



Spark^{nz}



27 August 2018

Spark Finance Limited

Intended Offer of Bonds

This presentation contains the key terms of a proposed offer by Spark Finance Limited (“SFL”) for up to \$100,000,000 (with the ability to accept oversubscriptions of up to \$25,000,000 at SFL’s discretion) bonds (“Bonds”).

No money is currently being sought and applications for the Bonds cannot currently be made. If SFL offers the Bonds, the offer will be made in accordance with the Financial Markets Conduct Act 2013 as an offer of debt securities of the same class as existing quoted debt securities. The Bonds are expected to be quoted on the NZX Debt Market.

The proposed offer of Bonds by SFL, if made, will be made in reliance upon the exclusion in clause 19 of schedule 1 of the Financial Markets Conduct Act 2013 (“FMCA”), and will be an offer of bonds that have identical rights, privileges, limitations and conditions (except for the interest rate and maturity date) as SFL’s (1) bonds maturing on 10 March 2023 which are currently quoted on the NZX Debt Market under the ticker code SPF560; and (2) bonds maturing on 7 September 2026 which are currently quoted on the NZX Debt Market under the ticker code SPF570, (together the “Quoted Bonds”).

Accordingly, the proposed Bonds will, if offered, be of the same class as the Quoted Bonds for the purposes of the FMCA and the Financial Markets Conduct Regulations 2014.

SFL is subject to a disclosure obligation that requires it to notify certain material information to NZX Limited (“NZX”) for the purpose of that information being made available to participants in the market. That information can be found by visiting <https://www.nzx.com/companies/SPF>.

The Quoted Bonds are the only debt securities of SFL that are currently quoted and in the same class as the proposed Bonds.

Investors should look to the market price of the Quoted Bonds referred to above to find out how the market assesses the returns and risk premium for those bonds.

Important Notice

This presentation 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 presentation 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 presentation.

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.

The information in this presentation was prepared by Spark New Zealand with due care and attention. However, the information is supplied in summary form and is therefore not necessarily complete, and no representation is made as to the accuracy, completeness or reliability of the information. In addition, to the maximum extent permitted by the law, neither Spark New Zealand, SFL nor any of their directors, employees, shareholders, agents, advisers nor any other person shall have liability whatsoever to any person for any loss (including, without limitation, arising from any fault or negligence) arising from this presentation or any information supplied in connection with it.

The information contained in this presentation should be considered in conjunction with the company's financial statements, which are included in Spark New Zealand's Annual Report and available at <http://investors.sparknz.co.nz>.

All currency amounts are in New Zealand dollars unless stated otherwise.

Disclaimer

Introduction

Spark Overview

FY18 Results

Capital Structure

Key Terms of the
Intended Offer

Agenda





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Spark Overview

Background

Spark Overview

Spark New Zealand Limited (“Spark”) is New Zealand’s largest telecommunications and IT services provider:

- #1 in mobile ⁽¹⁾ driven by value added services, network investment and multi-brand strategy
- #1 in data (including broadband) underpinned by share of high value customers, network performance and value superiority
- #1 in cloud services, driven both by organic growth and business acquisitions

1987

Spark (then Telecom) was formed in 1987 out of the telecommunications division of the New Zealand Post Office, a government department

1990

In 1990 Spark became one of the first telecommunications companies in the world to be fully privatised

2011

On 30 November 2011, Spark demerged⁽²⁾ into two entirely separate, publicly listed companies;

- Spark; a retail services provider that retained ownership of a nationwide mobile network; and
- Chorus; a fixed network services operator

Spark Finance Limited is the company in the Spark group that carries out the borrowing activities for the group

⁽¹⁾ Based on independent estimate of Spark’s market share of total mobile revenue

⁽²⁾ Structural separation of Spark’s retail business from the business that owns and operates the Fibre-To-The-Premise (FTTP) network was a pre-requisite for Chorus’ participation in the Government’s Ultra-Fast Broadband scheme (UFB)

Background

Spark Overview

- Spark owns and operates key infrastructure assets that support mobile and data networks across New Zealand
- Focussed on New Zealand operations, with no current plans for material offshore investment
- Customer connections at 30 June 2018:
 - Mobile connections : 2,458k (2,392k Jun17)
 - Broadband connections: 700k (687k Jun17)
 - Voice connections: 466k (622k Jun17)
- Operates in the fixed line market where regulated inputs are purchased from Chorus or other local fibre companies on equivalent terms as for all retail service providers
- Mobile and IT markets are largely unregulated
- Spark is listed on the NZX and ASX with a market capitalisation of ~\$7.3 billion⁽¹⁾. Spark is a NZX10 and ASX200 company
- Spark has a long term credit rating from Standard & Poor's of A-/(stable). Rating reaffirmed in April 2018

⁽¹⁾ As at 20 August 2018



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FY18 Overall Performance

Overall Performance

Financials and Ratios

Spark Group				
Selected financial information and ratios				
\$m	As Reported FY 2015	As Reported FY 2016	As Reported FY 2017	As Reported FY 2018
Operating revenues and other gains	3,531	3,497	3,614	3,649
EBITDA	962	986	1,016	989
Net earnings after tax for the year	375	370	418	385
Net cash flows from operating activities	630	716	717	777
Cash and cash equivalents	80	52	52	55
Total assets	3,206	3,237	3,331	3,419
Total debt	692	875	987	1,197
Total liabilities	1,428	1,553	1,680	1,878
Equity	1,778	1,684	1,651	1,541
Debt/EBITDA	0.7 x	0.9 x	1.0 x	1.2 x
Debt/Debt+Equity	28%	34%	37%	44%
Finance expense	54	46	42	46
EBITDA/Finance expense	17.8 x	21.4 x	24.2x	21.5 x
Standard & Poor's (S&P) Long Term Credit Rating	A-/stable	A-/stable	A-/stable	A-/stable

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 19 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)

Overall Performance

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



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FY18 Product Performance

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

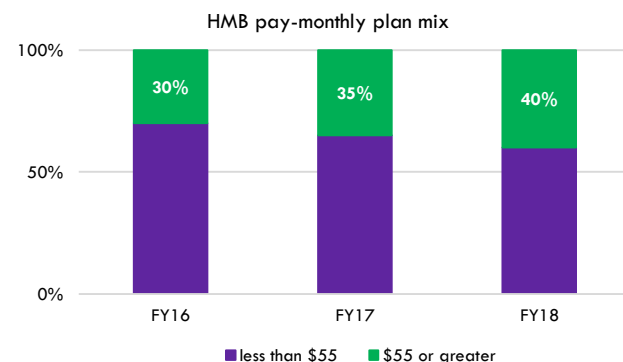
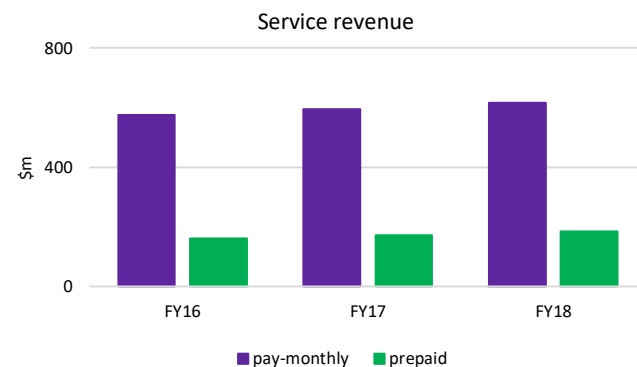
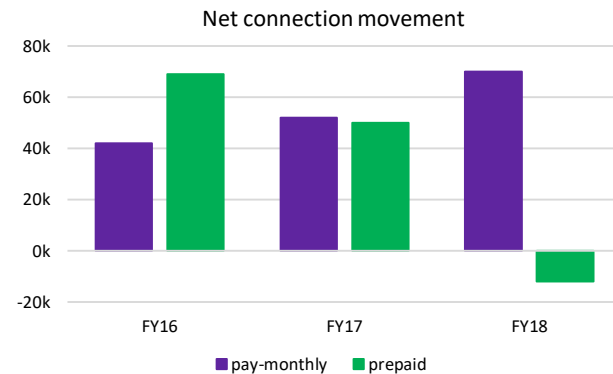
Mobile gross margin⁽¹⁾ up \$40m (5.3%) on prior year due to:

- 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:

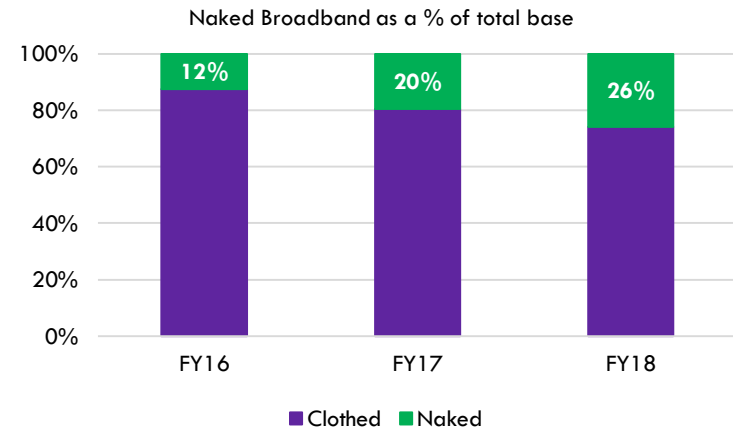
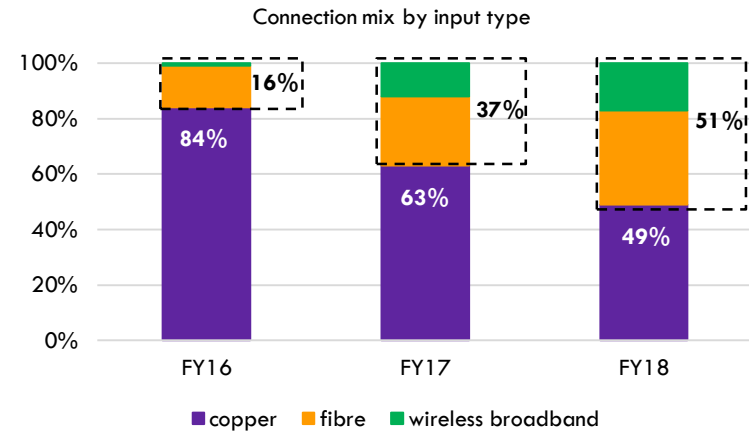
- 116k wireless broadband connections, delivering \$29m reduction in broadband access costs during FY18 and associated annualised benefits of \$51m; partially offset by
- Fibre-based modem expenses and increases in copper and fibre input costs

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

Product Performance

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

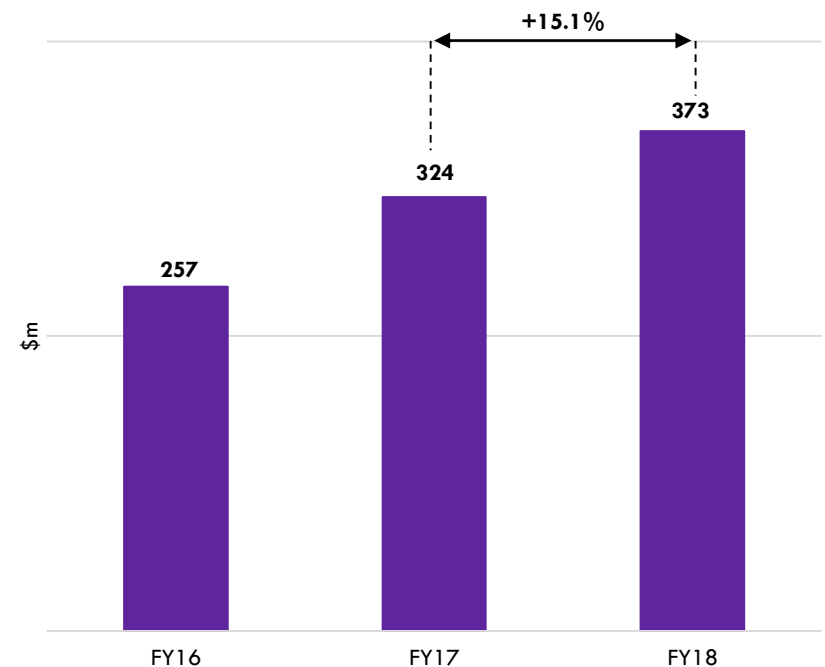
Focus on effective and efficient service management to drive growth in the profitability of our top clients continues

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:

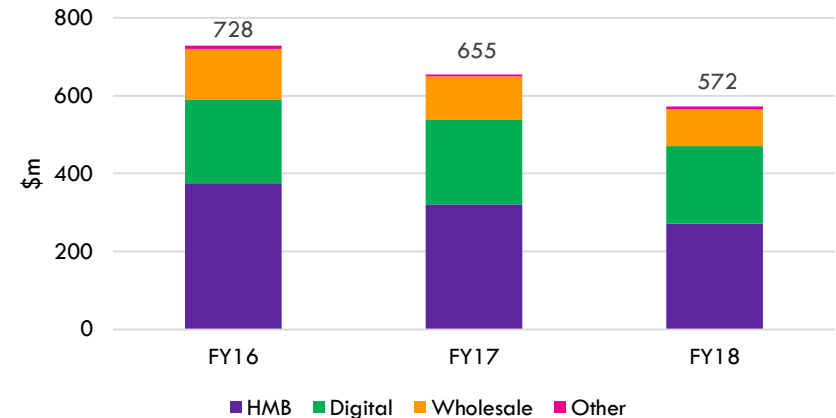
- \$48m (16.1%) decrease in landline only⁽²⁾ revenues due to consistent YoY declines in voice only connections across Spark HMB and Digital and acceleration of connection declines in Spark Wholesale; with a large wholesale customer migrating away from PSTN to an alternative technology during the year; 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:

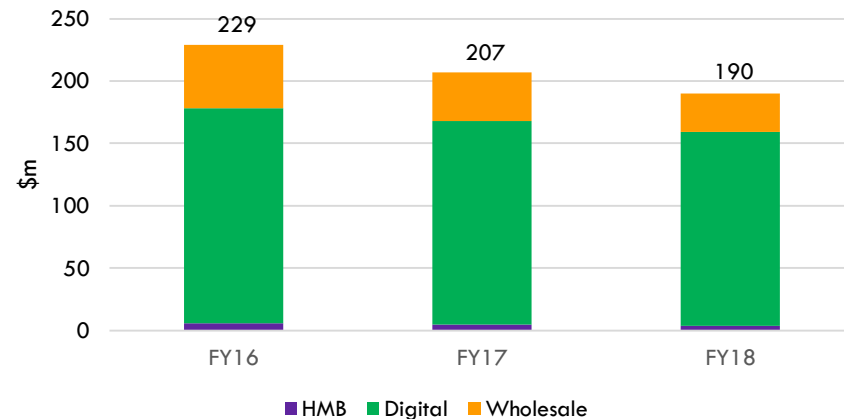
- Proactive migration of customers off legacy data platforms onto new lower-margin fibre based alternatives in support of core product simplification; and
- Ongoing competitive pricing pressure

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

Total voice revenue



Total managed data and networks revenue



⁽¹⁾ Voice revenue includes connections delivered over the mobile network (Voice over LTE)

⁽²⁾ Landline only revenue includes revenue from 'voice only' access plans



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FY18 Strategy Update

Strategy: Progress Update

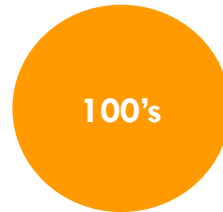
Quantum

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

Simplification



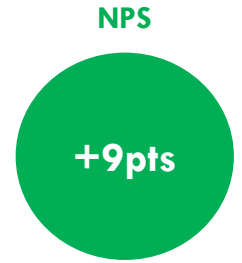
Customers migrated onto new fit-for-purpose consumer plans



Successfully removed hundreds of legacy products

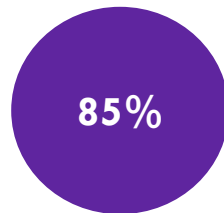


One unified Cloud portfolio established across Spark



Increase in employee NPS in the year

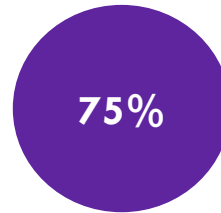
Automation



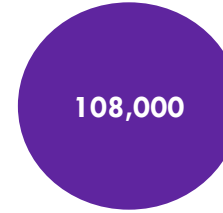
Common Spark Digital service requests now automated (~3,300 requests per month)



Bots automating tasks across the business and proactively solving customer issues



Simple cloud customer requests now automated via self-service portal

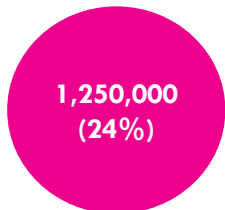


HMB virtual assist chat interactions since launch in December 2017

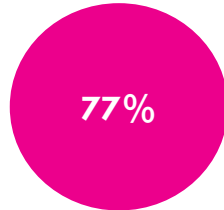


Increase in Spark Digital relationship NPS in the year

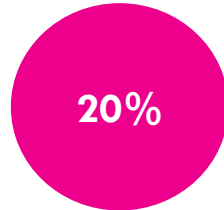
Digitisation



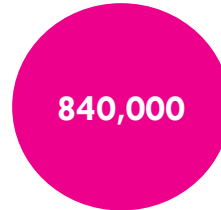
YoY reduction of calls into HMB contact centres



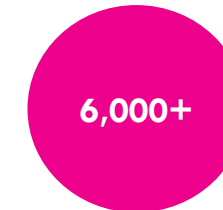
YoY Increase in HMB chat interactions



Increase in organisations using MySparkDigital



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



Business customers using "walk me" self-service tutorials

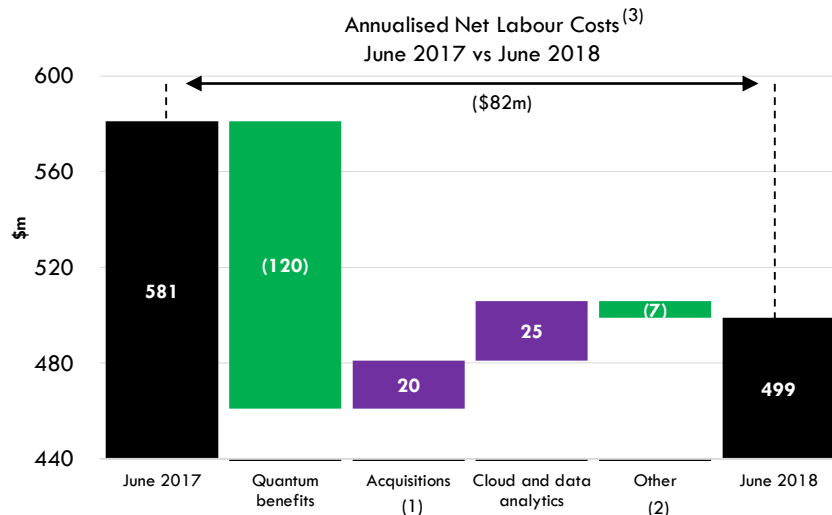
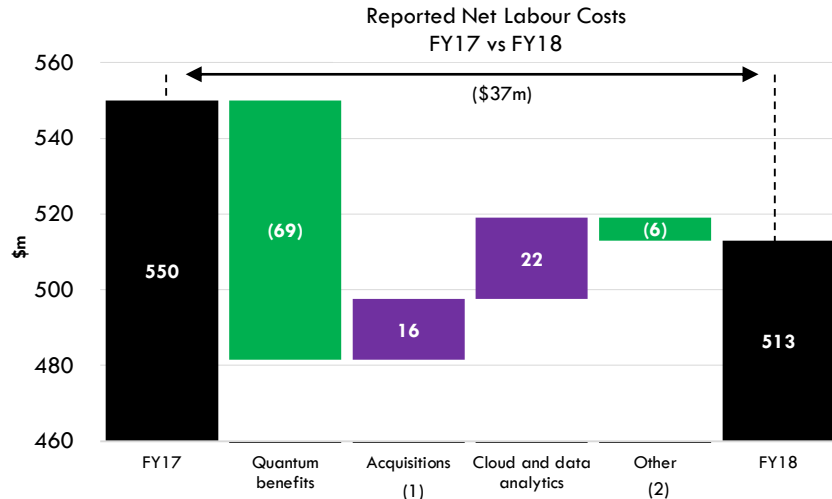


Increase in consumer and small business market NPS in the year

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



Quantum wave	Cost to implement	Gross FY18 benefit	Gross annualised benefit	
			as at 30 Jun '18	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)

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



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



⁽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

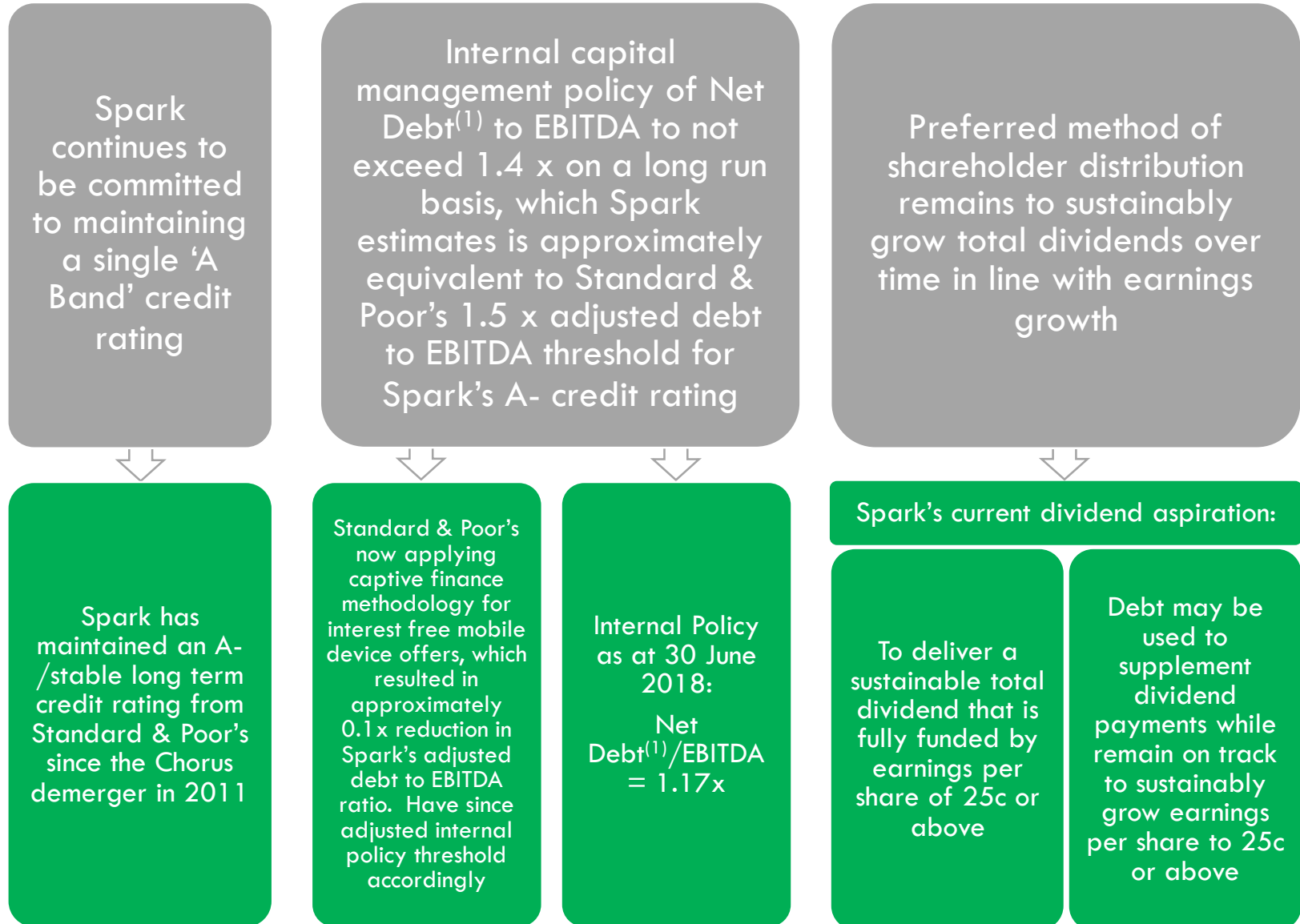


Spark^{nz}



Capital Structure

Capital Structure



⁽¹⁾Reported net debt at hedged rates

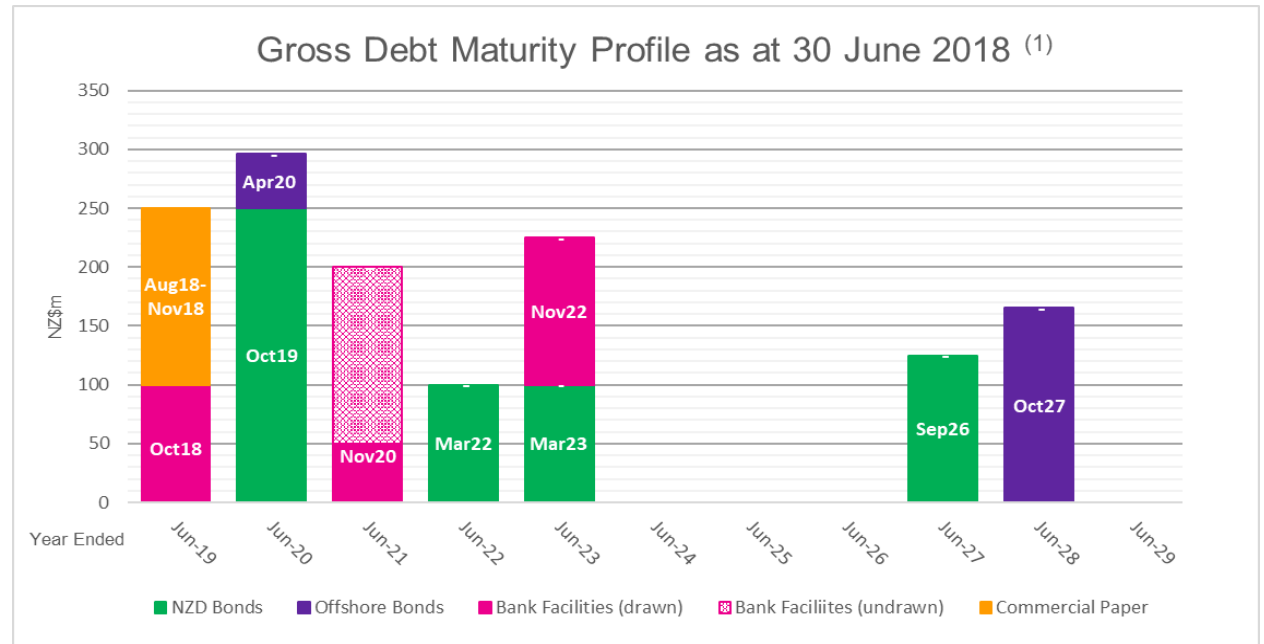
Debt Profile

As at 30 June 2018

- Reported Net Debt at hedged rates is \$1,158 million (30 June 2017: \$974 million)
- Committed bank facilities of \$425 million of which \$150 million was undrawn. In addition, a committed Standby of \$200 million which was undrawn
- Next long term debt maturity is a \$100 million bank facility in October 2018

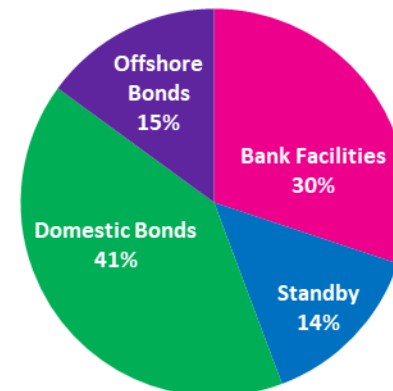
Treasury Policies include:

- Spreading maturities to avoid material funding requirements in any 12 month period
- Maintaining unutilised committed funding facilities of at least 110% of next 12 month's peak net funding requirements



Above excludes Standby of \$200 million maturing in April 2021

Sources of Long Term Debt as at 30 June 2018 ⁽¹⁾



⁽¹⁾At face value and includes undrawn facilities



Spark^{nz}

Key Terms of the Intended Offer



Key Terms of the Intended Offer

Issuer	Spark Finance Limited
Description of the Debt Securities	Unsecured unsubordinated fixed rate bonds
Guarantee	The Bonds will, if offered, be jointly and severally guaranteed by Spark New Zealand Limited and the other Guaranteeing Group Members (as defined in the Trust Deed) on an unsecured basis
Purpose	General corporate purposes
Issue Amount	Up to \$100,000,000 with the ability to accept oversubscriptions up to \$25,000,000
Maturity Date	Thursday, 7 March 2024
Interest Rate	Equal to the sum of the Base Rate plus the Issue Margin, on the Rate Set Date
Indicative Issue Margin	Expected to be announced via the NZX on Wednesday, 29 August 2018
Interest Payments	Quarterly in arrear in equal amounts on 7 March, 7 June, 7 September and 7 December in each year during the term of the Bonds, commencing 7 December 2018
Denominations	Minimum denomination of \$5,000 with multiples of \$1,000 thereafter
Listing	Application is expected to be made to NZX to quote the Bonds on the NZX Debt Market under the code SPF580
Expected Issue Credit Rating	A- (Standard & Poor's)

Timetable

Key Transaction Dates	
Monday, 27 August 2018 – Tuesday, 28 August 2018	Roadshow
Wednesday, 29 August 2018	Intended Offer launch
2pm, Friday 31 August 2018	Offer closes
Friday, 31 August 2018	Allocations and rate set
Friday, 7 September 2018	Issue date
Monday, 10 September 2018	Expected quotation date



Spark^{nz}



Appendix

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

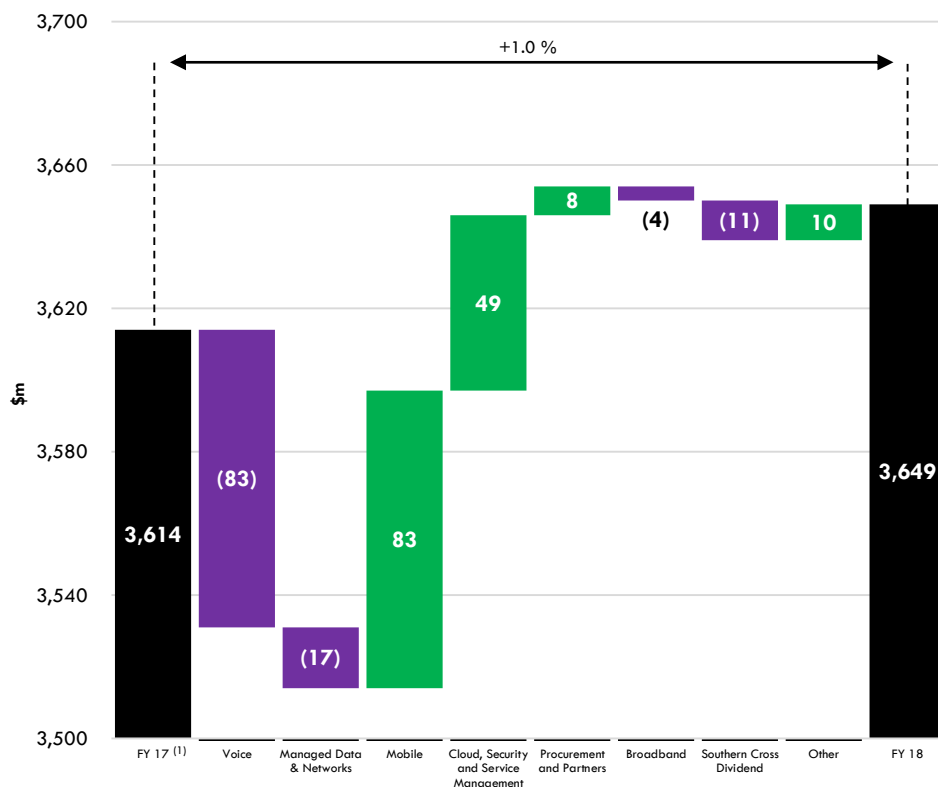
⁽⁴⁾ Reported notional free cash flow calculated as: reported EBITDA less capital expenditure

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:

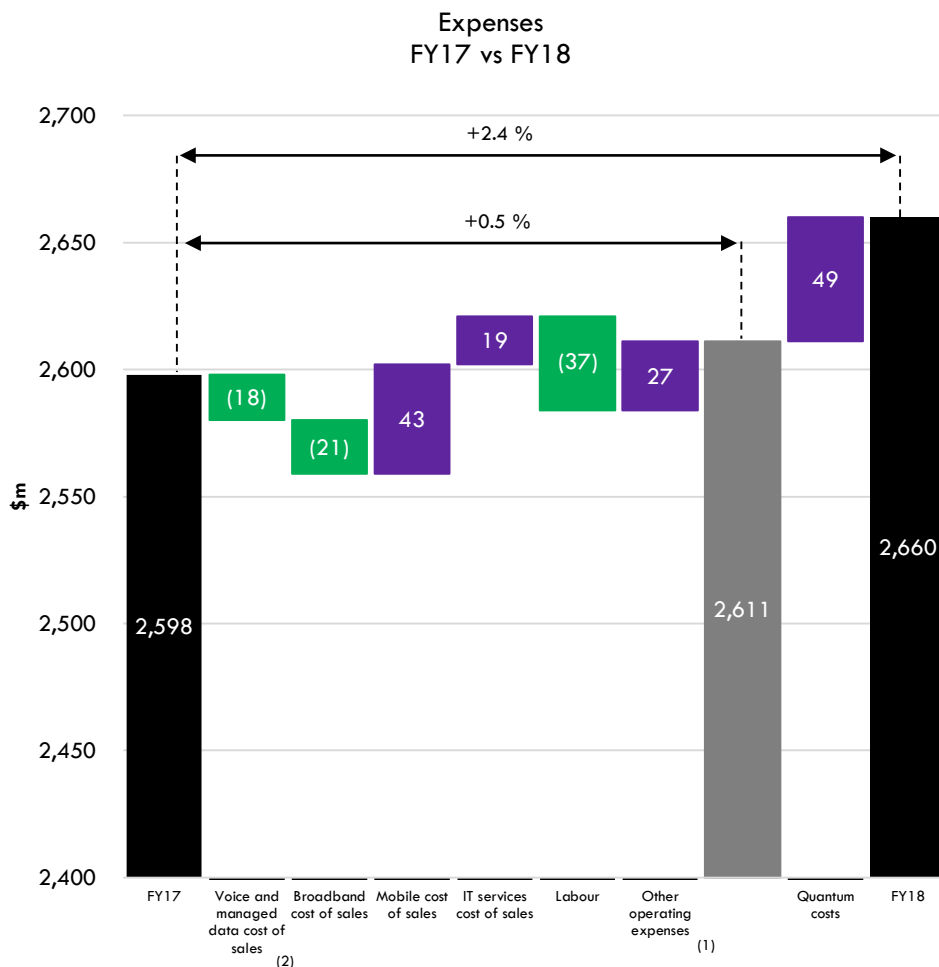
- Ongoing Qrious revenue growth including impact from July 2017 acquisition of Ubiquity;
- \$10m gain from sale of 50% of Connect8; partially offset by
- Prior year \$20m gain from sale of surplus Mayoral Drive carpark land

(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

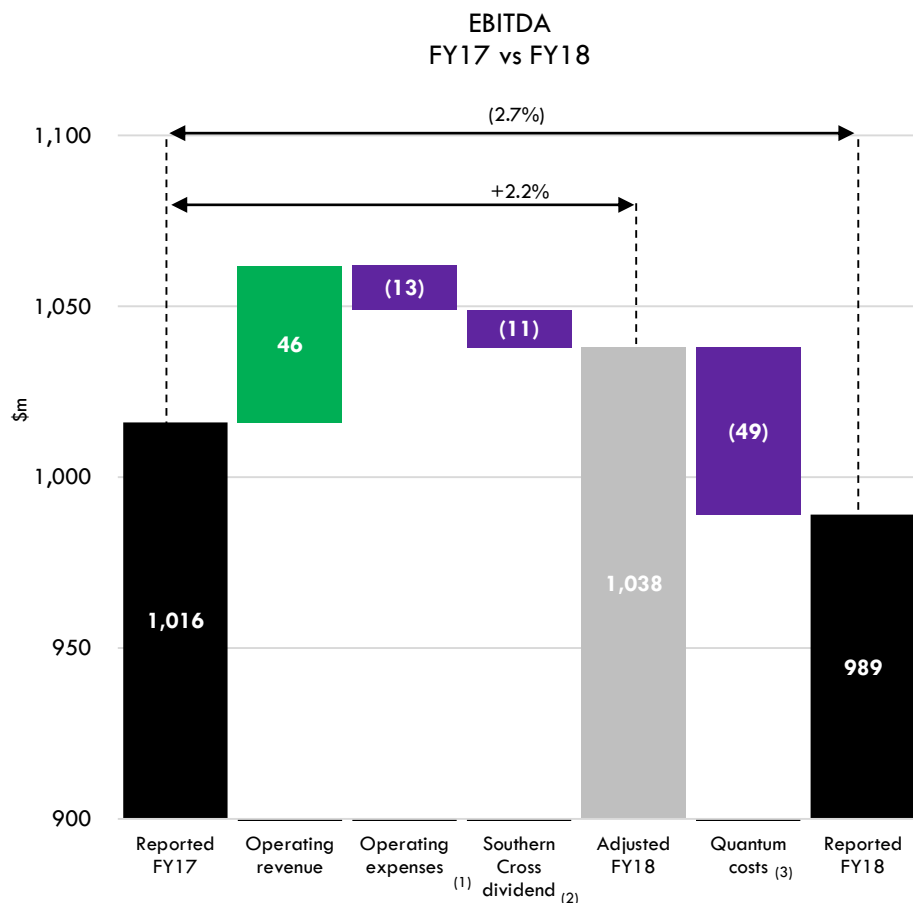
⁽¹⁾ Includes share of associate and joint venture net losses of \$4m in FY17 and \$3m in FY18

⁽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



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

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

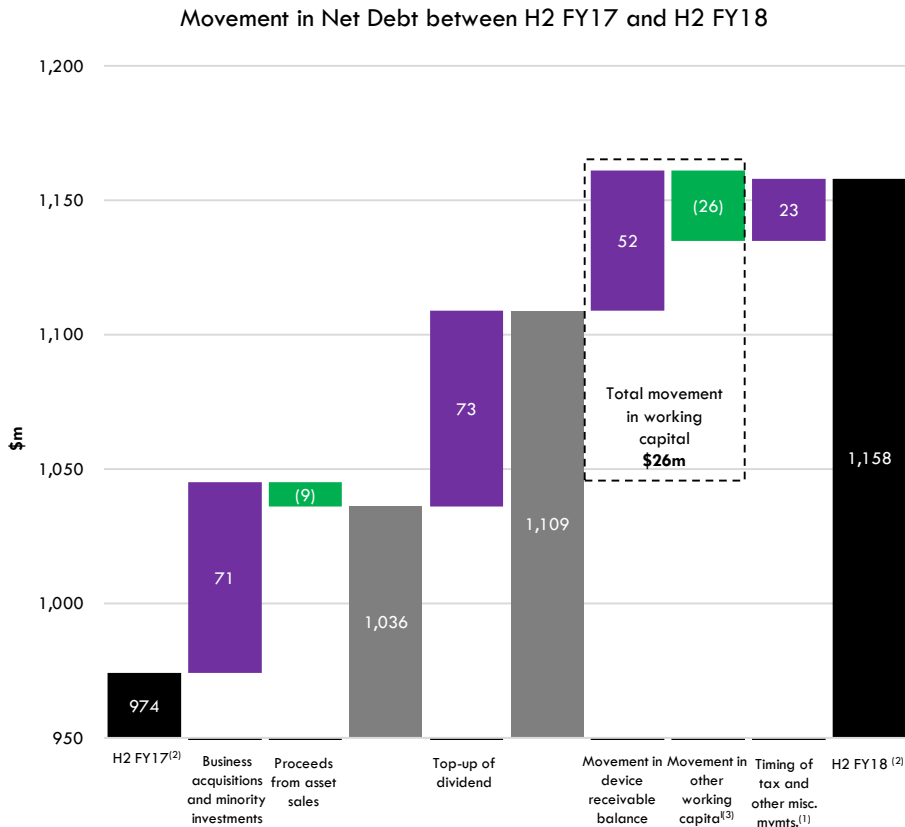
Multi-year Converged Communications Network (CCN) investment will replace the legacy PSTN network and enable the delivery of future IP based voice services

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

Capital Management

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



- (\$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.

⁽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

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

Further Information

Spark New Zealand investor website
<http://investors.sparknz.co.nz>



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