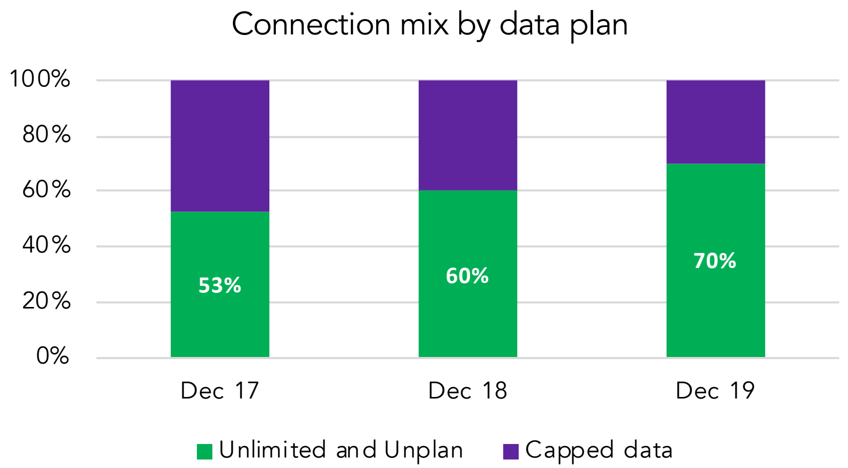
Mixed results in achieving dual focus of margin growth and holding market share:

- Gross margin growth, up $7m or 4.2% on prior year, underpinned by ongoing benefits of wireless broadband adoption;
- Rate of wireless broadband growth moderated during H1 FY20, due to planned slow-down in sales activity before and during the RWC; and
- 3k decline in connections during H1 FY20 reflective of the challenges of competing in a highly commoditised market.

Customer demand for more data continues to drive ARPU growth, with unlimited and 'unplan' broadband plans now accounting for 70% of the broadband base – up 10pp on prior year.

Share of market connections and rate of wireless broadband growth expected to benefit from new higher data offerings during H2 FY20. However, we have revised full-year wireless broadband connection growth target down from +30k to +20k.





[1] Market size and growth estimates sourced from IDC

Product Performance

Cloud, security and service management

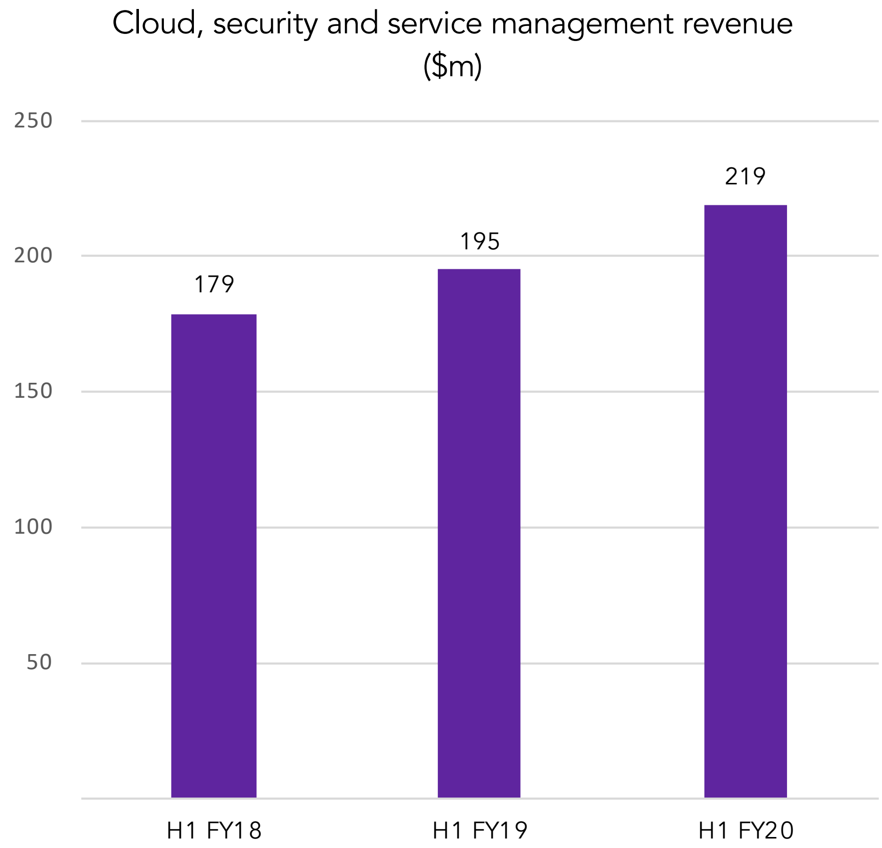
Ongoing penetration of cloud services continues to underpin revenue growth, with H1 FY20 also benefiting from completion of previously delayed customer transitions

Revenue growth of $24m or 12.3% fuelled by:
- Further penetration of core cloud services and ongoing shift of customers to more flexible and future-proofed cloud-based IT models; and
- Customer transitions that were delayed during FY19.

Increase in contribution margin[(1)] of $3m, or 4.2%, albeit at a slower rate than revenue growth due to shift in customer demand towards more labour intensive and lower-margin service management offerings.

Fundamental drivers of revenue growth continue to be:
- Helping accelerate adoption of cloud and associated services for those businesses who have already made some movement towards cloud-based IT models; and
- Organic pipeline of sales opportunities for those two thirds of businesses who have yet to transition to cloud-based services.

Continue to expect full year revenue growth of 8-10%



[(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 and other managed services

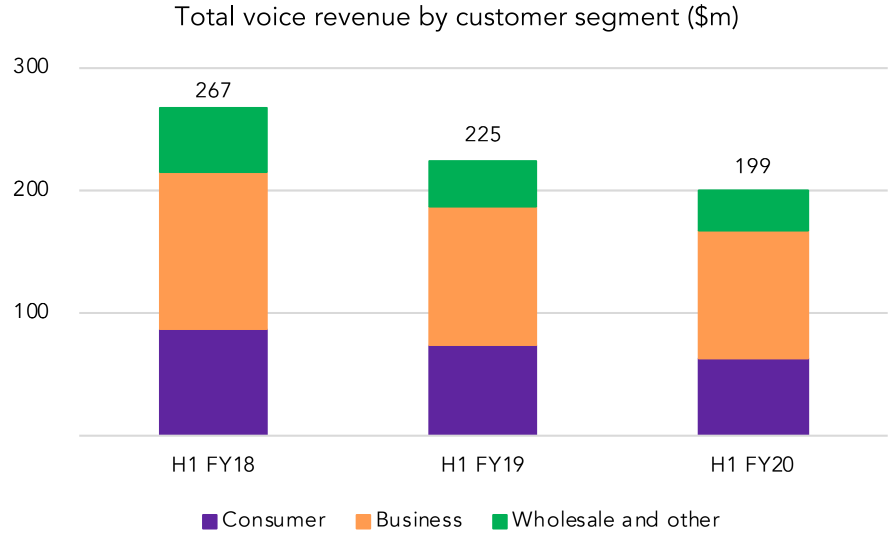
Significant moderation in the rate of voice and other managed service revenue decline

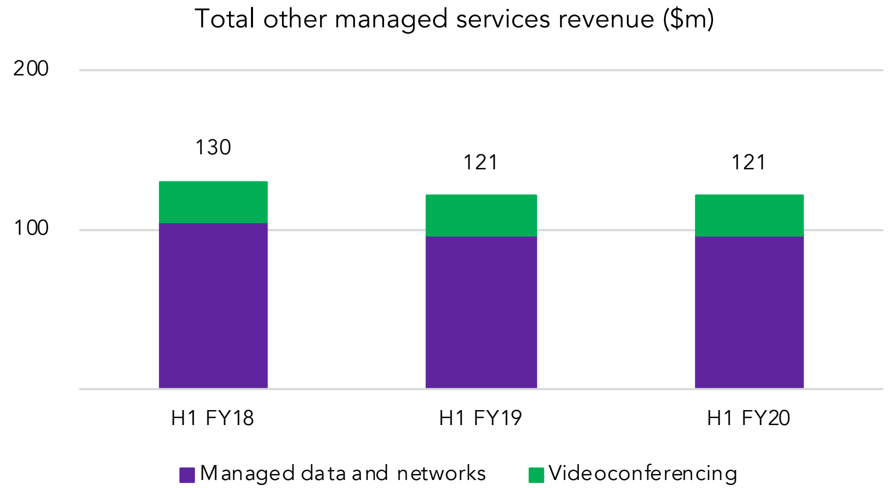
Absolute decline in voice and other managed services revenue of $26m significantly improved on prior year decline of $51m due to:

- Return of voice connection declines to more normalised levels after a period of wholesale customer migration;
- Decline in total calling minutes due to connection loss and substitution; and
- Return of managed data and networks revenue to modest growth – as substantial portion of base has now migrated onto new lower-margin fibre-based alternatives.

Impact of revenue declines on gross margin partially offset by migration of customers to better performing, higher-margin managed data services such as software defined wide-area-networks (SDWAN).

Now expect voice revenues to decline by ~12%, rather than between 12% and 15%, due to return of connection declines to more normalised levels





Overall Performance

Capital Expenditure

$17m reduction in spend on prior year. Consistent with targeted reduction in full-year capital envelope of ~$47m, from $417m to ~$370m[(1)]

Capital expenditure ($m)	H1 FY19	H1 FY20
Mobile network[(2)]	89	92
IT systems	70	73
Core network infrastructure	36	50
Cloud	26	16
Converged Communications Network (CCN)	20	11
International cable construction and capacity[(3)]	11	-
Other[(4)]	12	5
Total capital expenditure	**264**	**247**
Total capital expenditure to operating revenue	15.1%	13.5%

Mobile network investment in support of increased capacity and initial roll-out of 5G wireless services in heartland New Zealand.

Underlying reduction in IT systems investment - in-line with expected reduction in the amount of labour spend incurred in relation to systems development - offset during H1 FY20 by timing of software license purchases.

Increase in core network infrastructure includes establishment of content delivery networks in the lead up to the RWC and investment in optical transport capacity and resiliency.

Investment in multi-year Converged Communications Network (CCN) programme continues – albeit with peak-funding period having now passed.

Reduction in international cable construction and capacity investment due to timing of capacity demand.

(1) Excluding expenditure on mobile spectrum
(2) Mobile includes investment in standalone mobile assets including capacity in support of wireless broadband
(3) International cable includes capacity purchases on Southern Cross cable and investment in Tasman Global Access cable
(4) Reductions in other investments due to completion of IOT LoRA WAN network, Lightbox platform redevelopment; and retail store fit-out programme

Free cash flow

Remain confident in ability to generate sufficient H2 FY20 free cash flow to deliver full-year free cash flow of ~ $460m; reliant on three key outcomes

1 FY20 EBITDAI growth is within guidance

Full year EBITDAI guidance is for growth of between $10m and $30m[1].

Achieved H1 FY20 EBITDAI growth of $11m.

2 FY20 capital expenditure is in-line with guidance at ~$370m

Spend historically weighted towards H1:

- To ensure capacity increases are provisioned ahead of seasonal peaks in customer demand; and
- Due to larger number of working days in H1 – with volume of capitalisable work subsequently higher in H1 than H2.

H2 FY20 payments for capital assets will be lower than in H1 FY20 due to completion of larger network and physical infrastructure investments

3 Working capital grows by no more than $50m during FY20

Expect full year working capital growth to be a maximum of ~$50m – an improvement of at least $87m on prior year.

H1 FY20 working capital growth of $31m was a $50m improvement on normalised prior year growth[2], due to expected unwind of FY19 receivables growth.

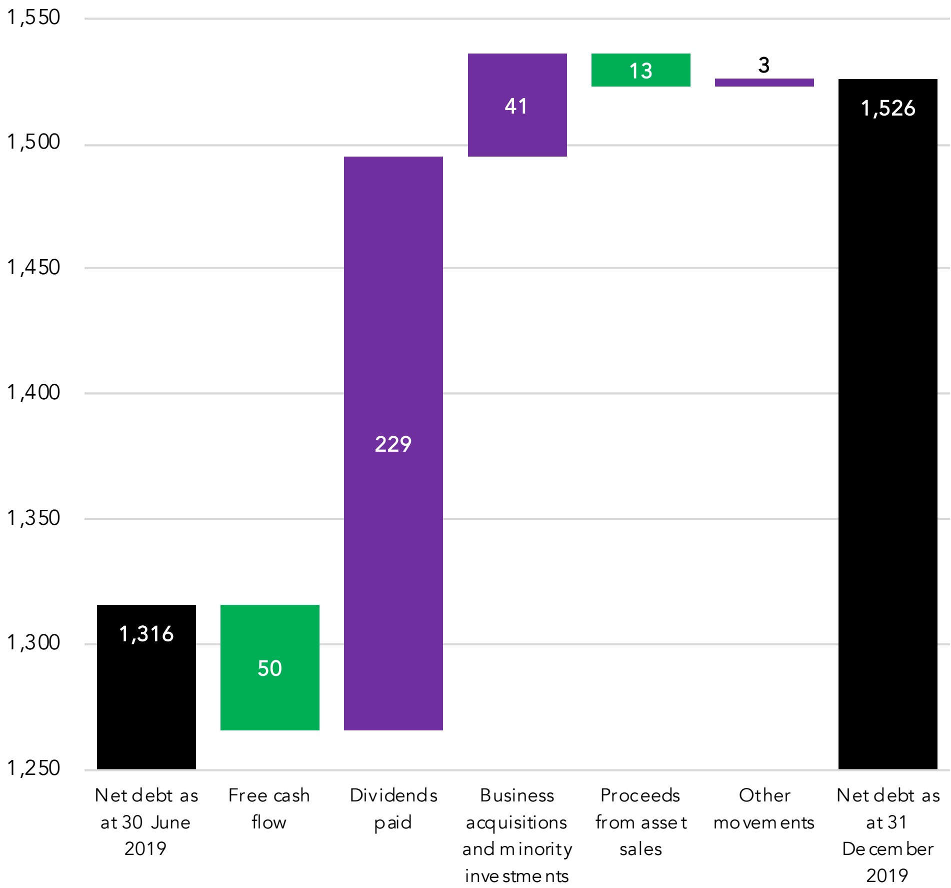
(1) Subject to no adverse change in operating outlook
(2) Six monthly payments were made to Chorus in H1 FY20 versus only five monthly payments in H1 FY19. If six monthly payments had been made to Chorus in H1 FY19 - consistent with H1 FY20 - then H1 FY19 working capital would have increased by $81m rather than $38m as reported.

Capital Management

Net debt[1]

Net debt grew by $210m during H1 FY20 but is expected to reduce during H2 FY20, due to improvement in free cash flow generation as heavy H1 investment abates

Movement in net debt during H1 FY20 ($m)



Expenditure on business acquisitions and minority investments largely driven by:

- Acquisition of Now Consulting; and
- Equity contributions towards construction of the Southern Cross Next cable.

Proceeds from asset sales relates to receipt of funds from sale of surplus mobile network equipment that occurred in FY19.

Net debt expected to reduce during H2 FY20 due to:

- Seasonal improvement in EBITDAI;
- Planned reductions in capital investment; and
- Proceeds from recently completed asset sales.

[1] Net debt at hedged rates as reported in note 6 of Spark's FY20 Interim Financial Statements

FY20 Outlook

Guidance(1)

FY20 guidance unchanged

	FY19 Actual	FY20 Guidance(1)	Change to previous FY20 Guidance
EBITDAI	$1,090m	**$1,100m to $1,120m**	-
Capital expenditure(2)	$417m	**~$370m**	-
Dividend per share	Ordinary 22.0c (75% imputed) Special 3.0c (75% imputed)	**Ordinary 25.0c at least 75% imputed**	-

(1) Subject to no adverse change in operating outlook
(2) Includes purchase of property, plant and equipment, intangible assets and capacity (including Southern Cross) but excludes spectrum purchases and leased customer equipment assets

FY20 Outlook

Indicators of Success

	Measures	Target 30 June 2020	Status	Revised Target 30 June 2020
Build customer intimacy	Consumer and small business iNPS	8 point lift	Ahead	
	Growth in mobile and broadband change transactions completed online	30%	Ahead	
Create a wireless future	Go-live of 5G for America's Cup (subject to spectrum)	Ready for July 2020 launch	On Track	
	Preparation for commercial launch of 5G (subject to spectrum)	5G sites deployed to targeted geographical locations	Launched	
	Growth in wireless broadband connections	+30k	Target Revised	+20k
Create New Zealand's premier sports streaming experience	Rugby World Cup tournament	Successfully deliver the RWC tournament with platform availability of 99.9%	Delivered platform availability of 99.8%	
Grow key markets	Mobile service revenue growth[1]	2% to 3%	Target Revised	4% to 5%
	Cloud, security and service management revenue growth	8% to 10%	On Track	
	Growth in number of connected IOT devices	60%	Ahead	
	Launch progressive roll-out of new concept Spark retail stores	By end of September 2019	Completed	
Mature Agile leadership	Percentage of Agile squads at or above level 3	85%	Progressing	
Deliver best cost	EBITDAI margin	At least 31%	On Track	
Lead on sustainability	Transition to integrated reporting	For FY20 annual report	On Track	
	Number of school students participating in one of the Spark Foundation's programmes[2]	10k	On Track	

[1] Consumer and business segments only
[2] Measured as school aged children 5-18 years who participate in one of the Spark Foundation's digital inclusion or skills and capability programmes including JUMP, Digital Native Academy, Code Club, The Electric Garden and Like a Boss

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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.