



MARKET RELEASE

21 February 2018

Spark New Zealand H1 FY18 Results

- **Strong performance in mobile, cloud, security and service management.**
- **Good progress in bold transformation programme; albeit as previously indicated, planned change costs incurred.**
- **Focus on digitisation and simplification driving improved customer satisfaction and reducing cost-to-serve.**
- **New Lightbox media platform to launch in April; will offer pay-per-view movies and events**

Spark New Zealand Chair Justine Smyth said today the financial results for the half year to 31 December 2017 show Spark has made good progress on its bold transformation strategy.

"We are beginning to see the results of progress against our three strategic focus areas: an emphasis on wireless technologies; better serving price sensitive customers; and radically simplifying, automating and digitising our business – to reduce cost while maintaining the high-quality experience our customers rightly expect. These underpin the next phase of our transformation, and are intended to seek out growth in a very challenging market and operating environment.

"Over the half, Spark maintained top-line revenue growth, with H1 FY18 revenues up 1.6%, to \$1.82 billion, despite intense competition in all our markets. This is on the back of continued strong performance in mobile, up 8.0%, together with cloud, security and service management, up 17.5%.

"As indicated at the end of the previous financial year, the transformation programme has associated costs of change, and revenue growth over the half was partially offset by \$13 million of such costs. As a result, earnings before interest, taxation, depreciation and amortisation (EBITDA) over the period declined by \$8 million to \$463 million."

Spark Managing Director Simon Moutter said, "We were pleased to see strong growth in mobile connections, revenue and margin. The launch of our unlimited mobile data plan, which set a new benchmark for value in the market, and growth in the online-only Skinny Direct product helped grow mobile margins at both ends of



the market and saw us return to overall mobile ARPU growth for the first time in two years.

"Our cloud, security and service management revenue also continued to grow, on the back of customer demand for "as a service" products. Mobile and cloud growth continue to more than offset the declines in voice, managed data and networks.

"The Upgrade New Zealand programme progressed well over the period, with wireless broadband now in 104,000 premises and large numbers of our customers migrating from copper to fibre. We now have 45% of our customers on these newer technologies, keeping us on track to be mostly ex-copper by 2020. This shift improves the customer experience, and is also delivering around \$46 million annually in reduced access costs.

"At the more price-sensitive end of the market, Spark's sub-brands Big Pipe and Skinny have continued to resonate well with price-sensitive customers, securing the majority of our broadband connection growth in the half year, alongside the growth of Skinny Direct's mobile service.

"Skinny has continued to win awards for customer satisfaction, and this month was named the winner of Consumer NZ's People's Choice award for the third consecutive year. As a company that was "born digital" Skinny has been showing the way for Spark as we ramp up our digitisation and simplification initiatives.

"In the six months to 31 December 2017, we have migrated more than 166,000 Spark consumer customers on to new fit-for-purpose plans, offering better value and digital self-service options. Spark Digital has stopped further sales of more than 5,000 outdated managed data plan variants, setting up for a simplified and standardised future.

"Our digitisation of the business has continued at pace. We have 35 "bots" performing automated and sometimes very complex tasks, from managing security functions to proactively resolving broadband faults, and we've improved our customer self-service tools with enhancements to the Spark App, the MySpark self-service platform and the simplification of our online "Help" section. As a result, we've seen an increase in customer satisfaction, alongside an 18% reduction of calls into our customer care centres."

Mr Moutter said Spark's partnerships with Spotify and Netflix continued, together with Lightbox, to be valuable means of customer growth and retention.



"Lightbox now has more than 300,000 subscribers and we are excited to announce today that it will upgrade its video media platform, with the new Brightcove platform to launch in April. This will expand the range of content available and add an additional revenue stream with 'pay-per-view' movies.

"The momentum of our transformation programme has given us confidence to be bolder in pursuing our ambitions and we have been looking at how adopting an Agile way of working may help us reach our targets for customer satisfaction and company culture. While we have previously planned to "scale up" to Agile ways of working, we now see significant benefit in adopting Agile ways of working across the whole organisation and are in the process of working out how to get there.

Ms Smyth added that based on the results from the first half, the Board was affirming full-year EBITDA guidance of 0-2% growth versus FY17 actual EBITDA (excluding net gain from sale of Mayoral Drive Carpark), and supported a total H1 FY18 dividend per share of 12.5c, made up of a 75% imputed ordinary dividend per share of 11.0c and a 75% imputed special dividend per share of 1.5c.

"We note however that we are considering accelerating our business transformation to strengthen the FY19 result. No decision has yet been made, but if the programme is accelerated, then FY18 guidance may reduce due to the associated costs of change. We will update the market if appropriate.," says Ms Smyth.

- ENDS -

For media queries, please contact:

Lucy Fullarton

Senior Communications Partner

+64 (0) 21 070 6197

For investor relations queries, please contact:

Dean Werder

General Manager Finance and Business Performance

+64 (0) 27 259 7176



Spark^{nz}



Spark New Zealand H1 FY18 Results Summary

Simon Moutter, Managing Director
David Chalmers, Chief Financial Officer

Overall Performance

Financial Summary

Continued growth in mobile, cloud, security and service management revenues offset by planned costs of change associated with Quantum programme

- Reported EBITDA on plan albeit down \$8m (1.7%) on prior year; inclusive of \$13m of non-recurring Quantum programme costs of change to deliver an associated gross operating expense benefit of \$8m in H1 FY18⁽¹⁾ and a \$44m annualised gross reduction in operating expenses
- H2 FY18 EBITDA outlook underpinned by revenue momentum and Quantum programme outcomes. To date the Quantum programme has delivered an annualised gross reduction in operating expenses of \$74m, with gross benefits weighted towards H2 FY18 and beyond.
- Reported YoY revenue growth of \$29m, or 1.6%, taking revenue to \$1,822m as a result of continued strong performances in cloud, security and service management up 17.5% and mobile up 8.0%. Mobile now accounts for 38.2% of gross margin, up from 34.2% in H1 FY16.
- 3.4% reduction in NPAT to \$172m due to decline in reported EBITDA with depreciation, amortisation, interest and tax expenses relatively flat
- H1 FY18 capex up \$38m or 17.0% on prior year to \$262m, only due to phasing of mobile capacity and coverage expansion and build of foundational capability in support of PSTN shutdown. Overall FY18 capex expected to remain in line with guidance.
- Cash conversion ratio⁽²⁾ improved to 104% in H1 FY18, up from 83% in H1 FY17, due to favourable timing of payment due dates and amortisation of content rights
- Net debt increased by \$123m during H1 FY18 due to business acquisitions, continued growth in handset receivable, timing of capital expenditure and payment of H2 FY17 dividend; current gearing provides ~\$150m of debt headroom within our S&P A- credit rating
- H1 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

\$29m
+1.6%

**Reported Revenue
movement**
vs. H1 FY17

(\$8m)
- 1.7%

**Reported EBITDA
movement**
vs. H1 FY17

(\$6m)
- 3.4%

**Reported NPAT
movement**
vs. H1 FY17

⁽¹⁾ Page 13 of this document provides further detail on Quantum costs and associated benefits

⁽²⁾ Calculated as operating cash-flow (excluding tax and interest) divided by EBITDA (excluding net gains from divestments and share of associate and joint venture net losses)

Overall Performance

Key Areas of Focus

Substantial progress made in three focus areas outlined at 30 June 2017

Investor day; now underway with transition to scale Agile operating model

Emphasis on Wireless

- Successfully monetising customer demand for mobile data, with total mobile ARPU returning to growth for the first time in two years; up 1.8% on H1 FY17
- 104k customers now connected to wireless broadband generating a ~\$46m annualised gross reduction in access costs and \$17m of incremental benefit in H1 FY18. Still targeting 125k wireless broadband connections by 30 June 2018 as we progress towards our goal of being mostly ex copper by 2020.
- 4.5G now live in 30 locations expanding network speed and capacity in order to meet exponential growth in data

Better serving price sensitive customers

- Broadband connection growth continues, up 7k during H1 FY18. Total connection growth of 19k during 2017 is Spark's highest annual growth in three years
- Skinny and Bigpipe sub brands secured majority of Spark's H1 FY18 connection growth and continue to resonate well with price sensitive customers
- Skinny is the winner of Consumer NZ's People's Choice Award for the third consecutive year running. Skinny NPS up 9 points on prior period; and Skinny Direct customer base has tripled YoY, further demonstrating demand for digital sales and service

Lowest cost operator

Pleasing progress made on the Quantum programme with financial benefits tracking to plan; albeit more visible on run-rate than in-year due to phasing:

- Simplification, automation and digitisation driving improvement in customer experience and service costs; H1 FY18 HMB customer care voice interactions down 18% YoY
- Second phase of digitisation initiatives completed during H1 FY18, delivering an associated gross operating expense benefit of \$8m in H1 FY18 and a further annualised gross reduction in operating expenses of \$44m. The programme, which commenced in H2 FY17, has now delivered an annualised gross reduction in operating expenses of \$74m; with gross benefits weighted towards H2 FY18 and beyond.

Further Quantum investment in H2 FY18 and FY19 will continue to drive service and cost improvements.

Progress made on Quantum programme has given us confidence to go bigger and faster on our planned transition to Agile at scale operating model.

~\$46m

Wireless Broadband Migration
per annum gross reduction in
access costs

\$74m

Quantum Programme
per annum gross reduction in
operating expenses

41.9%
(0.5 pp)

**Share of Broadband
Connections (1) (2)**
vs. H1 FY17

38.8%
+1.1 pp

**Share of Mobile
Service Revenue (1)**
vs. H1 FY17

⁽¹⁾ Market share estimate

⁽²⁾ Includes wireless broadband connections

Overall Performance

Financials

	H1 FY18 \$M	H1 FY17 \$M	CHANGE
Revenues	1,822	1,793	1.6%
Operating expenses ^{(1) (2)}	(1,359)	(1,322)	2.8%
Reported EBITDA	463	471	(1.7%)
Depreciation and amortisation	(214)	(215)	(0.5%)
Net finance expenses	(14)	(13)	7.7%
Net earnings before income tax	235	243	(3.3%)
Income tax expense	(63)	(65)	(3.1%)
Net earnings after income tax	172	178	(3.4%)
Capital expenditure	262	224	17.0%
Notional free cash flow ⁽³⁾	201	247	(18.6%)
EBITDA margin	25.4%	26.3%	(0.9pp)
Effective tax rate	26.8%	26.8%	-
Capital expenditure to operating revenues	14.4%	12.5%	1.9pp
Earnings per Share	9.4c	9.7c	(3.1%)
Total Dividend per Share	12.5c	12.5c	-

⁽¹⁾ H1 FY18 operating expenses include \$13m Quantum costs of change

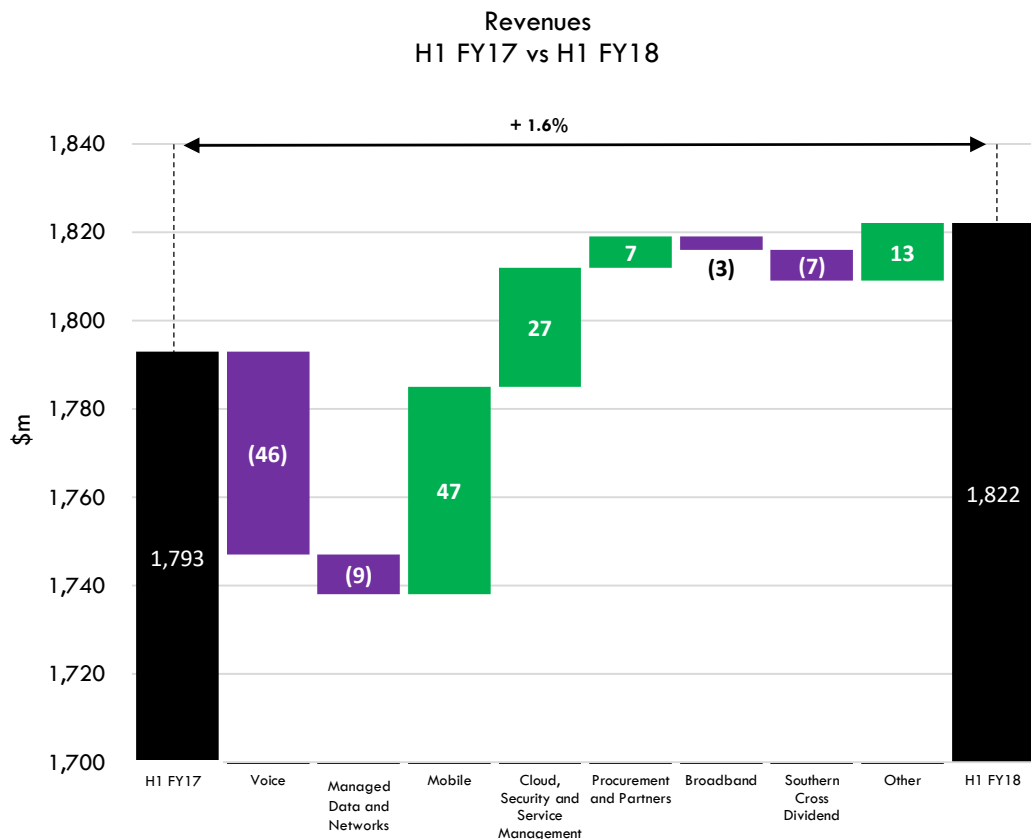
⁽²⁾ Includes share of associate and joint venture net losses

⁽³⁾ Notional free cash flow = EBITDA less capital expenditure

Overall Performance

Revenue

Mobile and cloud growth more than offsetting declines in voice, managed data and Southern Cross dividends



Mobile, cloud, security and service management revenues now account for 44.8% of total revenues, an increase of 5.3pp over the past two years

Mobile growth driven by:

- 6.0% increase in high margin service revenues on increased ARPU and connections; and
- Ongoing customer demand for premium devices

Cloud, security and service management growth driven by ongoing customer demand for “as a service” products

Accelerated rate of decline across voice, managed data and networks due to:

- Continued adoption of naked broadband plans;
- Proactive migration of customers off traditional managed data products onto new lower priced fibre based alternatives; and
- Increased churn off Wholesale and Spark Digital PSTN offerings

Consistent with indications given in FY17 Results Summary, Southern Cross dividend down \$7m, or 20.0%, on prior year:

- H2 expected to see a further significant year-on-year decline as the level of pre-purchased capacity from large customers decreases

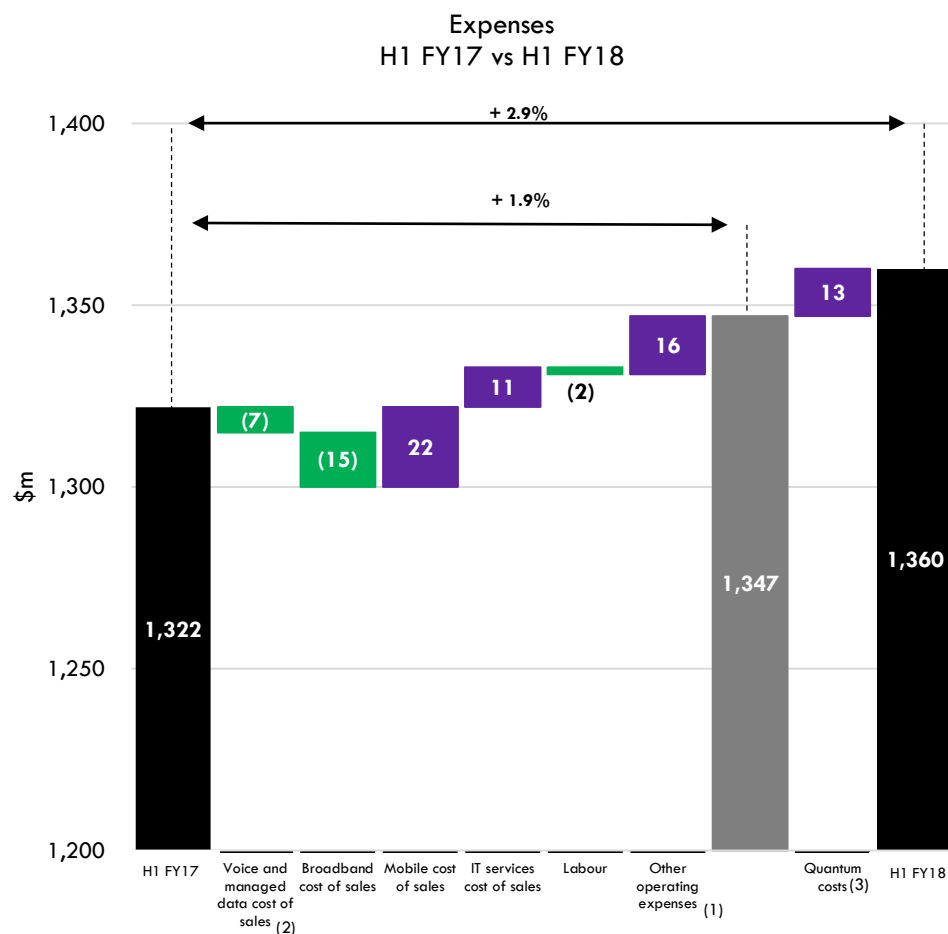
Other revenue growth from:

- Continued progress of Spark Ventures businesses including acquisition of Ubiquity; and
- Gain of \$3m associated with the buyback of retail stores

Overall Performance

Operating Expenses⁽¹⁾

Cost increases in support of top line revenue growth and implementation of Quantum programme with associated non-recurring costs



5.8% decline in voice, managed data and network cost of sales due to:

- Ongoing reductions in voice connections

Broadband cost of sales down \$15m, or 6.7%, on prior year driven by:

- \$17m YoY reduction in access costs due to ongoing adoption of wireless broadband; partially offset by
- Regulated increases in wholesale access charges for both fibre and copper

Mobile costs of sales increased \$22m, or 9.9%, due to:

- Increased customer demand for premium devices;
- Ongoing adoption of value added services; partially offset by
- Reduction in commissions following the insourcing of Spark retail stores

IT services cost of sales increase of 5.1% in support of growth in higher-margin cloud and security products revenues

H1 FY18 labour costs flat year on year:

- \$20m gross benefits from Quantum; offset by
- Expansion of labour in support of cloud and data analytics growth and acquisitions, including insourcing of retail stores
- \$74m annualised gross Quantum benefit weighted towards H2 FY18

Other expenses increased \$16m, or 19.8%, in support of key marketing campaigns and product launches

⁽¹⁾ Includes share of associate and joint venture net losses of \$2m in H1 FY17 and \$1m in H1 FY18

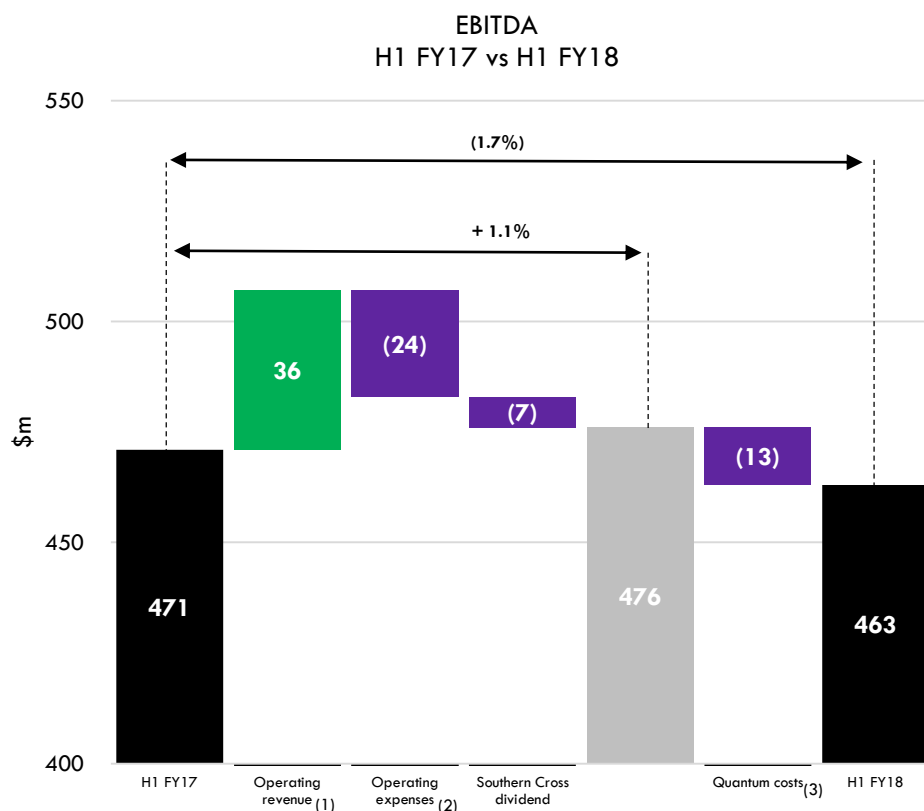
⁽²⁾ Voice, managed data and network cost of sales includes baseband and access charges and other intercarrier costs

⁽³⁾ Quantum costs of change are externally reported within labour (\$2m) and other operating expenses (\$11m)

Overall Performance

EBITDA

Reported EBITDA on plan with YoY reduction due to \$13m of non-recurring Quantum costs of change; associated gross benefits weighted to H2 FY18 and beyond



(1) Southern Cross dividends are externally reported within other operating revenue

(2) Includes share of associate and joint venture net losses of \$2m in H1 FY17 and \$1m in H1 FY18

(3) Quantum costs of change are externally reported within labour (\$2m) and other operating expenses (\$11m)

Product Performance

Mobile

New Zealand's fastest growing mobile provider by connections and revenues with a return to overall ARPU growth driving improved gross margin

Mobile revenues now account for 34.9% of total operating revenues; up 2.1pp on prior year.

Overall mobile ARPU up 1.8% on prior year, returning to growth for the first time in two years:

- Continued growth in HMB pay-monthly ARPU following launch of lower-priced unlimited data plan, with the number of HMB pay-monthly customers on a \$55 plan or above increasing by 22% on prior year;
- Spark Digital ARPU down on prior year due to continued competitive price pressure; and
- Significant prepaid ARPU growth, up 7.0% on prior year, driven by adoption of low-cost Skinny Direct prepaid offerings

Mobile gross margin up \$25m, or 6.8%, on prior year:

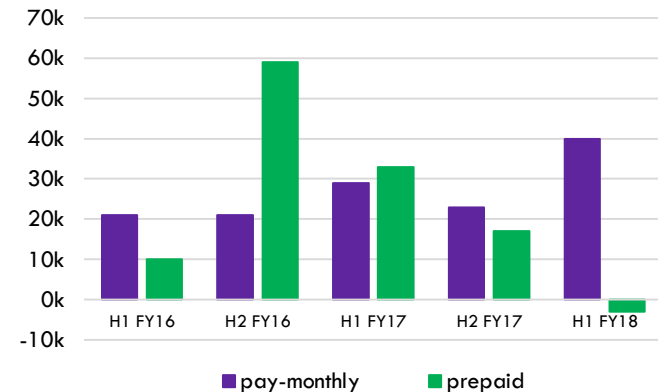
- Continued growth in high margin service revenues on increased ARPU and connection growth of 77k or 3.3%;
- Ongoing improvement in HMB handset margin as customers continue to migrate away from subsidised handsets; with 86% of HMB pay-monthly base now on open term plans; and
- Dealer margin savings through insourcing of Spark retail stores

20% YoY increase in net customer migration from prepaid to pay-monthly resulting in decline in HMB prepaid base during the half

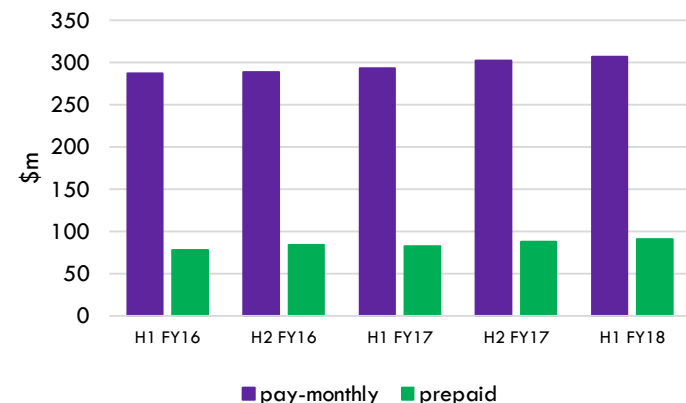
4.5G roll out progressing well with 30 locations and 38 sites now live:

- Provides customers with more data and faster speeds;
- Enables data to be delivered at a lower cost per GB; and
- Helps us prepare for a 5G future, by giving us a deeper understanding of the more intensive data use-cases that will be made possible

Net connection movement



Service revenue



Product Performance

Broadband

9.9% growth in broadband gross margin⁽¹⁾ with benefits of wireless broadband adoption offsetting the ARPU impacts of commoditisation, aggressive price competition and shift to naked broadband services

Rising input costs and persistent retail price competition continue to be features of the broadband market, further cementing our focus on:

- Wireless broadband; and
- Better serving price conscious customers

Second consecutive period of connection growth, up 7k during H1 FY18, driven by appeal of Skinny and Bigpipe sub-brands to price conscious customers

Revenue down \$3m, or 0.9%, on prior year, despite connection growth, due to ARPU dilution from:

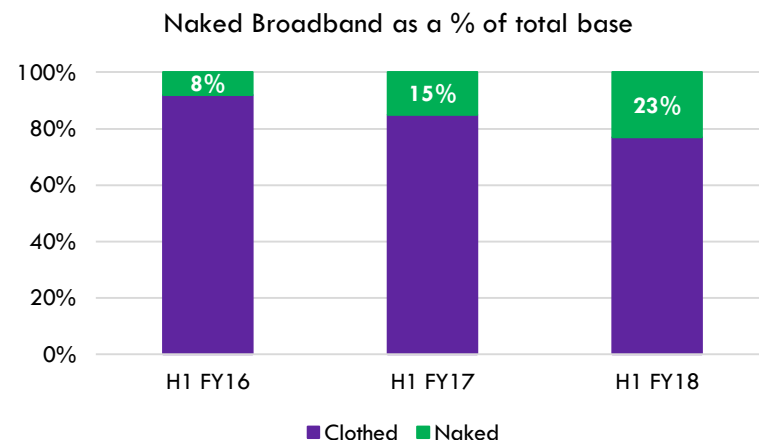
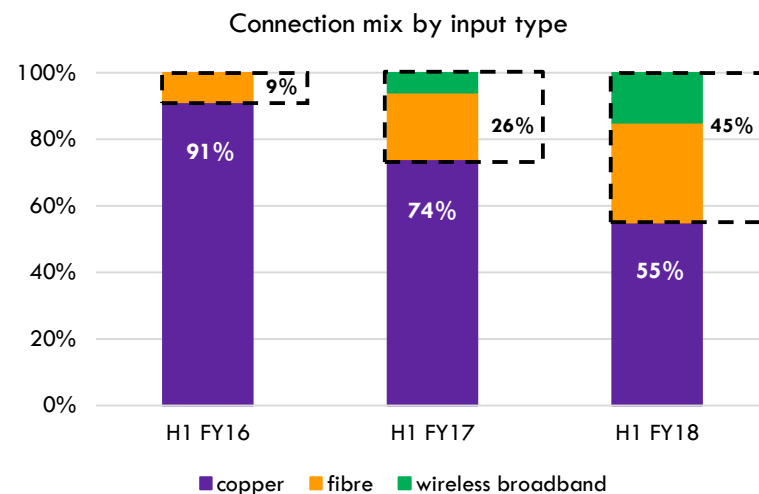
- Ongoing adoption of naked broadband services reducing broadband access revenue; and
- Uptake of lower-priced, but higher-margin, wireless broadband offers

'Upgrade New Zealand' momentum continues with 45% of broadband connections now on newer and more reliable fibre and wireless inputs, up from 26% in H1 FY17

- 104k customers now on wireless broadband, delivering ~\$46m of annualised gross reduction in broadband access costs

Video continues to fuel demand for data, with average monthly GB usage per customer up 39%⁽²⁾ on prior year. Reflected in ongoing migration to unlimited broadband plans with these now accounting for 54% of connections.

Completed successful trial of portable wireless broadband solution during H1 FY18, providing valuable insights into potential future offerings



⁽¹⁾ Broadband gross margin calculated as broadband revenue less broadband cost of sales

⁽²⁾ Excludes Skinny, Bigpipe and Digital Island. Average monthly data usage per connection 132GB

Product Performance

Cloud, Security and Service Management

Growth in higher-margin products and improved performance in service management driving increased gross margin

Topline revenue growth of \$27m or 17.5% driven by:

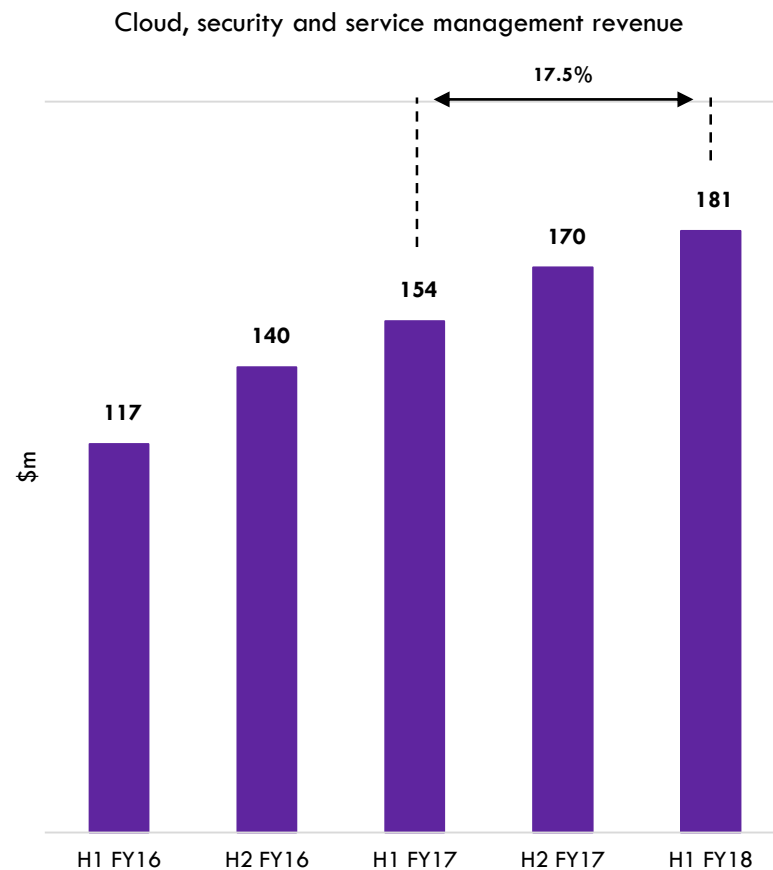
- Customer wins reflecting demand for the benefits and flexibility that cloud-based platforms offer;
- Transition project workload; and
- Ongoing annuity product revenues

Gross margin up \$17m fuelled by:

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

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

Global trends and strong customer demand indicate ongoing growth potential for cloud and security revenues



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 \$55m (12.4%) on prior year; versus a \$36m (7.5%) YoY decline in H1 FY17

H1 FY18 voice revenue⁽¹⁾ decline of \$46m (13.6%) on prior year higher than prior periods due to:

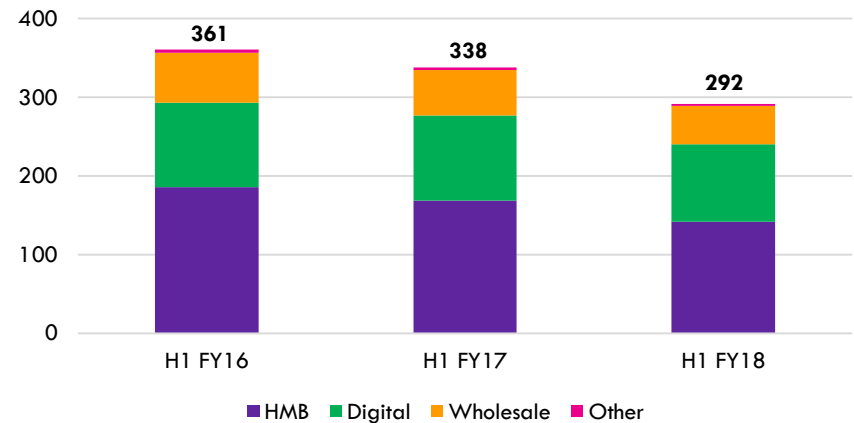
- \$18m (12.7%) YoY decrease in higher-margin calling revenues due to a 16% YoY decline in total calling minutes; and
- Acceleration in migration of wholesale and Spark Digital customers off PSTN

H1 FY18 managed data and networks revenue decline of \$9m (8.6%), higher than prior periods, as a result of:

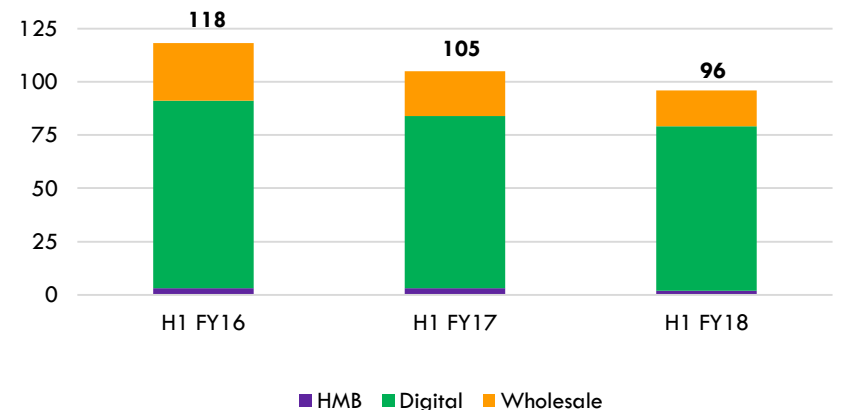
- Proactive migration of customers off legacy data platforms on to new lower-margin fibre based alternatives in support of core product simplification; and
- Competitive pricing pressure

Launch of new managed data customer support systems, creating 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)

Strategy Update

Media

Lightbox expanding its service, adding new monetisation options and latest movies

Excited to relaunch Lightbox on new Brightcove media platform in April, in support of media marketplace strategy. Will give us the functionality to partner with other premium content providers; delivering other types of content such as “pay-per-view” movies and events.

From launch we will substantially expand the available range of content:

- Pay-per-view movies; hundreds of titles available at launch with many more being added every week
- Kids content will get its own home so parents can keep kids safe with appropriately curated content

Will also provide users with more sophisticated functionality:

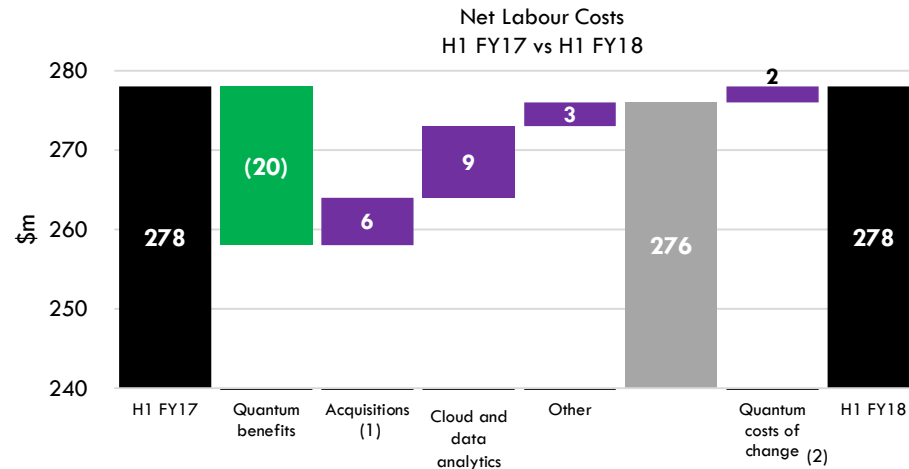
- Paid-for premium option to unlock simultaneous streaming to more devices and downloadable content to enable offline viewing
- Password protected profiles provide dedicated access to kids content



With continuing growth and over 300,000 subscribers Lightbox remains a valuable means of customer acquisition and retention

Quantum: Progress

Programme delivery expanded as planned during H1 FY18; associated gross annualised benefits of \$74m weighted towards H2 FY18 due to phasing of productivity gains



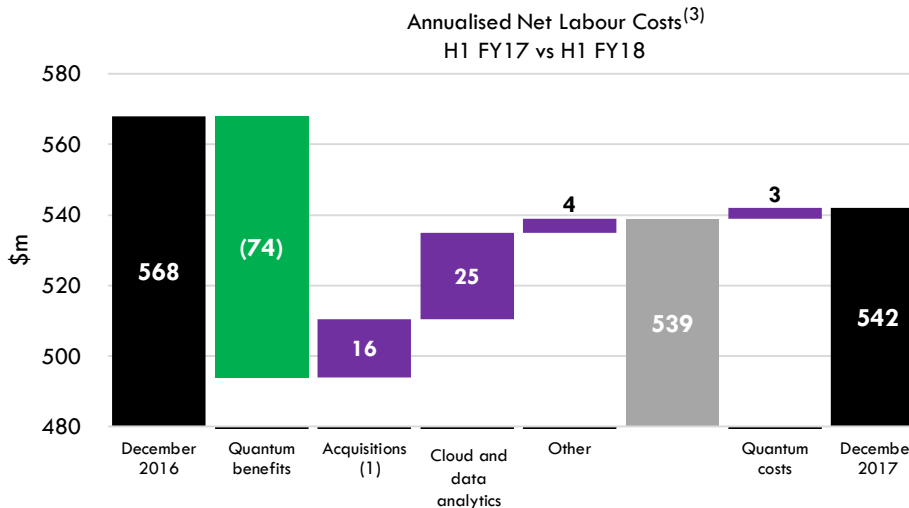
First phase of digitisation initiatives executed in H2 FY17 at a cost of \$8m to deliver:

- \$12m gross benefit in H1 FY18; and
- \$30m gross annualised reduction in labour

Second phase of digitisation initiatives also completed during H1 FY18 at a cost of \$13m to deliver:

- Further \$8m gross benefit in H1 FY18; and
- \$44m gross annualised reduction in labour

Annualised net labour costs projected to decline further to ~\$500m by end of FY18



Intent on completing Quantum programme in FY19 however:

- Considering opportunity to bring forward benefits by accelerating the programme; and
- Additional costs of change may be brought forward into FY18 to benefit FY19

⁽¹⁾ Includes insourcing of Spark retail stores and acquisitions of Ubiquity and Digital Island

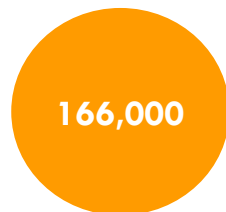
⁽²⁾ Total H1 FY18 Quantum costs of change of \$13m are recognised in labour costs (\$2m) and other expenses (\$11m)

⁽³⁾ Equals 12 x actual monthly spend (after adjusting for timing of labour capitalisation and releases of holiday pay accruals)

Quantum: Progress

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

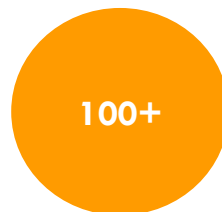
Simplification



Customers migrated onto new fit-for-purpose consumer plans during the half



Managed data plan variants grandfathered



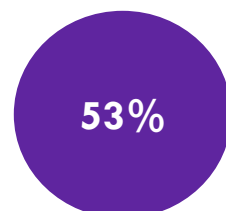
Spark Digital voice and mobile plans grandfathered

NPS



Increase in employee NPS in the half

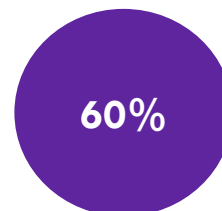
Automation



Spark Digital mobile service requests automated



Bots automating tasks across the business and proactively solving customer issues



Simple cloud customer requests now automated via self-service portal

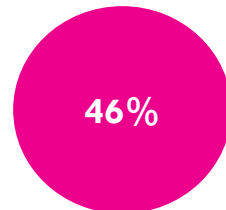


Increase in Spark Digital relationship NPS in the half

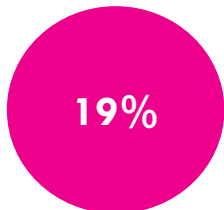
Digitisation



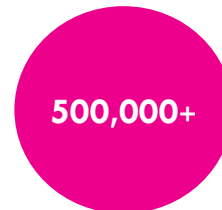
YoY reduction of calls into HMB contact centres



YoY Increase in HMB chat interactions



Increase in organisations using MySparkDigital



Spark App users completing 270,000 self-service interactions per month



Business customers using "walk me" self-service tutorials



Increase in consumer and small business market NPS in the half

Quantum: Agile Ways of Working

Moving ahead with Agile at scale more quickly and with broader scope than earlier envisaged, to capture clear benefits of these new ways of working

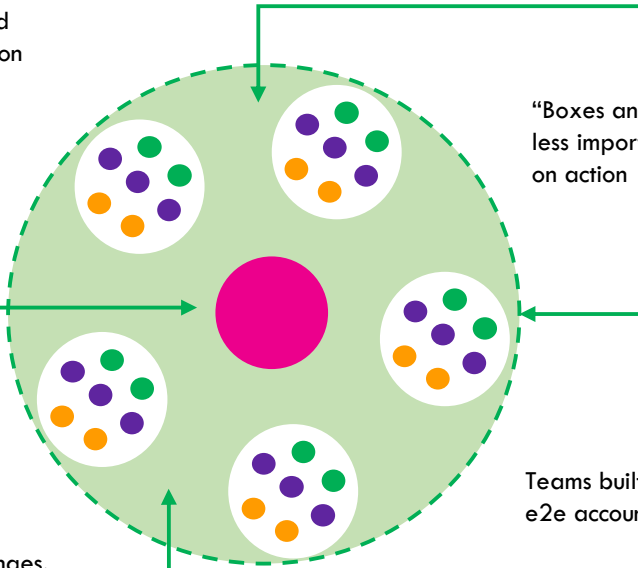
What

Leadership shows direction and enables action

"Boxes and lines" less important, focus on action

Teams built around e2e accountability

Quick changes, flexible resources



Principles

Organisations as organic systems, in which people collaborate quickly and effectively around tasks and projects, across boundaries

Leaders as catalysts who show direction and set up the system for people to do their jobs effectively

Employees as adults, exposing them to uncertainty to help them grow and trusting them to do the right thing

Why

Deeply embedded customer centricity

Dramatically increased speed to market

Highly empowered and engaged people with greater productivity

When

Planning and high level design	Completed
Frontrunner tribes being established	Now
Detailed structure design confirmed	March
Employee training and transition to squad roles	April-June
Agile at Scale implemented	Q1 FY19

Capital Management

Capital Expenditure

Capital envelope continues to provide sufficient capacity to execute on our strategy, with FY18 investment weighted towards H1

Capital Expenditure (\$m)	H1 FY17	H2 FY17	H1 FY18
Plant, network, core sustain and resiliency	36	31	38
IT systems ⁽¹⁾	60	52	64
Mobile ⁽²⁾	69	33	89
Cloud	22	20	19
Other ⁽³⁾	20	23	21
Converged Communications Network	3	12	17
International cable construction and capacity ⁽⁴⁾	14	20	14
Total CAPEX	224	191	262
Total CAPEX to operating revenue	12.5%	10.6%	14.4%

Continuing to work within a capex envelope of 11-12% of revenue annually

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

IT systems investment in support of enhanced customer experience and ongoing simplification, automation and digitisation of Spark's products and services

Mobile investment up \$20m on H1 FY17 due to phasing of capacity and coverage expansion. Core mobile and wireless broadband capability increasing via ongoing investment in single radio access network (SRAN) and long-term evolution (LTE) technologies.

Multi-year Converged Communication 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

⁽¹⁾ IT systems includes investments in core IT systems and Telecommunications-as-a-Service

⁽²⁾ Mobile includes investment in standalone mobile assets including capacity in support of wireless broadband

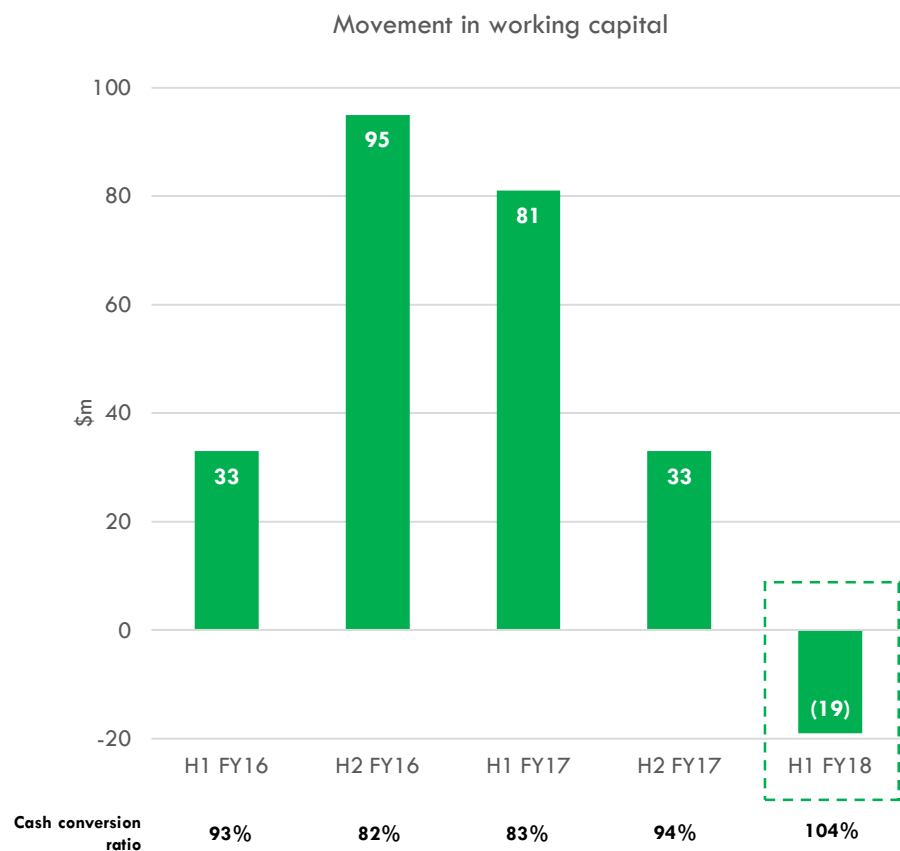
⁽³⁾ Other includes store refits, Lightbox, Qrious, IoT and Morepork

⁽⁴⁾ International cable includes capacity purchases on Southern Cross cable and investment in Tasman Global Access cable

Capital Management

Working Capital

Cash conversion ratio⁽¹⁾ improved to 104% in H1, resulting in a \$19m improvement in working capital. Overall FY18 cash conversion projected to be 90-95%, as favourable timing of H1 payables unwinds.



Key components of movement in working capital between H2 FY17 and H1 FY18

HMB mobile handset receivable Driven by a 19% increase in average handset value ⁽²⁾ Growth in the penetration of 'open term' plans has slowed during H1 FY18, increasing by only 1% to 86%	\$29m
Prepayments and accruals Primarily due to timing of expenditure in support of procurement and partners revenue growth	\$3m
IT services contracts Further on-boarding of customers during H1 FY18, with costs incurred at the beginning of the contract but recognised over the life of the contract	\$11m
Timing of payables and receivables Predominantly due to timing of payment due dates for key suppliers and recognition of new customer acquisition costs over customer contract periods	(\$60m)
Inventory Due to reduction in level of broadband modem stock	(\$1m)

⁽¹⁾ Calculated as operating cash-flow (excluding tax and interest) divided by EBITDA (excluding net gains from divestments and share of associate and joint venture net losses)

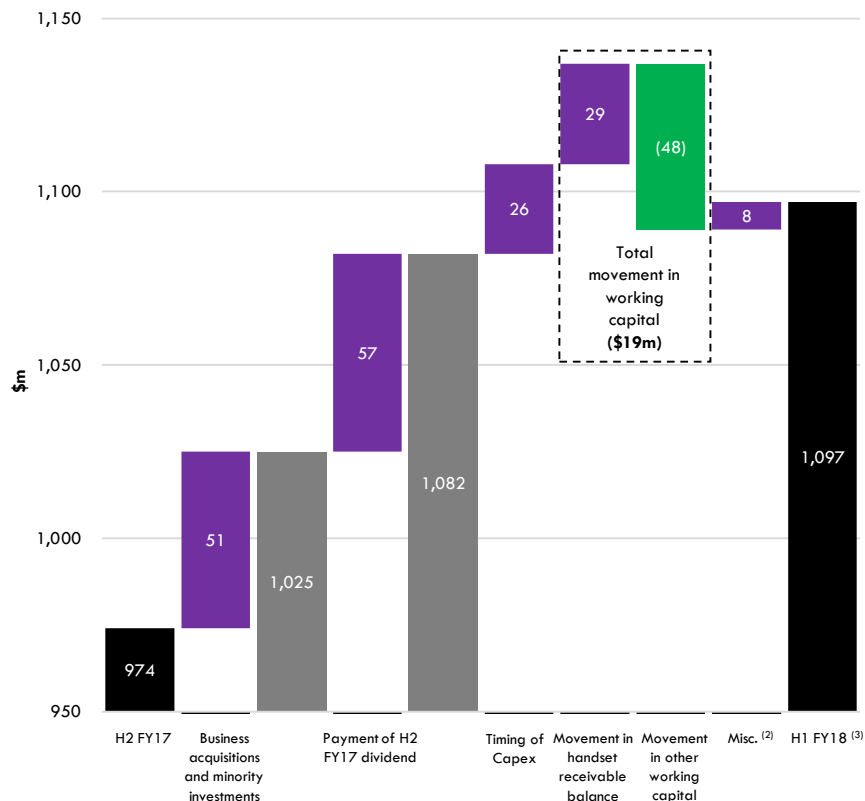
⁽²⁾ Calculated as the weighted average retail price (incl. GST) for all mobile devices sold by Spark HMB

Capital Management

Net Debt

Current gearing provides ~\$150m of debt headroom⁽¹⁾ within our S&P A- credit rating; with net debt increasing by \$123m during H1 FY18 due to business acquisitions, continued growth in handset receivable balance, timing of capital expenditure and payment of H2 FY17 dividend

Movement in Net Debt between H2 FY17 and H1 FY18



\$51m to fund minority investments and business acquisitions including Digital Island, Spark retail stores and Ubiquity

\$57m payment of H2 FY17 dividend consistent with previous policy, whereby debt was used to supplement earnings per share to reset capital structure

\$26m timing of capital expenditure⁽⁴⁾ across mobile and converged communications programmes

\$29m growth in handset receivable balance due to 19% increase in average handset value⁽⁵⁾ as HMB customers continue to adopt premium devices

(\$48m) improvement in other working capital⁽⁶⁾ due to:

- Timing of payment due dates for key suppliers; and
- Initial benefits of refreshed working capital policies

Current gearing of 1.09x⁽⁷⁾ remains consistent with Spark's 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

Funding capacity projected to improve over time as:

- EBITDA growth provides additional funding headroom; and
- Application of refreshed working capital policies improves cash conversion

⁽¹⁾ Calculated using FY17 EBITDA of \$996m; being reported FY17 EBITDA of \$1,016m less net gain from sale of Mayoral Drive Carpark

⁽²⁾ Miscellaneous movements include adjustment for fair value estimate of debt and timing of tax, interest and lease payments

⁽³⁾ Refers to gross debt of \$1,180m as reported in Note 6 of Spark's FY18 Half Year Report less cash of \$117m as reported in the Statement of Financial Position within Spark's FY18 Half Year Report plus the impact of hedged rates used, being \$34m as at 31 December 2017.

⁽⁴⁾ Calculated as H1 FY18 payments for capital expenditure and capitalised interest paid of \$240m less reported H1 FY18 depreciation and amortisation of \$214m

⁽⁵⁾ Calculated as the weighted average retail price (incl. GST) for all mobile devices sold by Spark HMB

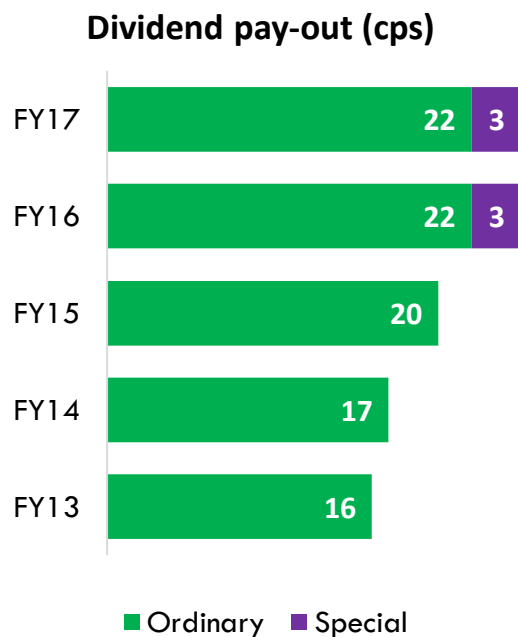
⁽⁶⁾ Calculated as total H1 FY18 improvement in working capital of \$19 less H1 FY18 increase in handset receivable balance of \$29m

⁽⁷⁾ Calculated as net debt/EBITDA

Capital Management

Dividend

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



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

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

From H1 FY18 onwards the primary use of any debt to supplement earnings per share has therefore changed:

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

Spark confirms an H1 FY18 total dividend per share of 12.5c made up of:

- H1 FY18 ordinary dividend per share of 11.0c, to be 75% imputed; and
- H1 FY18 special dividend per share of 1.5c, to be 75% imputed

FY18 Outlook

Guidance ^{(1) (2)}

Considering acceleration of Quantum programme to strengthen FY19 result. No decision has yet been made but if programme is accelerated then FY18 guidance may reduce due to associated costs of change; we will update the market if appropriate.

	FY17 Actual excluding net gain from sale of Mayoral Drive carpark	FY18 Guidance ^{(1) (2)} versus FY17 actual excluding net gain from sale of Mayoral Drive carpark	Change to previous FY18 guidance
Total Revenues	\$3,594m	0-2% growth	-
EBITDA	\$996m	0-2% growth	-
Capex	\$415m	~\$410m	-
Earnings per Share	22c	~22c	-
Dividend per Share	Ordinary 22.0 cps fully imputed Special 3.0 cps 75% imputed	Total 25.0cps at least 75% imputed ⁽³⁾	-

⁽¹⁾ Guidance subject to no adverse change in operating outlook

⁽²⁾ Guidance is relative to reported FY17 results excluding net gain from sale of surplus Mayoral Drive carpark land

⁽³⁾ Likely to be made up of an ordinary dividend determined by earnings, topped up by a special dividend to maintain a total dividend per share of 25.0c

FY18 Outlook

Indicators of Success

	Measures	Target 30 June 2018	Status
Strategic enablers	Spark HMB mobile and broadband connections migrated to new plans	200k	On Track
	Spark Digital core product plan portfolio	Reduced from 1,000's to 100's	Solid Progress
	Transition to scaled Agile operating model	Implemented H2	On Track, going bigger
	Spark Digital offering tiered service model	Launched H2	On Track
	Deployed 4.5G locations	30	Delivered
	Foundation IMS capability deployed	Commissioned H2	On Track
	Significant new automation and digitisation initiatives completed	5	On Track
	Percentage of customer journeys designed digital first	70%	On Track
Lead indicators	PSTN exchange closures	at least a further 40 closures	On Track
	Reduction in monthly Customer Care workload minutes ⁽¹⁾	10%	Well Ahead
	Proportion of broadband customers on fibre or wireless broadband	50%	On Track
	Market share of UFB connection growth	40-45%	Improvement Needed
Market outcomes	Wireless broadband connections	125k	On Track
	Market NPS	5 point lift	Improvement Needed
	Total mobile revenue growth	4%	Well Ahead
	Cloud revenue growth ⁽²⁾	10-15%	Ahead
	New Ventures revenue growth incl. new wholesale	100%	On Track
	Cyber security revenue growth	30%	On Track

⁽¹⁾ Workload minutes defined as: interactions answered x average handling time

⁽²⁾ This measure replaces the previous Platform IT revenue growth target, as Platform IT is no longer reported as a revenue category

Disclaimer

This announcement may include forward-looking statements regarding future events and the future financial performance of Spark New Zealand. Such forward-looking statements are based on the beliefs of and assumptions made by management along with information currently available at the time such statements were made.

These forward-looking statements may be identified by words such as 'guidance', 'anticipate', 'believe', 'estimate', 'expect', 'intend', 'will', 'plan', 'may', 'could', 'ambition', 'aspiration' and similar expressions. Any statements in this announcement that are not historical facts are forward-looking statements. These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond Spark New Zealand's control, and which may cause actual results to differ materially from those projected in the forward-looking statements contained in this announcement.

Factors that could cause actual results or performance to differ materially from those expressed or implied in the forward-looking statements are discussed herein and also include Spark New Zealand's anticipated growth strategies, Spark New Zealand's future results of operations and financial condition, economic conditions and the regulatory environment in New Zealand, competition in the markets in which Spark New Zealand operates, risks related to the sharing arrangements with Chorus, other factors or trends affecting the telecommunications industry generally and Spark New Zealand's financial condition in particular and risks detailed in Spark New Zealand's filings with NZX and ASX. Except as required by law or the listing rules of the stock exchanges on which Spark New Zealand is listed, Spark New Zealand undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Spark New Zealand

Group result

	H1 FY16	H2 FY16	H1 FY17	H2 FY17	H1 FY18
	\$m	\$m	\$m	\$m	\$m
Operating revenues and other gains	1,723	1,774	1,793	1,821	1,822
Operating expenses	1,266	1,240	1,320	1,274	1,358
Share of associates' and joint ventures' net losses	(2)	(3)	(2)	(2)	(1)
EBITDA	455	531	471	545	463
Depreciation and amortisation expense	224	222	215	215	214
Net finance expense	13	15	13	13	14
Net earnings before income tax	218	294	243	317	235
Tax expense	60	82	65	77	63
Net earnings for the period	158	212	178	240	172

EBITDA by business unit

	H1 FY16	H2 FY16	H1 FY17	H2 FY17	H1 FY18
	\$m	\$m	\$m	\$m	\$m
EBITDA					
Spark Home, Mobile & Business	417	426	411	442	420
Spark Digital	176	201	178	206	179
Spark Connect & Platforms	(192)	(169)	(179)	(169)	(174)
Spark Ventures & Wholesale	70	75	63	66	58
Corporate	(16)	(2)	(2)	-	(20)
	455	531	471	545	463

Connections

	H1 FY16	H2 FY16	H1 FY17	H2 FY17	H1 FY18
	000's	000's	000's	000's	000's
Mobile connections	2,212	2,293	2,353	2,392	2,437
Voice connections ¹	744	713	670	622	552
Broadband connections					
Copper	615	564	497	431	384
Fibre	58	99	138	172	206
Wireless	2	12	40	84	104
	675	675	675	687	694

¹ Voice connections now include all voice technology types, including POTS, ISDN, VOIP and wireless voice. Connections for prior periods have been updated to ensure consistency. Voice connections exclude connections where Spark also provide a bundled broadband service, but include all wholesale voice connections (including those where the underlying customer has a bundled broadband service).

Dividends

	H1 FY16	H2 FY16	H1 FY17	H2 FY17	H1 FY18
Ordinary dividends (cents per share)	11.00	11.00	11.00	11.00	11.00
Special dividends (cents per share)	1.50	1.50	1.50	1.50	1.50
	12.50	12.50	12.50	12.50	12.50

Spark New Zealand

Operating revenues and other gains by business unit

	H1 FY16	H2 FY16	H1 FY17	H2 FY17	H1 FY18
	\$m	\$m	\$m	\$m	\$m
Operating revenues and other gains					
Spark Home, Mobile & Business	1,008	1,025	1,019	1,021	1,034
Spark Digital	557	575	614	623	633
Spark Connect & Platforms	22	23	24	28	27
Spark Ventures & Wholesale	131	134	120	124	119
Corporate	26	41	35	46	28
Eliminations	(21)	(24)	(19)	(21)	(19)
	1,723	1,774	1,793	1,821	1,822

Group operating revenues and other gains

	H1 FY16	H2 FY16	H1 FY17	H2 FY17	H1 FY18
	\$m	\$m	\$m	\$m	\$m
Operating revenues					
Mobile					
Service revenue	371	379	383	398	406
Other mobile revenue	192	192	205	211	229
	563	571	588	609	635
Voice					
Landline only	169	166	155	143	130
Calling	153	164	142	134	124
Videoconferencing	24	23	27	27	25
Other voice revenue	15	14	14	13	13
	361	367	338	317	292
Broadband	339	346	344	345	341
Cloud, security and service management	117	140	154	170	181
Procurement and partners	152	147	176	169	183
Managed data and networks	118	111	105	102	96
Other operating revenue	73	92	88	89	94
Total operating revenues	1,723	1,774	1,793	1,801	1,822
Other gains	-	-	-	20	-
Total operating revenues and other gains	1,723	1,774	1,793	1,821	1,822

Wireless broadband revenues and connections are included in broadband revenues and connections.

Spark New Zealand

Revenue classification changes

Spark has revised some of the categories of operating revenues presented to provide greater insight into the drivers of business performance. This has resulted in the disaggregation of the previously reported 'IT services' revenue category as outlined below:

Revenue type	Services provided	Previous category	New category
Cloud	Includes IaaS, DaaS, PaaS, public cloud resale and related consulting and managed services. Also includes data centre co-location and managed infrastructure.	IT services	Cloud, security and service management
Security	Cyber security services.	IT services	Cloud, security and service management
Service management	IT managed services including service desk, incident management, problem management, change management, configuration management and release management.	IT services	Cloud, security and service management
Procurement	Procurement of hardware and software on behalf of customers.	IT services	Procurement and partners
Partners	Partner provided IT services, primarily in the regions where Spark does not have a presence.	IT services	Procurement and partners
Videoconferencing	Video and audio conferencing, including Skype for Business and contact centre solutions.	IT services	Voice
Networks	Proactive monitoring and managed services for customer networks.	IT services	Managed data and networks
Mobility	Machine to machine revenue.	IT services	Other operating revenue

A reconciliation of the new revenue categories to an equivalent of the previously reported 'IT services' revenue category is provided below:

	H1 FY16 \$m	H2 FY16 \$m	H1 FY17 \$m	H2 FY17 \$m	H1 FY18 \$m
Cloud, security and service management	117	140	154	170	181
Procurement and partners	152	147	176	169	183
Networks	22	19	20	23	23
Videoconferencing	24	23	27	27	25
Other operating revenue	7	7	7	10	8
Previous IT services revenue category	322	336	384	399	420

Spark New Zealand

Financial breakdown by business unit - Spark Home, Mobile & Business

	H1 FY16 \$m	H2 FY16 \$m	H1 FY17 \$m	H2 FY17 \$m	H1 FY18 \$m
Operating revenues					
Mobile	467	471	486	506	529
Voice	186	189	169	152	142
Broadband	324	332	330	330	327
Cloud, security and service management	4	4	4	4	5
Procurement and partners	3	2	3	2	2
Managed data and networks	3	3	3	2	2
Other operating revenue	21	24	24	25	27
	1,008	1,025	1,019	1,021	1,034
Operating expenses					
Labour	58	60	70	66	63
Other operating expenses	519	522	524	496	536
Internal expenses	14	17	14	17	15
	591	599	608	579	614
EBITDA	417	426	411	442	420
EBITDA margin	41.37%	41.56%	40.33%	43.29%	40.62%

Analysis & KPI's - Spark Home, Mobile & Business

	H1 FY16 \$m	H2 FY16 \$m	H1 FY17 \$m	H2 FY17 \$m	H1 FY18 \$m
Voice revenue by type					
Landline only	89	82	81	72	67
Calling	86	97	78	71	66
Other voice revenue	11	10	10	9	9
	186	189	169	152	142
Connections	000's	000's	000's	000's	000's
Broadband connections	659	659	659	671	676
Voice only connections	227	218	203	201	188

Spark New Zealand

Financial breakdown by business unit - Spark Digital

	H1 FY16 \$m	H2 FY16 \$m	H1 FY17 \$m	H2 FY17 \$m	H1 FY18 \$m
Operating revenues					
Mobile	82	84	87	84	87
Voice	107	109	108	108	98
Broadband	15	14	14	15	13
Cloud, security and service management	113	136	150	166	176
Procurement and partners	149	145	173	167	181
Managed data and networks	88	84	81	82	77
Internal revenue	3	3	1	1	1
	557	575	614	623	633
Operating expenses					
Labour	94	95	110	101	112
Other operating expenses	283	274	322	312	339
Internal expenses	4	5	4	4	3
	381	374	436	417	454
EBITDA	176	201	178	206	179
EBITDA margin	31.60%	34.96%	28.99%	33.07%	28.28%

Analysis & KPI's - Spark Digital

	H1 FY16 \$m	H2 FY16 \$m	H1 FY17 \$m	H2 FY17 \$m	H1 FY18 \$m
Voice revenue by type					
Landline only	32	33	30	30	26
Calling	50	52	50	50	46
Videoconferencing	24	23	27	27	25
Other voice revenue	1	1	1	1	1
	107	109	108	108	98
Connections	H1 FY16 000's	H2 FY16 000's	H1 FY17 000's	H2 FY17 000's	H1 FY18 000's
Broadband connections	16	16	16	16	16
Voice only connections	135	136	132	121	112

Spark New Zealand

Financial breakdown by business unit - Spark Connect & Platforms

	H1 FY16 \$m	H2 FY16 \$m	H1 FY17 \$m	H2 FY17 \$m	H1 FY18 \$m
Operating revenues					
Mobile	2	3	3	4	4
Voice	4	3	3	3	3
Other operating revenue	16	17	18	21	20
	22	23	24	28	27
Operating expenses					
Labour	77	70	76	83	74
Other operating expenses	136	121	127	113	127
Internal expenses	2	1	-	-	-
	215	192	203	196	201
Share of associates' and joint ventures' net profits / (losses)	1	-	-	(1)	-
EBITDA	(192)	(169)	(179)	(169)	(174)

Analysis & KPI's - Spark Connect & Platforms

	H1 FY16 \$m	H2 FY16 \$m	H1 FY17 \$m	H2 FY17 \$m	H1 FY18 \$m
Voice revenue by type					
Calling	4	3	3	3	3

Spark New Zealand

Financial breakdown by business unit - Spark Ventures & Wholesale

	H1 FY16 \$m	H2 FY16 \$m	H1 FY17 \$m	H2 FY17 \$m	H1 FY18 \$m
Operating revenues					
Mobile	12	13	12	15	15
Voice	64	66	58	54	49
Broadband	-	-	-	-	1
Managed data and networks	27	24	21	18	17
Other operating revenue	10	10	11	17	19
Internal revenue	18	21	18	20	18
	131	134	120	124	119
Operating expenses					
Labour	7	6	8	8	11
Other operating expenses	50	50	48	50	49
Internal expenses	1	1	-	-	1
	58	57	56	58	61
Share of associates' and joint ventures' net losses	(3)	(2)	(1)	-	-
EBITDA	70	75	63	66	58
EBITDA margin	53.44%	55.97%	52.50%	53.23%	48.74%

Analysis & KPI's - Spark Ventures & Wholesale

	H1 FY16 \$m	H2 FY16 \$m	H1 FY17 \$m	H2 FY17 \$m	H1 FY18 \$m
Voice revenue by type					
Landline only	48	51	44	41	37
Calling	13	12	11	10	9
Other voice revenue	3	3	3	3	3
	64	66	58	54	49
Connections	H1 FY16 000's	H2 FY16 000's	H1 FY17 000's	H2 FY17 000's	H1 FY18 000's
Broadband connections	-	-	-	-	1
Voice connections ¹	382	359	335	300	252
Voice only connections	89	82	76	70	63
Mobile connections ²	34	35	33	32	40

¹ Includes all wholesale voice connections (including those where the underlying customer has a bundled broadband service).

² Mobile connections exclude MVNO connections.

Spark New Zealand

Financial breakdown by business unit - Corporate

	H1 FY16 \$m	H2 FY16 \$m	H1 FY17 \$m	H2 FY17 \$m	H1 FY18 \$m
Operating revenues and other gains					
Other operating revenue	26	41	35	26	28
Other gains	-	-	-	20	-
	26	41	35	46	28
Operating expenses					
Labour	16	14	14	14	18
Other operating expenses	26	28	21	31	29
Internal expenses	-	-	1	-	-
	42	42	36	45	47
Share of associates' and joint ventures' net losses	-	(1)	(1)	(1)	(1)
EBITDA	(16)	(2)	(2)	-	(20)

Analysis & KPI's - Corporate

	H1 FY16 \$m	H2 FY16 \$m	H1 FY17 \$m	H2 FY17 \$m	H1 FY18 \$m
Southern cross dividends	26	40	35	26	28
Connections	000's	000's	000's	000's	000's
Broadband connections	-	-	-	-	1

Spark New Zealand

Analysis & KPI's - Mobile (Spark Home, Mobile & Business and Spark Digital)

	H1 FY16	H2 FY16	H1 FY17	H2 FY17	H1 FY18
	\$m	\$m	\$m	\$m	\$m
Mobile revenue by type					
Mobile service revenue	365	373	376	390	398
Other mobile revenue ¹	184	182	197	200	218
	549	555	573	590	616
	H1 FY16	H2 FY16	H1 FY17	H2 FY17	H1 FY18
	\$ per	\$ per	\$ per	\$ per	\$ per
	month	month	month	month	month
Average revenue per user (ARPU) - 6 month active					
Total ARPU	28.44	27.89	27.71	27.68	28.22
Pay-monthly ARPU	46.55	45.99	45.59	45.88	45.37
Prepaid ARPU	11.72	11.87	11.65	11.75	12.46
	H1 FY16	H2 FY16	H1 FY17	H2 FY17	H1 FY18
	000's	000's	000's	000's	000's
Number of mobile connections at period end - 6 month active					
Pay-monthly connections	1,035	1,056	1,085	1,108	1,148
Prepaid connections	1,139	1,198	1,231	1,248	1,245
Internal connections	4	4	4	4	4
Total mobile connections	2,178	2,258	2,320	2,360	2,397

¹ Other mobile revenue includes handset sales and mobile interconnect.

Spark New Zealand

Group operating expenses

	H1 FY16 \$m	H2 FY16 \$m	H1 FY17 \$m	H2 FY17 \$m	H1 FY18 \$m
Payments to telecommunications operators ¹					
Baseband and access charges	71	78	74	69	64
Other intercarrier costs	43	48	47	49	50
Broadband cost of sales	210	226	223	214	208
Field services	10	8	7	7	6
	334	360	351	339	328
Mobile acquisition, procurement and IT services					
Mobile cost of sales	229	219	222	214	244
IT services cost of sales	184	177	215	205	226
	413	396	437	419	470
Labour	252	245	278	272	278
Other operating expenses					
Direct network costs	38	31	31	29	31
Computer costs	38	36	40	42	41
Accommodation costs	47	45	50	49	54
Advertising, promotions and communication	45	32	41	28	51
Bad debts	11	11	9	9	7
Impairment expense	-	9	2	-	1
Other	88	75	81	87	97
	267	239	254	244	282
Total operating expenses	1,266	1,240	1,320	1,274	1,358
Depreciation and amortisation expense					
Depreciation	126	122	122	128	129
Amortisation	98	100	93	87	85
	224	222	215	215	214
Net finance expense					
Finance income	(9)	(9)	(8)	(8)	(8)
Finance expense	22	24	21	21	22
	13	15	13	13	14

¹ Broadband related Unbundled Copper Local Loop (UCLL) costs have been reclassified from 'baseband and access charges' to 'broadband cost of sales' to align the classification of copper broadband inputs with the existing classification of fibre broadband inputs. Total payments to telecommunications operators remains unchanged.

Group FTE's

	H1 FY16	H2 FY16	H1 FY17	H2 FY17	H1 FY18
FTE permanent	5,023	5,241	5,664	5,554	5,384
FTE contractors	301	328	279	220	230
Total FTE	5,324	5,569	5,943	5,774	5,614

Spark New Zealand

Group capital expenditure

	H1 FY16	H2 FY16	H1 FY17	H2 FY17	H1 FY18
	\$m	\$m	\$m	\$m	\$m
Cloud	10	24	22	20	19
Converged Communications Network (CCN)	-	3	3	12	17
International cable construction and capacity purchases	21	7	14	20	14
IT systems	17	42	60	52	64
Re-engineering of IT systems	42	24	-	-	-
Mobile network	58	19	69	33	89
Plant, network and core sustain and resiliency	53	26	36	31	38
Other	15	20	20	23	21
Total capital expenditure excluding mobile spectrum	216	165	224	191	262
Mobile spectrum	-	9	-	-	-
Total capital expenditure	216	174	224	191	262

Capital expenditure is presented on an accruals basis.