MARKET RELEASE

22 August 2018

Spark New Zealand FY18 results show strong performance in growth areas while transforming business for the future

- **Strong performance in key growth areas – especially in mobile and in cloud, security and service management**
- **Substantial progress in digitisation and simplification programme drives improved customer satisfaction and lowers cost-to-serve**
- **Acceleration of business performance improvement programme brings $49m in costs of change**
- **Became one of the first large companies in Australasia to transition to Agile model at scale**
- **Southern Cross dividends expected to significantly decline in FY19**

Spark New Zealand's financial results for the year to 30 June 2018 show the business continued to deliver against key financial and operational targets, while undertaking one of the biggest change programmes in the company's history as it transitioned to an Agile way of working.

Speaking about the results, Spark Chair Justine Smyth said: "In June last year, Spark set out a three-year vision of how the business would maintain growth in a highly competitive environment. Underpinning this vision were three strategic focus areas: an increased emphasis on wireless; leveraging multi brands; and being the lowest cost operator through simplification, digitisation and automation.

"Spark delivered against these focus areas, while simultaneously making the bold decision to transition the company to an Agile way of working – and this flowed through to its financial results."

Spark reported year-on-year revenue growth of $35m, or 1.0%, taking revenue to $3,649m; driven by substantial revenue growth totalling $132m across mobile (up 6.9%) and cloud, security and service management (up 15.1%). This growth was partially offset by continuing declines in legacy voice, managed data and networks revenues; down, in total, $100m.

Southern Cross dividends also declined by $11m to $50m during FY18. The company expects dividends received from Southern Cross to decline significantly further during FY19 to between $10m and $20m, as the level of pre-purchased capacity from large customers decreases. Spark has anticipated the decrease in Southern Cross dividends for some time, with opportunities for the pre-sale of capacity for use by customers in future years declining as the remaining life of the existing Southern Cross cable network reduces.

As indicated to the market in May, Spark chose to accelerate its Quantum business improvement programme in H2 FY18, incurring costs of change within the FY18 financial year to realise benefits sooner than previously envisaged.

“This decision was based on our increasing confidence that the business could improve customer experience and operate under a lower cost structure in an Agile model,” Ms Smyth said.

The acceleration meant additional implementation costs of $24m were brought forward into FY18 earnings, which added to the $25m cost of change Spark had already planned for, bringing total costs of change for FY18 to $49m. As a result of this, overall reported EBITDA for FY18 declined by $27m, or 2.7%, to $989m.

Excluding change costs, adjusted EBITDA for FY18 was $1,038m, an increase of $22m, or 2.2%.

Spark announced an H2 FY18 total dividend per share of 12.5c, which 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.

Managing Director Simon Moutter said Spark’s success in growth areas continued to offset decline in legacy areas of the business.

“We saw a continued growth story in cloud, security and service management products during FY18, with both revenues and margins improving over the year. Our business customers increasingly recognise the benefits and flexibility offered by “as a service” cloud products, and we have launched new security products to capture growth in that market.

“We’re also very pleased to see our strategic emphasis on wireless technologies flow through to further growth in mobile market share, revenue and margins – with Spark the only New Zealand mobile operator to achieve this over the period. Our mobile revenue growth is now fully offsetting traditional voice revenue decline.

“The Upgrade New Zealand programme reached a crucial tipping point in June, with more than 50% of our customers now on either fibre or wireless broadband. We now have 116,000 customers on our wireless broadband product. While this is a little behind the targets we set last year, it’s helping to drive a 6.7% uplift in broadband gross margin – in a market where margins are very challenged. Our focus is now shifting to the retention of existing wireless broadband connections and the migration of copper voice connections to our wireless voice alternative.”

Mr Moutter said the company made substantial progress on its programme of simplification, automation and digitisation over the year. Improvements to digital self-service channels and the introduction of artificial intelligence, through chatbots and other automation tools, reduced customer service voice calls by almost a quarter year-on-year. Spark also rolled out 40 different “bots” to automate high-volume and sometimes very complex business processes and tasks.

“Customer satisfaction measures improved over the financial year, with net promoter scores (NPS) improving for both the Spark and Skinny brands,” said Mr Moutter. “We achieved this off the back of our new and improved digital channels, as well as better performance in our more traditional channels.”

Spark’s multi brand strategy continued to help the company win customers across different market segments – particularly price-sensitive markets. Low-cost brands Skinny and Bigpipe drove the majority of Spark’s FY18 total broadband customer growth of 13,000 net new connections. Skinny’s dual commitment to low prices and high customer satisfaction also drove continued growth in mobile, with innovations like its Data Binge product proving very successful.

During FY18, Spark moved further into the rapidly evolving media landscape, introducing new features and services for Lightbox – including a pay-as-you-go movie service, separate kids’ area and a premium subscription option – and making a big move into the sports content market. Spark has secured broadcast rights to several World Rugby tournaments - including Rugby World Cup 2019, and to Premier League football from the 2019 season, with more content announcements to come.

“We see sports content as crucial to our media strategy,” said Mr Moutter. “However, we are also disciplined when it comes to our investments in this area and are only looking to secure content that can give us a commercial return. We believe we’ve achieved that with the high-quality content we’ve secured to date.”

Mr Moutter said Spark began the transition to Agile towards the end of the financial year with the “engine room” of the business – which encompasses core functions such as network, IT, product development and marketing.

“These parts of the business have been completely reorganised into small, multifunctional teams, working on single customer propositions – and seeing these through from end-to-end. We also began applying Agile methodologies across the rest of the business to varying degrees depending on the nature of the business operation.

“We are one of the first large companies in Australasia to make the move to Agile at scale in such a short space of time. Our move has attracted a lot of interest from other companies – here and overseas – who are grappling with the same issues of uncertainty and technological and market disruption.

“We’re proud of what we’ve achieved, firmly positioning ourselves for future success. Furthermore, we have delivered this change while maintaining financial and operational momentum and ensuring our business performance is to plan.

“In the coming year, we are focussed on capturing the advantages the Agile way of working will deliver for us: highly engaged and productive people; a total focus on what matters for customers; and the ability to deliver new products and services – and improve existing ones - faster than ever before.”

ENDS

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Spark nz

Spark New Zealand FY18 Results Summary.

SIMON MOUTTER, MANAGING DIRECTOR
DAVID CHALMERS, FINANCE DIRECTOR

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 14 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)

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

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

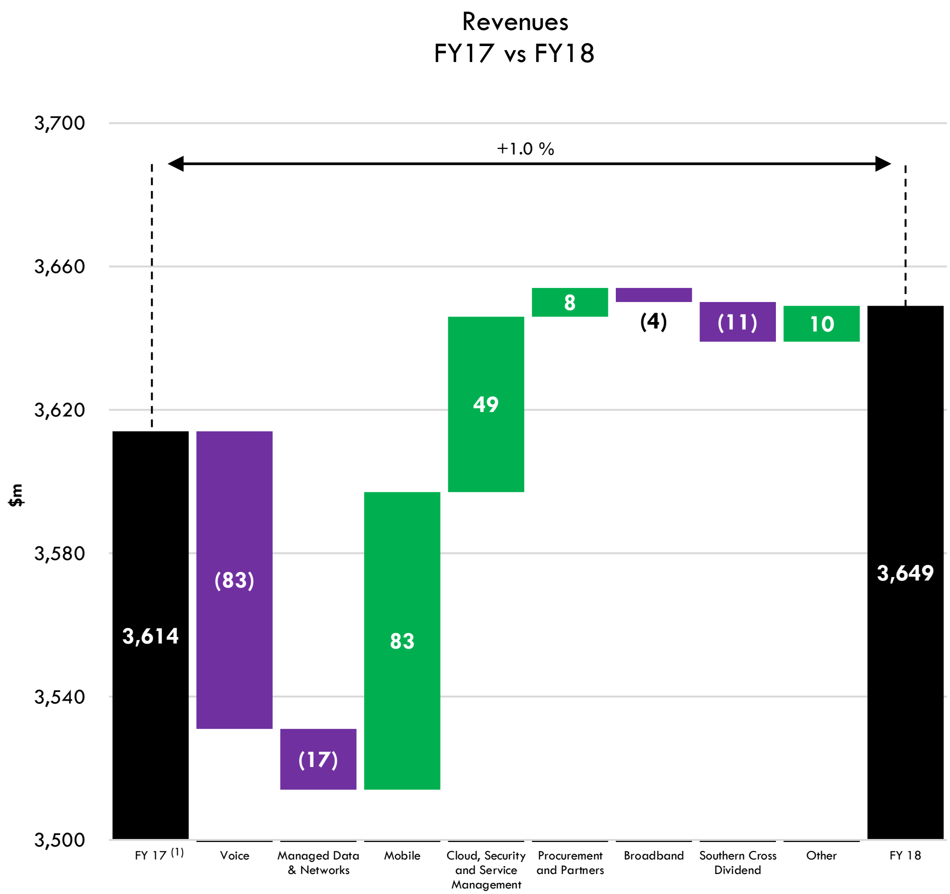
[3] Adjusted FY18 net earnings after tax calculated as: reported net earnings after tax adjusted to exclude Quantum implementation costs of $49m *less* tax effect on implementation costs of $14m

[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



(1) Includes $20m net gain from sale of surplus Mayoral Drive carpark land

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

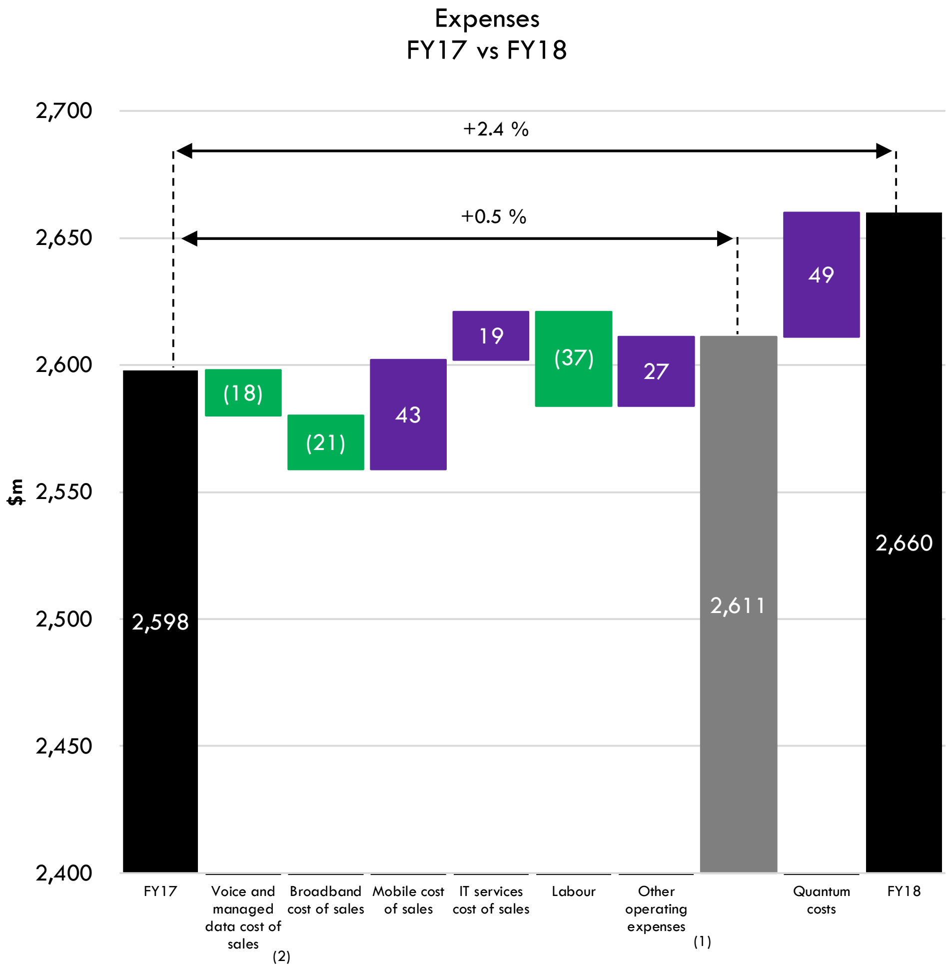
Other revenue growth includes:

- 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

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:

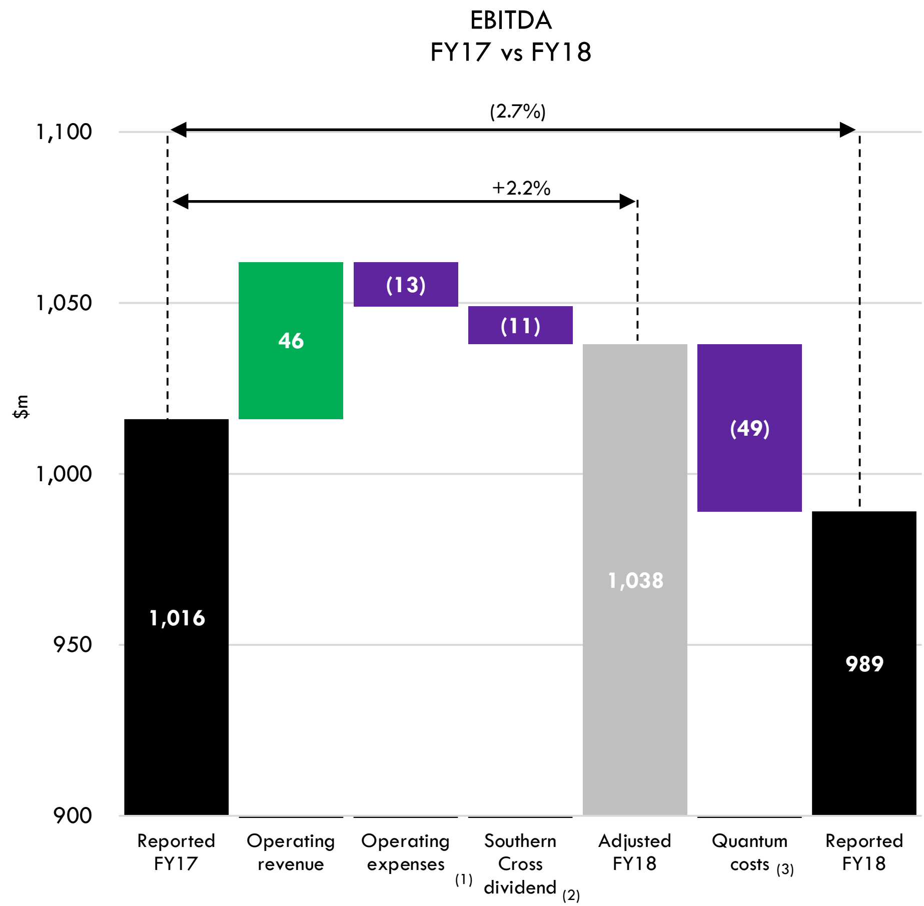
- Higher advertising costs in support of key marketing campaigns and product launches;
- Increased Lightbox platform expenses due to customer base and usage growth; and
- Increased electricity costs due to high spot prices

(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

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

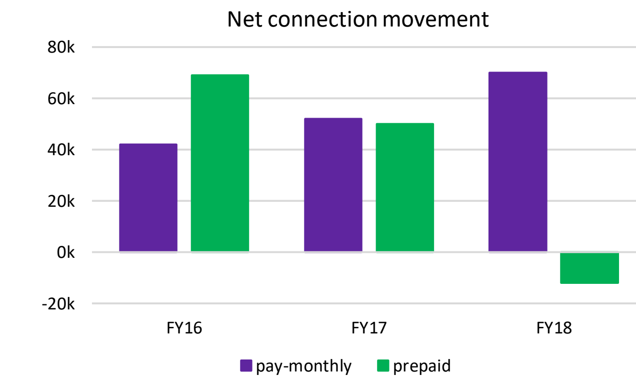
Mobile gross margin[1] up $40m (5.3%) on prior year due to:

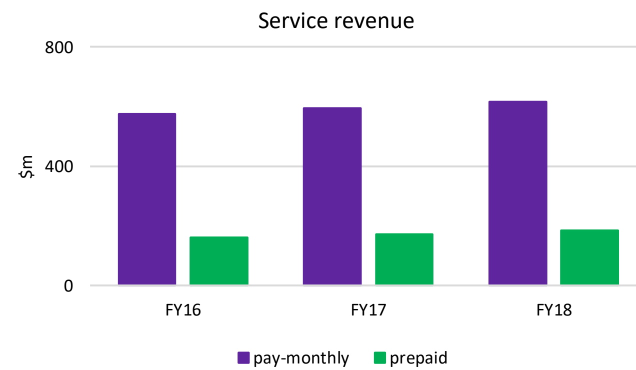
- Mobile services revenue growth of $36m (4.6%) driven by both ARPU and connection growth;
- Ongoing migration away from handset subsidies with 87% of HMB pay-monthly customers now on open term plans - up 2pp on prior year; and
- Skinny ARPU and margin growth as a result of new pre-paid propositions and improved channel performance; including successful withdrawal from The Warehouse Group

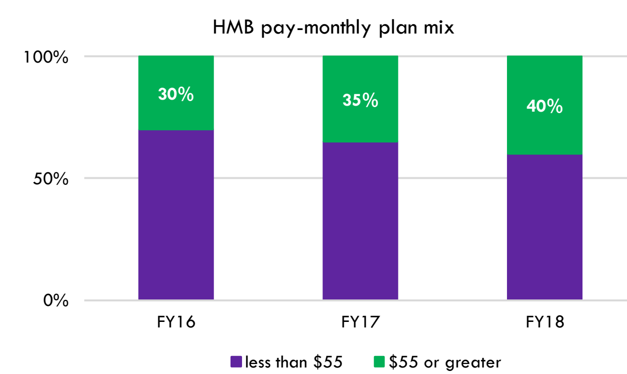
Continuation of ARPU growth; up 1.2% on prior year driven by:

- 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

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:

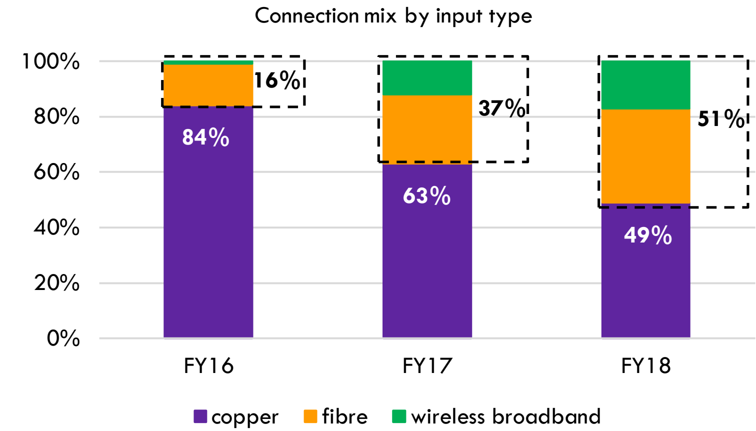
- 116k wireless broadband connections, delivering $29m reduction in broadband access costs during FY18 and associated annualised benefits of $51m; partially offset by
- Fibre-based modem expenses and increases in copper and fibre input costs

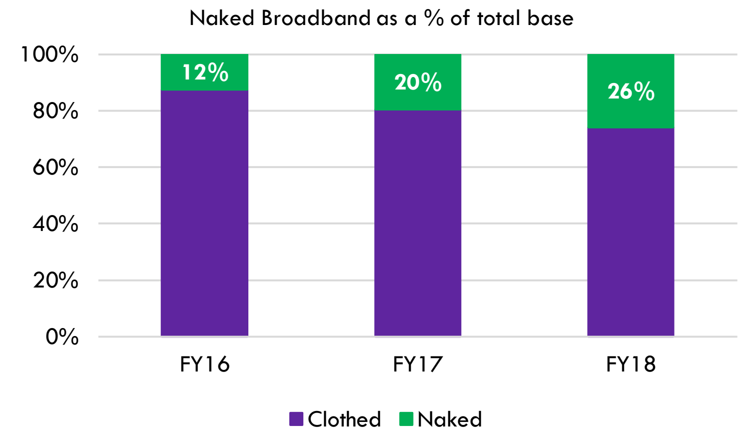
Rate of wireless broadband growth has slowed. Focus now shifting to retention of existing wireless broadband connections and migration of copper voice connections to wireless voice alternative

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

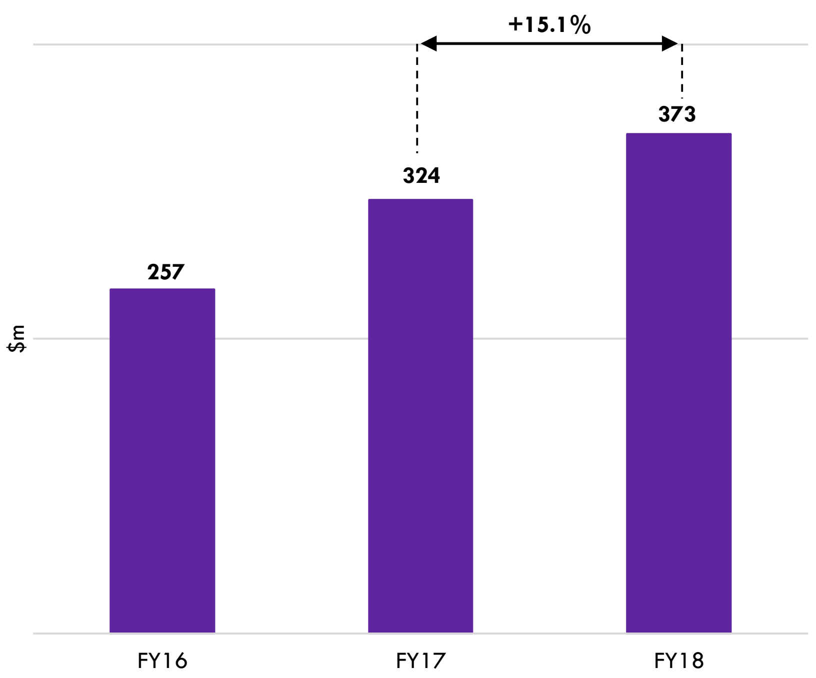
Focus on effective and efficient service management to drive growth in the profitability of our top clients continues

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

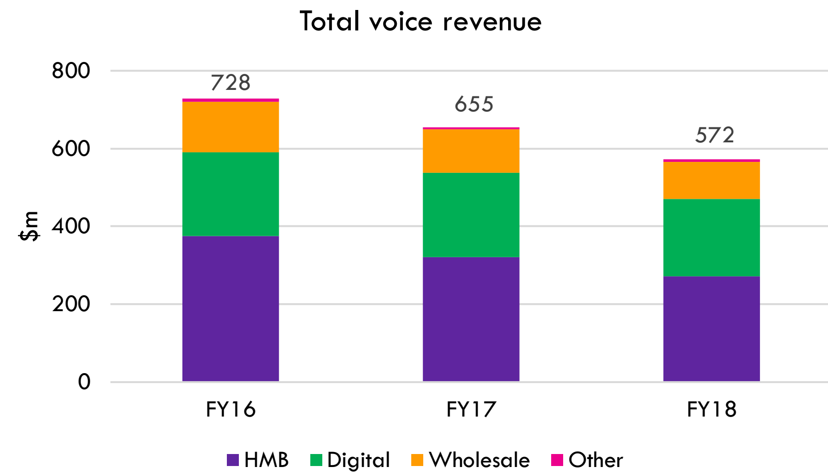
FY18 voice revenue[(1)] decline of $83m (12.7%) greater than prior period due to:

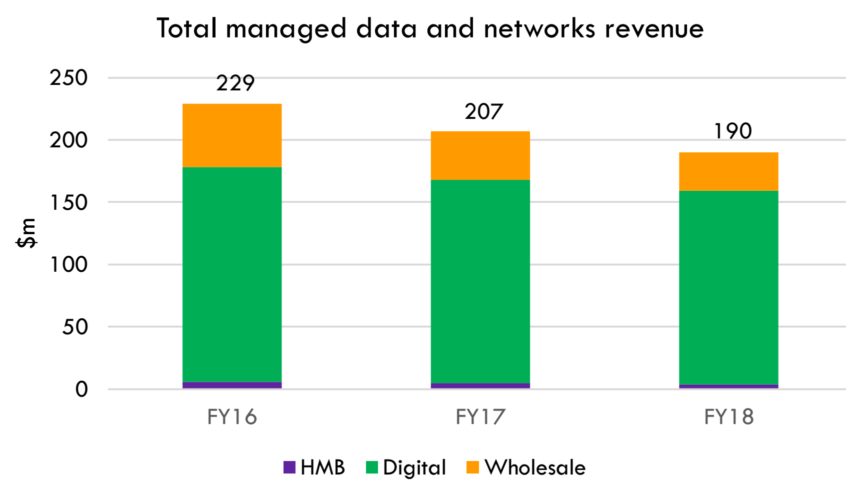
- $48m (16.1%) decrease in landline only[(2)] revenues due to consistent YoY declines in voice only connections across Spark HMB and Digital and acceleration of connection declines in Spark Wholesale; with a large wholesale customer migrating away from PSTN to an alternative technology during the year;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





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

Strategy: Progress Update

Quantum

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

Simplification

178,000
Customers migrated onto new fit-for-purpose consumer plans

100's
Successfully removed hundreds of legacy products

1
One unified Cloud portfolio established across Spark

Automation

85%
Common Spark Digital service requests now automated (~3,300 requests per month)

40
Bots automating tasks across the business and proactively solving customer issues

75%
Simple cloud customer requests now automated via self-service portal

108,000
HMB virtual assist chat interactions since launch in December 2017

Digitisation

1,250,000 (24%)
YoY reduction of calls into HMB contact centres

77%
YoY Increase in HMB chat interactions

20%
Increase in organisations using MySparkDigital

840,000
Spark App users completing ~340,000 self-service interactions per month

6,000+
Business customers using "walk me" self-service tutorials

NPS

+9pts
Increase in employee NPS in the year

+15pts
Increase in Spark Digital relationship NPS in the year

+6pts
Increase in consumer and small business market NPS in the year

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**

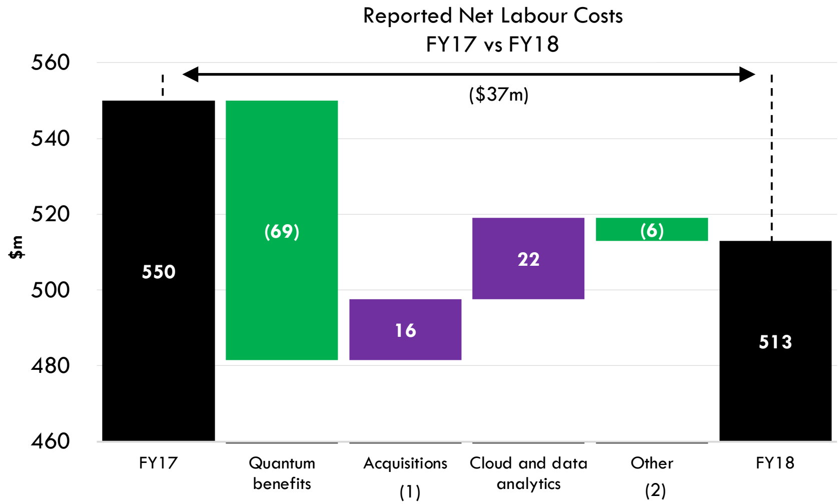
18	35	114
Tribes	**Chapter Types**	**Squads**

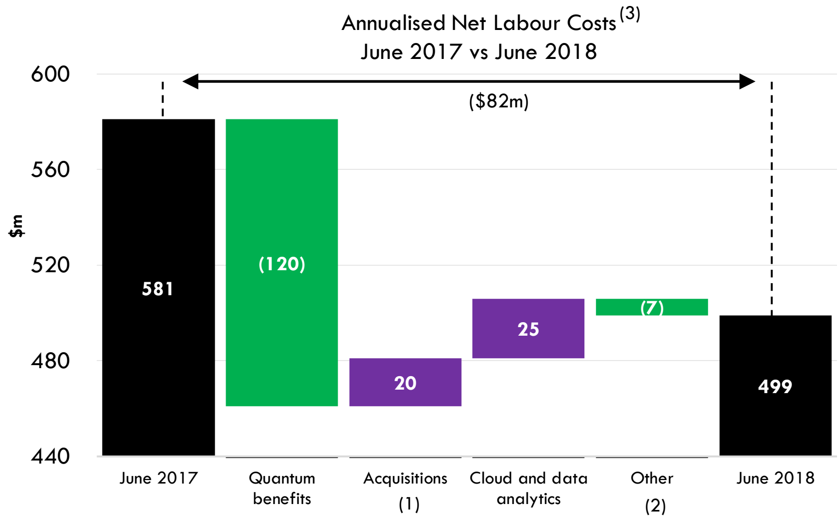
Transitioned to scaled Agile operating model whilst still maintaining operational performance

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	Gross annualised benefit 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)

Strategy: Progress Update

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

LIGHTBOX

RUGBY WORLD CUP™ JAPAN日本2019

Premier League

[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

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

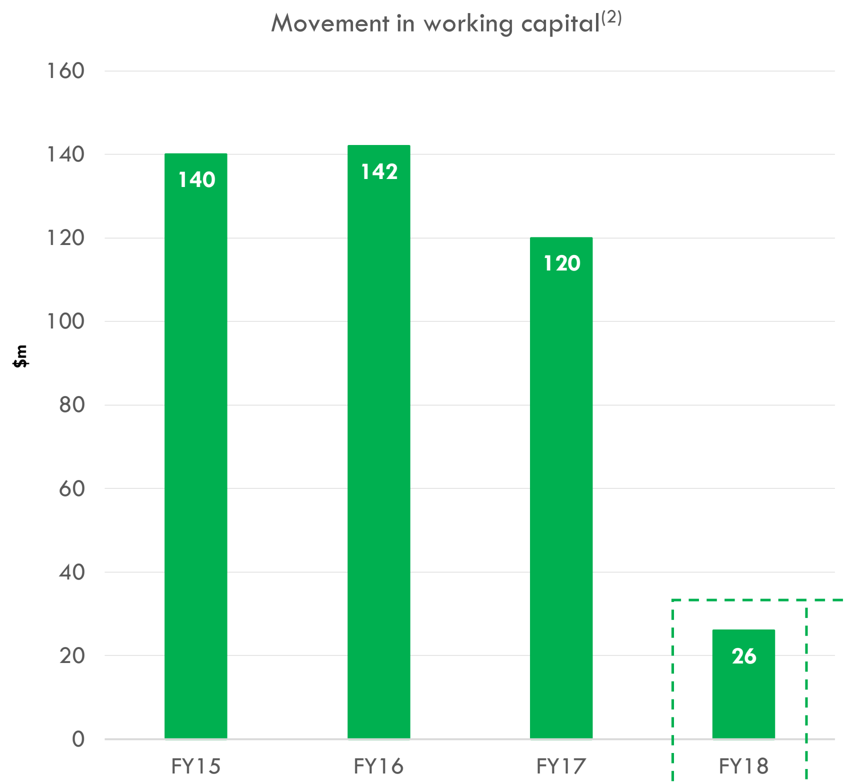
Multi-year Converged Communications Network (CCN) investment will replace the legacy PSTN network and enable the delivery of future IP based voice services

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

Capital Management

Working Capital

Underlying improvement in cash conversion ratio[1] strengthened by timing of Quantum implementation costs, resulting in FY18 cash conversion of 97%. FY19 cash conversion projected to be ~95%, as favourable timing of payables unwinds



Cash conversion ratio[2]	85%	86%	88%	97%

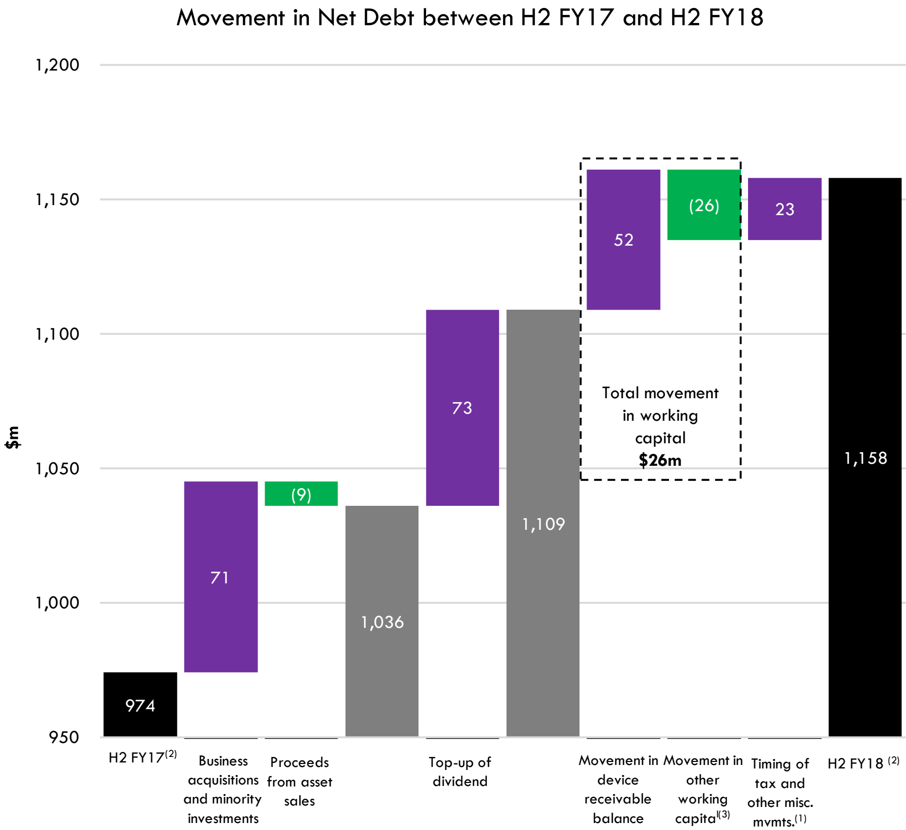
Key components of movement in working capital[2] between FY17 and FY18	
HMB mobile device receivable Volume of devices sold via a deferred arrangement up 8% on prior year; due to overall pay-monthly connection growth and increasing use of deferred payment options to purchase feature-rich, but higher priced, devices. Demonstrated by 16% increase in average device value[3] and strong customer preference for 24 month rather than 12 month terms; with 97% of deferred devices now on a 24 month term	$52m
Prepayments and accruals Primarily due to timing of expenditure in support of procurement and partners revenue growth	$8m
IT services contracts Further on-boarding of customers during FY18, with costs incurred at the beginning of the contract but recognised over the life of the contract	$6m
Timing of payables and receivables Due to benefits of refreshed working capital policies and favourable timing of expenses associated with acceleration of Quantum programme	($25m)
Inventory Due to reductions in the recognised value of content inventory (in line with remaining contract periods) and sell down of hardware in support of procurement and partners revenue	($15m)

[1] 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)
[2] Calculated as EBITDA (excluding impairments, net gains from divestments and share of associate and joint venture net losses) *less* operating cash-flow (excluding tax and interest)
[3] Calculated as the average retail price (incl. GST) for devices sold via a deferred payment arrangement

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



[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

$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%

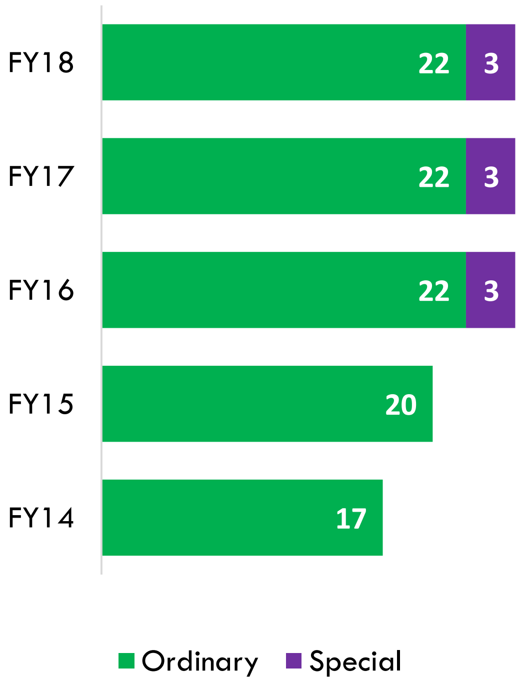
In the interim Spark is considering making an offer of unsubordinated, unsecured fixed rate bonds via its wholly owned subsidiary Spark Finance. If Spark Finance offers these bonds it is expected that full details of the offer will be released on 29 August 2018. No money is currently being sought and 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.

Capital Management

Dividend

Our preferred method of shareholder distribution is via a sustainable dividend per share that in the long-term is fully funded through earnings

Dividend payout (cps)



Dividend sustainability

Our aspiration, communicated at Spark's 2017 Investor Day, is to deliver a sustainable total dividend that is fully funded by earnings per share of 25c or above

Debt may be used to supplement dividend payments while we remain on track to sustainably grow earnings per share to 25c or above:

- During FY18 $73m of debt was used to supplement dividends, due in part to suppression of net earnings by Quantum implementation costs
- During FY19 we expect earnings growth to reduce the amount of any debt required to supplement dividends
- However, annual dividend declarations remain a Board decision and will continue to be communicated via formal guidance

H2 FY18 dividend declaration

Spark confirms an H2 FY18 total dividend per share of 12.5c made up of:

- H2 FY18 ordinary dividend per share of 11.0c, to be 75% imputed; and
- H2 FY18 special dividend per share of 1.5c, to be 75% imputed

Overall Performance

FY18 Guidance

Financial performance on plan; resulting in all guidance metrics being met

	FY18 Guidance (1) (2)		FY18 Actual	
	Reported	*Adjusted* excluding Quantum implementation costs	*Reported*	*Adjusted* excluding Quantum implementation costs
Total Revenues	$3,594m to $3,666m		**$3,649m**	
EBITDA	$971m to $991m	$1,026m to $1,041m	**$989m**	**$1,038m**
Capex	~$410m		**$413m**	
Earnings per Share	~21c	~23c	**21.0c**	**22.9c**
Dividend per Share	Total 25.0cps at least 75% imputed		**Total 25.0cps 75% imputed**	

(1) FY18 guidance was relative to reported FY17 results excluding net gain from sale of surplus Mayoral Drive carpark land

(2) Reflects updated FY18 guidance communicated on 25 May 2018

Overall Performance

FY18 Indicators of Success

	Measures	Target 30 June 2018	Actual 30 June 2018
Strategic enablers	Spark HMB mobile and broadband connections migrated to new plans	200k	Solid progress
	Average time to approve custom pricing for Spark Digital contracts[1]	50% reduction	Achieved
	Transition to scaled Agile operating model	Implemented H2	Achieved
	Spark Digital offering tiered service model	Launched H2	Achieved
	Deployed 4.5G locations	30	Exceeded
	Foundation IMS capability deployed	Commissioned H2	Achieved
	Significant new automation and digitisation initiatives completed	5	Achieved
	Percentage of customer journeys designed digital first	70%	Achieved
	PSTN exchange closures	at least a further 40 closures	Exceeded
Lead indicators	Reduction in monthly Customer Care workload minutes[2]	10%	Exceeded
	Proportion of broadband customers on fibre or wireless broadband	50%	Achieved
	Market share of UFB connection growth	40-45%	Not achieved
	Wireless broadband connections	125k	Not achieved
Market outcomes	Market NPS	5 point lift	Solid progress
	Total mobile revenue growth	4%	Exceeded
	Cloud revenue growth	10-15%	Achieved
	New Ventures revenue growth incl. new wholesale	100%	Exceeded
	Cyber security revenue growth	30%	Not achieved

(1) This measure replaces the previous Spark Digital 'core product plan portfolio' metric as it more clearly tracks the benefits of product and plan simplification

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

Updates to External Reporting

The presentation of Spark's financial results will change from FY19 onwards; following adoption of new accounting standards and changes to the disclosure of Spark's long-term investments. To simplify the comparison of FY19 results to prior years, restated FY17 and FY18 financials will be published ahead of Spark's interim FY19 result.

Adoption of new accounting standards[1]

NZ IFRS 15: Revenue from contracts with customers

- Required to be adopted during FY19;
- Expected to result in a material change to reported revenues and EBITDA

NZ IFRS 16: Leases

- Required to be adopted during FY20, however Spark will early adopt in FY19;
- Expected to result in the shift of operating lease costs, currently reported within other operating expenses, to interest, depreciation and amortisation
- Expected to result in a material change to reported EBITDA

FY19 guidance is being provided *excluding* impacts from adoption of these new standards.

Once restated FY17 and FY18 financials are published, FY19 guidance will be translated to *include* impacts from adoption of these new standards

New approach to disclosure of Spark's long-term investments[2]

Decision made to change the disclosure of Spark's long-term investments:

- To better align Spark's disclosure of operating revenue with "revenue from contracts with customers" as defined by NZ IFRS 15
- To apply more appropriate focus on the financial performance of the operational activities of the business, with returns from joint ventures and associates to now be reported separately

Will not result in a change in reported net earnings however the following will now be consistently recognised within a new 'investment income' category, reported outside of EBITDA:

- Dividend income from Southern Cross; and
- Spark's share of associates' and joint ventures' net profits and losses

FY19 guidance is being provided *including* impacts from this new approach to disclosure

(1) Further detail of Spark's adoption of new accounting standards is provided in Note 6.8 of Spark's FY18 Financial Statements

(2) Representative FY17 and FY18 financials, including impacts from the new approach to disclosure of Spark's long-term investments, are provided on page 28 of this presentation

FY19 Outlook

Guidance[1]

	FY18 Actual Updated for new approach to disclosure of Spark's long-term investments		FY19 Guidance [1] Updated for new approach to disclosure of Spark's long-term investments
	Reported	*Adjusted* excluding Quantum implementation costs	
Total Revenues	$3,599m excludes $50m Southern Cross dividend		**$3,600m to $3,670m** excludes projected $10m-$20m Southern Cross dividend
EBITDA	$942m	$991m	**$1,025m to $1,055m**
	excludes $50m Southern Cross dividend *and* ($3m) loss from associates' and joint ventures		excludes projected $10m-$20m Southern Cross dividend *and* profits and losses from associates' and joint ventures'
Capex	$413m		**~$410m**
Earnings per Share	21.0c	22.9c	**23c to 24c**
Dividend per Share	*Total* 25.0cps 75% imputed		***Total* 25.0cps** **at least 75% imputed[2]**

[1] Guidance subject to no adverse change in operating outlook
[2] Likely to be made up of an ordinary dividend determined by earnings, topped up by a special dividend to maintain a total dividend per share of 25.0c

FY19 Outlook

Dividend and Imputation

Dividend

FY19 earnings per share expected to be between 23c and 24c

As part of our June 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

Subject to no adverse change in operating outlook Spark anticipates paying a total FY19 dividend per share of 25.0c that is 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

Imputation

Spark's capacity to fully impute dividends has progressively reduced over time due to:

- Maintaining a dividend payout ratio above 100% of earnings for a sustained period;
- Differences between reportable earnings and taxable earnings; and
- Timing differences between when dividends are paid, when provisional tax is paid and when the imputation measurement date occurs

Therefore to best balance long term yield and tax efficiency, Spark expects to at least 75% impute FY19 dividends. This will enable the fastest return to full imputation.

FY19 Outlook

Indicators of Success

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

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

Appendix

FY19 Outlook

Updates to External Reporting

FY19 guidance is being provided *including* impacts from Spark's new approach to disclosure of long-term investments. To enable prior year comparisons FY17 and FY18 financials are provided below on a basis consistent with that used for FY19 guidance.

	Reported *excluding* impacts from new disclosures		Change in disclosure of Southern Cross Dividends		Change in disclosure of associates' and joint ventures' net profits and losses		**Reported** *including* impacts from new disclosures	
	FY17 $m	FY18 $m	FY17 $m	FY18 $m	FY17 $m	FY18 $m	FY17 $m	FY18 $m
Operating revenues and other gains	3,614	3,649	(61)	(50)			3,553	3,599
Operating expenses	(2,594)	(2,657)					(2,594)	(2,657)
Share of associates' and joint ventures' net losses	(4)	(3)			4	3	-	-
EBITDA	**1,016**	**989**	**(61)**	**(50)**	**4**	**3**	**959**	**942**
Depreciation and amortisation	(430)	(434)					(430)	(434)
Net finance expense	(26)	(30)					(26)	(30)
Investment income	-	-	61	50	(4)	(3)	57	47
Net earnings before tax	**560**	**525**	**-**	**-**	**-**	**-**	**560**	**525**
Income Tax expense	(142)	(140)					(142)	(140)
Net earnings	**418**	**385**	**-**	**-**	**-**	**-**	**418**	**385**

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 - reported

	H1 FY16 $m	H2 FY16 $m	H1 FY17 $m	H2 FY17 $m	H1 FY18 $m	H2 FY18 $m
Operating revenues and other gains	1,723	1,774	1,793	1,821	1,822	1,827
Operating expenses	1,266	1,240	1,320	1,274	1,358	1,299
Share of associates' and joint ventures' net losses	(2)	(3)	(2)	(2)	(1)	(2)
EBITDA	**455**	**531**	**471**	**545**	**463**	**526**
Depreciation and amortisation expense	224	222	215	215	214	220
Net finance expense	13	15	13	13	14	16
Net earnings before income tax	**218**	**294**	**243**	**317**	**235**	**290**
Tax expense	60	82	65	77	63	77
Net earnings for the period	**158**	**212**	**178**	**240**	**172**	**213**

Group result - adjusted

Spark presents adjusted EBITDA and adjusted net earnings when the year includes significant items greater than $25 million. FY18 included $49 million of costs of change incurred within the Corporate Centre and adjusted EBITDA and adjusted net earnings for the year are as follows:

	H1 FY16 $m	H2 FY16 $m	H1 FY17 $m	H2 FY17 $m	H1 FY18 $m	H2 FY18 $m
Operating revenues and other gains	1,723	1,774	1,793	1,821	1,822	1,827
Adjusted operating expenses	1,266	1,240	1,320	1,274	1,345	1,263
Share of associates' and joint ventures' net losses	(2)	(3)	(2)	(2)	(1)	(2)
Adjusted EBITDA	**455**	**531**	**471**	**545**	**476**	**562**
Depreciation and amortisation expense	224	222	215	215	214	220
Net finance expense	13	15	13	13	14	16
Adjusted net earnings before income tax	**218**	**294**	**243**	**317**	**248**	**326**
Adjusted tax expense	60	82	65	77	67	87
Adjusted net earnings for the period	**158**	**212**	**178**	**240**	**181**	**239**

The tax effect on costs of change in H1 FY18 is $4m and in H2 FY18 is $10m. There were no adjusting items in FY16 or FY17.

EBITDA by business unit

EBITDA	H1 FY16 $m	H2 FY16 $m	H1 FY17 $m	H2 FY17 $m	H1 FY18 $m	H2 FY18 $m
Spark Home, Mobile & Business	417	426	411	442	420	451
Spark Digital	176	201	178	206	179	221
Spark Connect & Platforms	(192)	(169)	(179)	(169)	(174)	(152)
Spark Ventures & Wholesale	70	75	63	66	58	52
Corporate	(16)	(2)	(2)	-	(20)	(46)
	455	531	471	545	463	526

Spark New Zealand

Gross margin

Gross margin	H1 FY16 $m	H2 FY16 $m	H1 FY17 $m	H2 FY17 $m	H1 FY18 $m	H2 FY18 $m
Total Spark Group	976	1,018	1,005	1,063	1,024	1,056
Mobile	334	352	366	395	391	410
Broadband	129	120	121	131	133	136
Cloud, security and service management	94	105	123	140	147	157

Connections

	H1 FY16 000's	H2 FY16 000's	H1 FY17 000's	H2 FY17 000's	H1 FY18 000's	H2 FY18 000's
Mobile connections	2,212	2,293	2,353	2,392	2,437	2,458
Voice connections [1]	744	713	670	622	552	466
Broadband connections						
Copper	615	564	497	431	384	346
Fibre	58	99	138	172	206	238
Wireless	2	12	40	84	104	116
	675	675	675	687	694	700

[1] Voice connections now include all voice technology types, including 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).

Group FTE's

	H1 FY16	H2 FY16	H1 FY17	H2 FY17	H1 FY18	H2 FY18
FTE permanent	5,023	5,241	5,664	5,554	5,384	5,266
FTE contractors	301	328	279	220	230	241
Total FTE	5,324	5,569	5,943	5,774	5,614	5,507

Dividends

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

Spark New Zealand

Operating revenues and other gains by business unit

Operating revenues and other gains	H1 FY16 $m	H2 FY16 $m	H1 FY17 $m	H2 FY17 $m	H1 FY18 $m	H2 FY18 $m
Spark Home, Mobile & Business	1,008	1,025	1,019	1,021	1,034	1,031
Spark Digital	557	575	614	623	633	630
Spark Connect & Platforms	22	23	24	28	27	43
Spark Ventures & Wholesale	131	134	120	124	119	121
Corporate	26	41	35	46	28	22
Eliminations	(21)	(24)	(19)	(21)	(19)	(20)
	1,723	1,774	1,793	1,821	1,822	1,827

Group operating revenues and other gains

	H1 FY16 $m	H2 FY16 $m	H1 FY17 $m	H2 FY17 $m	H1 FY18 $m	H2 FY18 $m
Operating revenues						
Mobile						
Service revenue	371	379	383	398	406	411
Other mobile revenue	192	192	205	211	229	234
	563	571	588	609	635	645
Voice						
Landline only	169	166	155	143	130	120
Calling	153	164	142	134	124	120
Videoconferencing	24	23	27	27	25	27
Other voice revenue	15	14	14	13	13	13
	361	367	338	317	292	280
Broadband	339	346	344	345	341	344
Cloud, security and service management	117	140	154	170	181	192
Procurement and partners	152	147	176	169	183	170
Managed data and networks	118	111	105	102	96	94
Other operating revenue	73	92	88	89	94	92
Total operating revenues	**1,723**	**1,774**	**1,793**	**1,801**	**1,822**	**1,817**
Other gains	-	-	-	20	-	10
Total operating revenues and other gains	**1,723**	**1,774**	**1,793**	**1,821**	**1,822**	**1,827**

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	H2 FY18 $m
Cloud, security and service management	117	140	154	170	181	192
Procurement and partners	152	147	176	169	183	170
Networks	22	19	20	23	23	23
Videoconferencing	24	23	27	27	25	27
Other operating revenue	7	7	7	10	8	14
Previous IT services revenue category	322	336	384	399	420	426

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	H2 FY18 $m
Operating revenues						
Mobile	467	471	486	506	529	541
Voice	186	189	169	152	142	130
Broadband	324	332	330	330	327	328
Cloud, security and service management	4	4	4	4	5	3
Procurement and partners	3	2	3	2	2	2
Managed data and networks	3	3	3	2	2	2
Other operating revenue	21	24	24	25	27	25
	1,008	1,025	1,019	1,021	1,034	1,031
Operating expenses						
Labour	58	60	70	66	63	57
Other operating expenses	519	522	524	496	536	507
Internal expenses	14	17	14	17	15	16
	591	599	608	579	614	580
EBITDA	**417**	**426**	**411**	**442**	**420**	**451**
EBITDA margin	41.37%	41.56%	40.33%	43.29%	40.62%	43.74%

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

Voice revenue by type	H1 FY16 $m	H2 FY16 $m	H1 FY17 $m	H2 FY17 $m	H1 FY18 $m	H2 FY18 $m
Landline only	89	82	81	72	67	61
Calling	86	97	78	71	66	60
Other voice revenue	11	10	10	9	9	9
	186	189	169	152	142	130

Connections	H1 FY16 000's	H2 FY16 000's	H1 FY17 000's	H2 FY17 000's	H1 FY18 000's	H2 FY18 000's
Broadband connections	659	659	659	671	676	681
Voice only connections	227	218	203	201	188	181

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	H2 FY18 $m
Operating revenues						
Mobile	82	84	87	84	87	82
Voice	107	109	108	108	98	100
Broadband	15	14	14	15	13	13
Cloud, security and service management	113	136	150	166	176	189
Procurement and partners	149	145	173	167	181	168
Managed data and networks	88	84	81	82	77	78
Internal revenue	3	3	1	1	1	-
	557	575	614	623	633	630
Operating expenses						
Labour	94	95	110	101	112	88
Other operating expenses	283	274	322	312	339	318
Internal expenses	4	5	4	4	3	3
	381	374	436	417	454	409
EBITDA	**176**	**201**	**178**	**206**	**179**	**221**
EBITDA margin	31.60%	34.96%	28.99%	33.07%	28.28%	35.08%

Analysis & KPI's - Spark Digital

Voice revenue by type	**H1 FY16 $m**	**H2 FY16 $m**	**H1 FY17 $m**	**H2 FY17 $m**	**H1 FY18 $m**	**H2 FY18 $m**
Landline only	32	33	30	30	26	25
Calling	50	52	50	50	46	47
Videoconferencing	24	23	27	27	25	27
Other voice revenue	1	1	1	1	1	1
	107	109	108	108	98	100

Connections	**H1 FY16 000's**	**H2 FY16 000's**	**H1 FY17 000's**	**H2 FY17 000's**	**H1 FY18 000's**	**H2 FY18 000's**
Broadband connections	16	16	16	16	16	16
Voice only connections	135	136	132	121	112	106

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	H2 FY18 $m
Operating revenues and other gains						
Mobile	2	3	3	4	4	7
Voice	4	3	3	3	3	3
Other operating revenue	16	17	18	21	20	23
Other gains	-	-	-	-	-	10
	22	23	24	28	27	43
Operating expenses						
Labour	77	70	76	83	74	66
Other operating expenses	136	121	127	113	127	127
Internal expenses	2	1	-	-	-	-
	215	192	203	196	201	193
Share of associates' and joint ventures' net profits / (losses)	1	-	-	(1)	-	(2)
EBITDA	**(192)**	**(169)**	**(179)**	**(169)**	**(174)**	**(152)**

Analysis & KPI's - Spark Connect & Platforms

Voice revenue by type	H1 FY16 $m	H2 FY16 $m	H1 FY17 $m	H2 FY17 $m	H1 FY18 $m	H2 FY18 $m
Calling	4	3	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	H2 FY18 $m
Operating revenues						
Mobile	12	13	12	15	15	15
Voice	64	66	58	54	49	47
Broadband	-	-	-	-	1	3
Managed data and networks	27	24	21	18	17	14
Other operating revenue	10	10	11	17	19	22
Internal revenue	18	21	18	20	18	20
	131	134	120	124	119	121
Operating expenses						
Labour	7	6	8	8	11	13
Other operating expenses	50	50	48	50	49	55
Internal expenses	1	1	-	-	1	1
	58	57	56	58	61	69
Share of associates' and joint ventures' net losses	(3)	(2)	(1)	-	-	-
EBITDA	**70**	**75**	**63**	**66**	**58**	**52**
EBITDA margin	53.44%	55.97%	52.50%	53.23%	48.74%	42.98%

Analysis & KPI's - Spark Ventures & Wholesale

Voice revenue by type	H1 FY16 $m	H2 FY16 $m	H1 FY17 $m	H2 FY17 $m	H1 FY18 $m	H2 FY18 $m
Landline only	48	51	44	41	37	34
Calling	13	12	11	10	9	10
Other voice revenue	3	3	3	3	3	3
	64	66	58	54	49	47

Connections	H1 FY16 000's	H2 FY16 000's	H1 FY17 000's	H2 FY17 000's	H1 FY18 000's	H2 FY18 000's
Broadband connections	-	-	-	-	1	2
Voice connections [1]	382	359	335	300	252	179
Voice only connections	89	82	76	70	63	54
Mobile connections [2]	34	35	33	32	40	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	H2 FY18 $m
Operating revenues and other gains						
Other operating revenue	26	41	35	26	28	22
Other gains	-	-	-	20	-	-
	26	41	35	46	28	22
Operating expenses						
Labour	16	14	14	14	17	13
Other operating expenses [1]	26	28	21	31	30	55
Internal expenses	-	-	1	-	-	-
	42	42	36	45	47	68
Share of associates' and joint ventures' net losses	-	(1)	(1)	(1)	(1)	-
EBITDA	**(16)**	**(2)**	**(2)**	**-**	**(20)**	**(46)**

[1] Includes costs of change

Analysis & KPI's - Corporate

	H1 FY16 $m	H2 FY16 $m	H1 FY17 $m	H2 FY17 $m	H1 FY18 $m	H2 FY18 $m
Southern cross dividends	26	40	35	26	28	22
Costs of change	-	-	-	-	13	36

Connections	H1 FY16 000's	H2 FY16 000's	H1 FY17 000's	H2 FY17 000's	H1 FY18 000's	H2 FY18 000's
Broadband connections	-	-	-	-	1	1

Spark New Zealand

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

Mobile revenue by type	H1 FY16 $m	H2 FY16 $m	H1 FY17 $m	H2 FY17 $m	H1 FY18 $m	H2 FY18 $m
Mobile service revenue	365	373	376	390	398	403
Other mobile revenue [1]	184	182	197	200	218	220
	549	555	573	590	616	623

Average revenue per user (ARPU) - 6 month active	H1 FY16 $ per month	H2 FY16 $ per month	H1 FY17 $ per month	H2 FY17 $ per month	H1 FY18 $ per month	H2 FY18 $ per month
Total ARPU	28.44	27.89	27.71	27.68	28.22	27.85
Pay-monthly ARPU	46.55	45.99	45.59	45.88	45.37	44.35
Prepaid ARPU	11.72	11.87	11.65	11.75	12.46	12.45

Number of mobile connections at period end - 6 month active	H1 FY16 000's	H2 FY16 000's	H1 FY17 000's	H2 FY17 000's	H1 FY18 000's	H2 FY18 000's
Pay-monthly connections	1,035	1,056	1,085	1,108	1,148	1,178
Prepaid connections	1,139	1,198	1,231	1,248	1,245	1,236
Internal connections	4	4	4	4	4	4
Total mobile connections	2,178	2,258	2,320	2,360	2,397	2,418

[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	H2 FY18 $m
Payments to telecommunications operators [1]						
Baseband and access charges	71	78	74	69	64	58
Other intercarrier costs	43	48	47	49	50	51
Broadband cost of sales	210	226	223	214	208	208
Field services	10	8	7	7	6	6
	334	360	351	339	328	323
Mobile acquisition, procurement and IT services						
Mobile cost of sales	229	219	222	214	244	235
IT services cost of sales	184	177	215	205	226	213
	413	396	437	419	470	448
Labour	252	245	278	272	276	237
Other operating expenses						
Direct network costs	38	31	31	29	31	31
Computer costs	38	36	40	42	41	43
Accommodation costs	47	45	50	49	54	51
Advertising, promotions and communication	45	32	41	28	51	33
Bad debts	11	11	9	9	7	9
Impairment expense	-	9	2	-	1	6
Costs of change	-	-	-	-	13	36
Other	88	75	81	87	86	82
	267	239	254	244	284	291
Total operating expenses	**1,266**	**1,240**	**1,320**	**1,274**	**1,358**	**1,299**
Depreciation and amortisation expense						
Depreciation	126	122	122	128	129	134
Amortisation	98	100	93	87	85	86
	224	222	215	215	214	220
Net finance expense						
Finance income	(9)	(9)	(8)	(8)	(8)	(8)
Finance expense	22	24	21	21	22	24
	13	15	13	13	14	16

[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.

Adjusted operating expenses

	H1 FY16 $m	H2 FY16 $m	H1 FY17 $m	H2 FY17 $m	H1 FY18 $m	H2 FY18 $m
Total operating expenses	1,266	1,240	1,320	1,274	1,358	1,299
Less: costs of change	-	-	-	-	(13)	(36)
Adjusted operating expenses	1,266	1,240	1,320	1,274	1,345	1,263

Spark New Zealand

Group capital expenditure

	H1 FY16 $m	H2 FY16 $m	H1 FY17 $m	H2 FY17 $m	H1 FY18 $m	H2 FY18 $m
Cloud	10	24	22	20	19	20
Converged Communications Network (CCN)	-	3	3	12	17	15
International cable construction and capacity purchases	21	7	14	20	14	-
IT systems	17	42	60	52	64	49
Re-engineering of IT systems	42	24	-	-	-	-
Mobile network	58	19	69	33	89	26
Plant, network and core sustain and resiliency	53	26	36	31	38	24
Other	15	20	20	23	21	17
Total capital expenditure excluding mobile spectrum	216	165	224	191	262	151
Mobile spectrum	-	9	-	-	-	-
Total capital expenditure	**216**	**174**	**224**	**191**	**262**	**151**

Capital expenditure is presented on an accruals basis.