



SPARK NEW ZEALAND LTD

INVESTOR UPDATE

SESSION 3 OF 3

30 JUNE 2017



INTRO

Simon Moutter

Overview of changes in emphasis to elements of the business strategy

1

Jason Paris

The Spark HMB market game-plan to use our brands and partnerships to compete and win in a rapidly digitising world

Jolie Hodson

The Spark Digital market game-plan to compete and win by adding value and simplifying our offers in commoditised and disrupted business markets

Ed Hyde

The role of Ventures in growing new and reshaping existing markets

2

Mark Beder

Network investments to position Spark to win in the post-copper era of fibre, wireless and converged communications

Dr Claire Barber

Becoming one of the world's best companies for digital self-service and customer experience

Joe McCollum

Developing our people and culture

3

David Chalmers

Driving Spark's long term, sustainable revenue and EBITDA growth and shareholder value

Simon Moutter

Wrap up



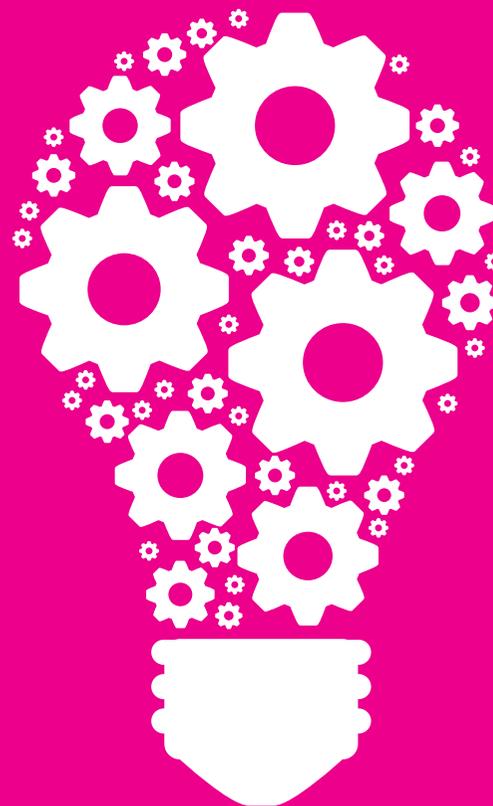
OUR

3 YEAR

FINANCIAL ASPIRATION

DAVID CHALMERS

CHIEF FINANCIAL OFFICER



Spark's updated strategy has the potential to deliver improved earnings growth

Spark's operating units have outlined an updated strategy focused on:

- Up-weighting our emphasis on wireless services and investment
- Better serving price sensitive customers
- Becoming the lowest cost operator

While no guidance will be given today, this section talks to the potential impact of these opportunities on Spark's long term revenue and costs. However these profiles are:

- aspirational
- subject to value capture; and
- assume a consistent operating and competitive environment

We have also reviewed Spark's Capital Management principles to affirm their relevance and appropriateness to support our updated strategy. The findings of this review are summarised in this section across two key dimensions:

- Capital structure; and
- Dividend approach

For completeness we will also cover Spark's 'licence to operate'

All figures reflect a consistent application of current accounting standards and assume no material acquisitions or divestments

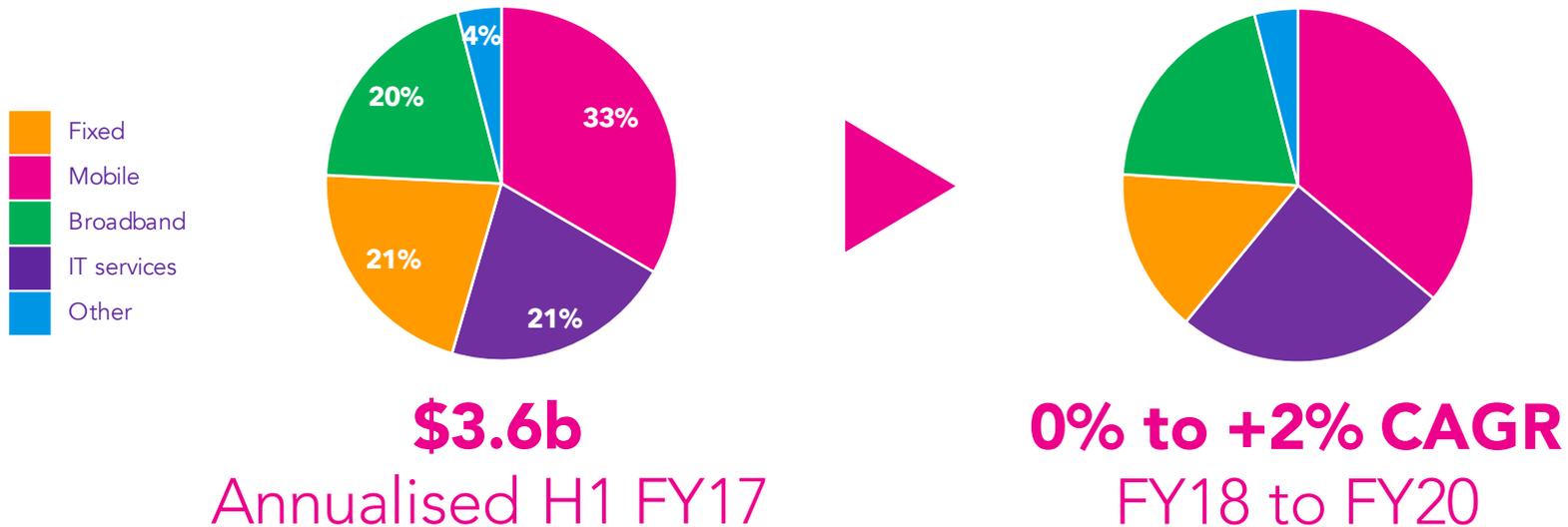
Formal guidance will be provided for the FY18 financial year as part of FY17 annual results

Spark expects to achieve revenue growth across mobile and IT services sufficient to offset declines in legacy voice and data

	Annualised H1 FY17 equals 2 X H1 FY17 Actual	H1 FY15 to H1 FY17 CAGR ¹	FY18 to FY20 Aspiration
Fixed voice and managed data	\$792m	(14%)	Moderated rate of decline due to: <ul style="list-style-type: none"> ongoing declines in legacy voice and data; and ongoing fixed to mobile substitution
Mobile	\$1,176m	+8%	Lower rate of growth due to: <ul style="list-style-type: none"> continued service revenue growth due to increased connections and ARPU growth in target segments; but lower rate of other mobile revenue growth as penetration of 'open term' plans reaches peak
Broadband	\$688m	+3%	Consistent rate of growth due to: <ul style="list-style-type: none"> increased penetration of unlimited and higher speed fibre plans; but partially diluted by increased share of growth in lower priced segments
IT services	\$768m	+9%	Consistent rate of growth due to: <ul style="list-style-type: none"> ongoing growth in Platform IT; but partially offset by managed migration away from traditional IT services
Other	\$162m	+6%	Higher rate of growth due to: <ul style="list-style-type: none"> expansion of Ventures revenues; but partially offset by declines in Southern Cross dividends

¹ externally reported revenues normalised for impact of divestments and acquisitions

Our net revenue growth aspiration is modest but will see a notable change in mix towards mobile and IT services



This aspiration does not take into account the cost of change for the Quantum programme, some of which could have an impact on revenue

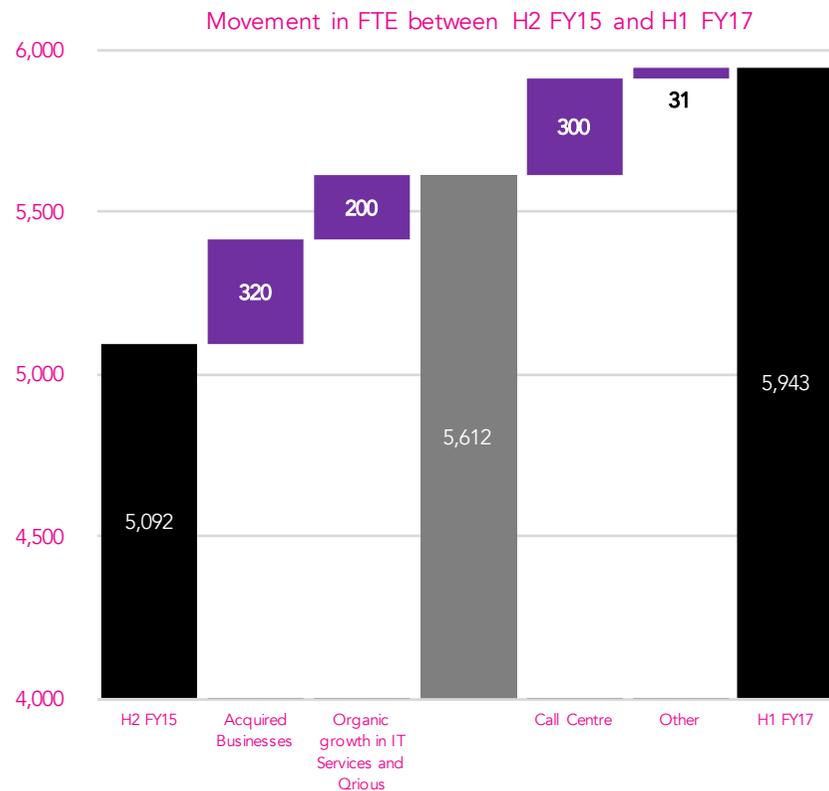
The programmes and actions outlined today have the potential to realise significant net cost reductions

	Annualised H1 FY17 equals 2 X H1 FY17 Actual	H1 FY15 to H1 FY17 CAGR ¹	FY18 to FY20 Aspiration
Fixed voice and managed data cost of sales	\$340m	(9%)	Greater decrease: <ul style="list-style-type: none"> ongoing revenue declines; and migration of copper broadband to wireless and fibre, reducing UCLL payments
Mobile cost of sales	\$444m	+4%	Consistent increase: <ul style="list-style-type: none"> increasing investment in value added services; but partially offset by improved supply chain economics
Broadband cost of sales	\$254m	(5%)	Increase: costs to increase in FY18 to FY20 rather than continue historical declines <ul style="list-style-type: none"> increased migration to fibre inputs; but partially offset by wireless broadband penetration
IT Services cost of sales	\$430m	+11%	Smaller increase: <ul style="list-style-type: none"> changing mix of revenues away from procurement and traditional IT to platform IT
Net labour	\$556m	+2%	Decrease: costs to decrease in FY18 to FY20 rather than continue recent historical increases <ul style="list-style-type: none"> execution of simplification, digitisation and automation programmes
Other expenses ²	\$616m	(1%)	Flat: costs to remain broadly flat across FY18 to FY20 <ul style="list-style-type: none"> increased brand investment; and Increased software costs in support of digitisation; partially offset by early benefits of PSTN shutdown

¹ externally reported costs normalised for impact of divestments and acquisitions

² includes intercarrier costs, field services, accommodation, advertising, computer, direct network and other operating expenses

While recent increases in labour cost have been driven predominantly by acquisitions and alleviating call centre issues, we expect labour costs to reduce from current levels due to automation and self-service



851 → increase in FTE from H2 FY15 to H1 FY17
 → 13% increase in net labour cost

~40% acquisitions

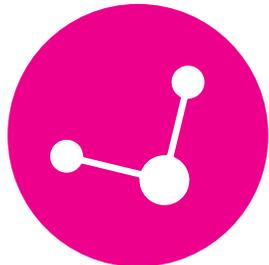
~25% organic growth in IT services and Qrious

~35% alleviate call centre issues from copper faults and fibre provisioning

How does this show up at the bottom line?



Management aspires to lift EBITDA margin into the low 30 percents



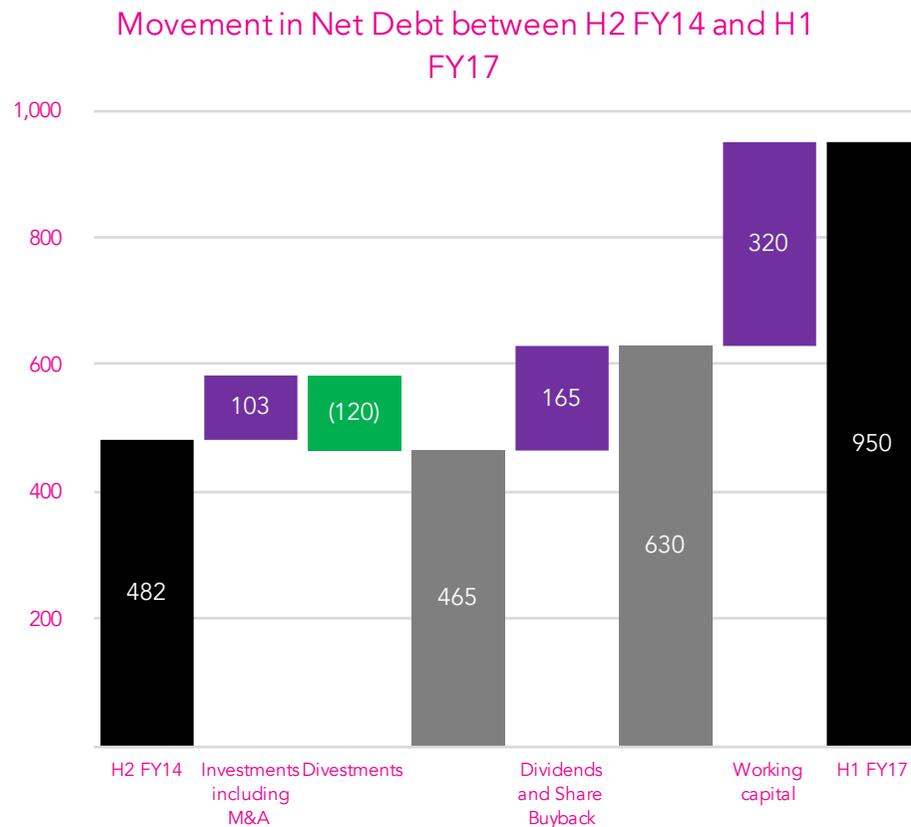
However, in a competitive market not all of the value we generate will be captured by shareholders



We will communicate progress through our half and full year result briefings

- Cost of change one-offs will impact benefit realisation
- Competitive market dynamics will ensure customers gain a share of the benefits
- We may elect to reinvest a share of benefits in pursuit of longer-term sustainable earnings
- New costs may emerge

Capital: Net Debt increased by ~\$470m since H2 FY14, however current gearing provides ~\$250m of debt headroom within our A- credit rating



70%
\$320m

working capital due to:

- changes in revenue mix; and
- general payables and receivables movements

30%
\$165m

driven by using special dividend and share buyback to reset capital structure

Investments funded via proceeds from businesses divested during the period

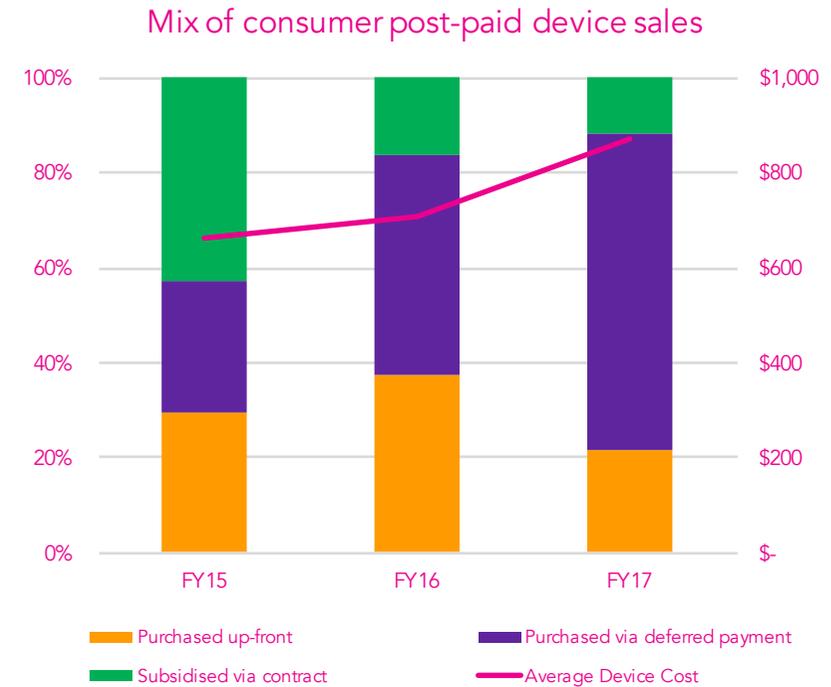
Current gearing is consistent with Spark's capital structure and provides sufficient funding for:

- accretive business acquisitions and capital investment
- business as usual operations
- withstanding normal business risks

Capital: Spark's cash conversion ratio¹ has averaged 84% since June 2014

Key drivers of working capital movement

Handset receivable Penetration of 'open term' plans and increasing average handset value	\$100m
Prepayments and accruals Including timing of payroll and biennial software licenses	\$60m
IT services contracts where costs are incurred at the beginning of the contract but recognised over the life of the contract	\$50m
Timing of payables and receivables including timing of Southern Cross dividends	\$50m
Inventory driven by higher value handsets, Wireless Broadband modems and IT Procurement	\$30m

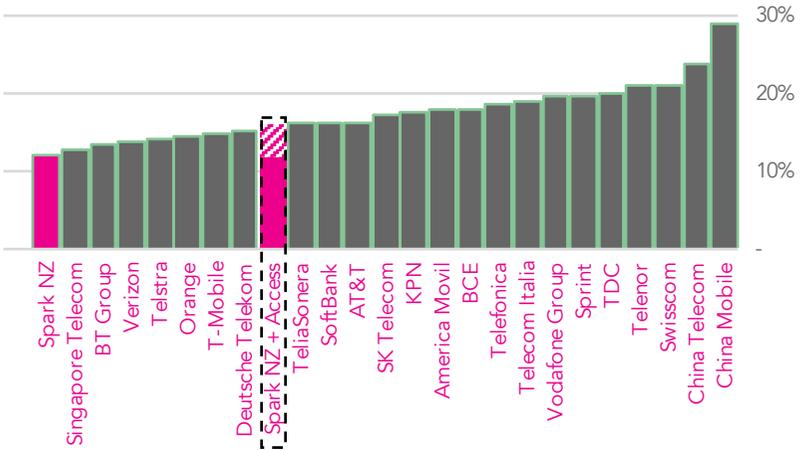


Working capital expected to improve from FY19 as adoption of 'open term' plans approaches 100%, average handset value stabilises and prepayments and receivables normalise

¹calculated as operating cashflow (adjusted for tax and interest) divided by reported EBITDA

Capital: Targeted Capex at 11-12% of revenue compares favourably to peers but maintains sufficient capacity to execute on our strategy using current technology

Capex to Revenue Percentage vs International Peers



Target ratio places Spark in upper quartile of peers

Has provided sufficient headroom to complete major strategic programmes including Re-engineering and Mobile SRAN.

20%

FY16
Percentage of CAPEX (excluding Spectrum) spent on wireless



25% to 35%

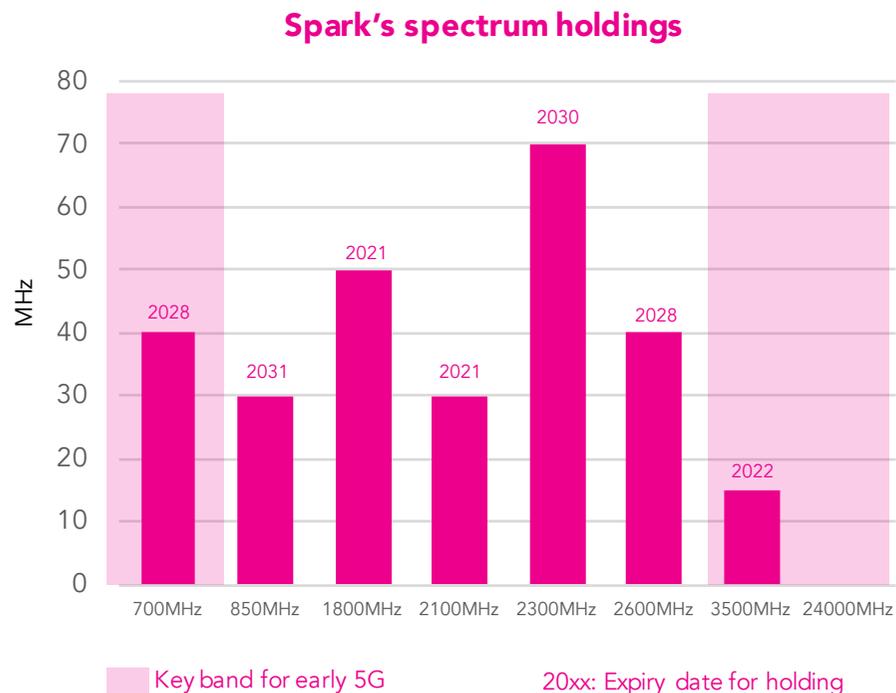
FY20
Percentage of CAPEX (excluding Spectrum) spent on wireless

In line with our changing revenue mix, capital investment will shift towards wireless

Investment in support of planned wireless broadband uptake can be funded within targeted revenue ratio

Don't yet have sufficient certainty on 5G spectrum hence these are excluded from current CAPEX projections

Well established 'licence to operate'



Fixed

- long term certainty emerging for fixed line regulatory framework
- Highly competitive, fragmented fixed line industry structure driving low profitability
- Emergence of wireless alternatives is changing industry economics

Mobile

- Mobile industry health is positive
 - Market continuing to grow
 - Healthy competition between infrastructure investors
 - World-leading 4.5G technology being deployed
 - Prices competitive with OECD average
- Spark is well positioned with 4G and 4.5G spectrum to execute on our strategy
- Too early to confirm timings or estimate costs for 5G spectrum hence this is excluded from our capital envelope
- NZ Government understands that early decisions on key 5G spectrum policy settings will be crucial if NZ is to continue to be at the forefront of mobile network capabilities

Capital: We will continue to utilise divestments and targeted M&A to optimise our portfolio

	FY14 to FY17	FY18 to FY20
Divestments	<p>Active divestment of overseas or non-core assets securing ~\$100m net gains on sale:</p> <ul style="list-style-type: none"> • Telecom International voice business • Telecom Rentals Limited • Telecom Cook Islands • AAPT 	<p>Targeted divestment of lower margin operations or sunset businesses to further simplify our portfolio</p>
General M&A	<p>Sub \$100m acquisitions of bolt-ons in close adjacencies with focus on building out our position in cloud and analytics:</p> <ul style="list-style-type: none"> • Revera • Computer Concepts Limited (CCL) • Appserv • Ubiquity (targeting July 2017 completion) 	<p>Strong interest in acquisitions in core markets</p> <p>Assessing whether there are also larger scale acquisition opportunities that:</p> <ul style="list-style-type: none"> • Deliver new capability • Bring on established revenue streams • Secure bolt-ons in high growth markets
Ventures Investments	<p>Investments focused on:</p> <ul style="list-style-type: none"> • Building expertise • Gaining entry to new markets 	<p>Investments focused on:</p> <ul style="list-style-type: none"> • Scale and growth potential • Domestic defensibility • Growth that can be boosted by Spark assets • Potential for exponential technology

Dividend: Our preferred method of shareholder distribution is to sustainably grow total dividends over time in line with earnings growth

Spark aspires to deliver a sustainable total dividend that is fully funded by earnings per share of 25c or above - timing uncertain

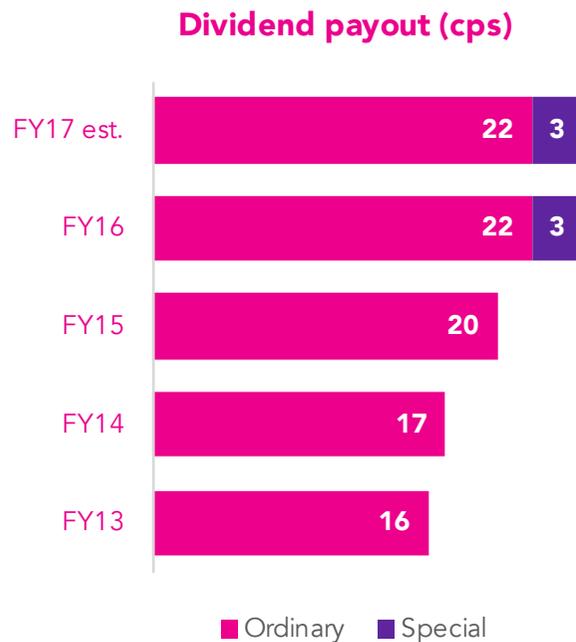
While earnings per share remain below 25c Spark may choose to use debt to supplement earnings

The primary use of any debt to supplement earnings per share will therefore change:

- **from** resetting capital structure
- **to** topping up dividends as underlying earnings sustainably grow to 25cps or above

However annual dividend declarations remain a Board decision and will continue to be communicated via formal guidance

As part of any declaration the appropriateness of any top-up will be assessed, taking into account operating outlook and market conditions at the time



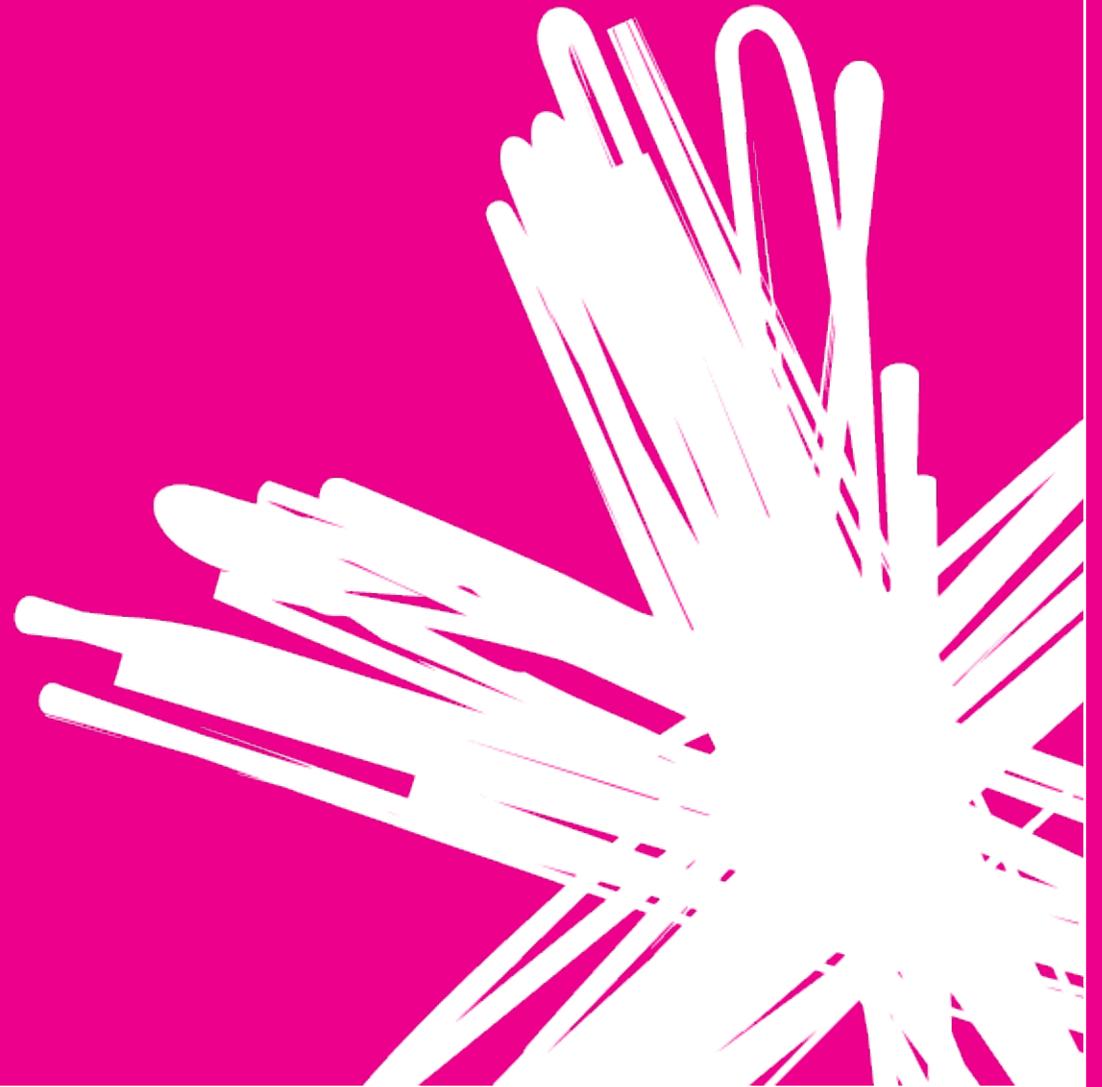
Spark's 3 year financial aspirations

Revenue	0-2% CAGR	<ul style="list-style-type: none">continued growth in mobile and IT services to offset declines in legacy voice and data
EBITDA	low 30 percents EBITDA margin	<ul style="list-style-type: none">focus on cost reductions and selected investment in sustainable growthsubject to value capture
CAPEX	11% to 12% of revenue	<ul style="list-style-type: none">target ratio remains in the top quartile of telco peersmaintains sufficient capacity to execute on our strategy using current technologyexcludes 5G spectrum
Dividends		<ul style="list-style-type: none">sustainably grow total dividends over time in line with earnings growth



SIMON MOUTTER

MANAGING DIRECTOR



What we haven't covered today

- Longer term aspirations for media. There is a lot going on in our market and globally. We have a good starting position and a clear roadmap to the marketplace strategy, but more work to do on the long term pathway to value.
- Bolt-on M&A for core Telco and adjacent markets. Acquiring Ubiquity for analytics capability, missed with Team Talk for fibre and radio capability. Still seeking a deal for CBD fibre.
- Bolder M&A options. No work done on this to date but intending to do this work in FY18.

Where we aspire to be by 2020

- Mostly ex-copper, enabled by pervasive 4G and 5G wireless coverage and capability, together with rapid adoption of fibre access in urban areas
- Taking advantage of disruptive technologies like virtual assistants and machine learning at scale, to improve our business and better serve our customers
- Benchmarking ourselves against the world's best digital companies for digital sales, self-service and customer experience (measured by NPS)
- Fully leveraging our brand portfolio to address forces of commoditisation and lift market share in certain segments, while encouraging market growth
- Hosted in the Cloud, with best in class automated, software-defined converged network and digital service platforms enabling a marked increase in productivity
- Creating value for customers sufficient to sustain ongoing growth in returns to shareholders, with an EBITDA margin greater than 30 percent

What underpins our belief

This is a tough industry and not all our aspirations will prove to be achievable, but we do believe we can leverage our:

- Energised and capable leadership team
- Solid track-record of execution over last 4 years
- Clear view of market dynamics and the opportunities, and risks, ahead
- Recent network and IT investments and clear roadmap which provide a solid foundation for the future and good optionality to adapt to change; and
- Assets: NZ market scale, strong balance-sheet and cash-flow, portfolio of brands, digital service capabilities and platforms, re-engineering, data networks, organisational culture

to make a real difference for our customers, our people and our shareholders

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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 '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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