

Spark Finance Limited

Offer of Fixed Rate Bonds

November 2015

Arranger & Joint Lead Manager



Joint Lead Manager

CommonwealthBank



Co-Manager

DeutscheCRAIGS

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Agenda

Introduction

Spark Group Overview

Financial Information & Capital Structure

Bond Offer Information

Presented by:

Jolie Hodson, Chief Financial Officer

Stefan Knight, GM Finance & Business Performance

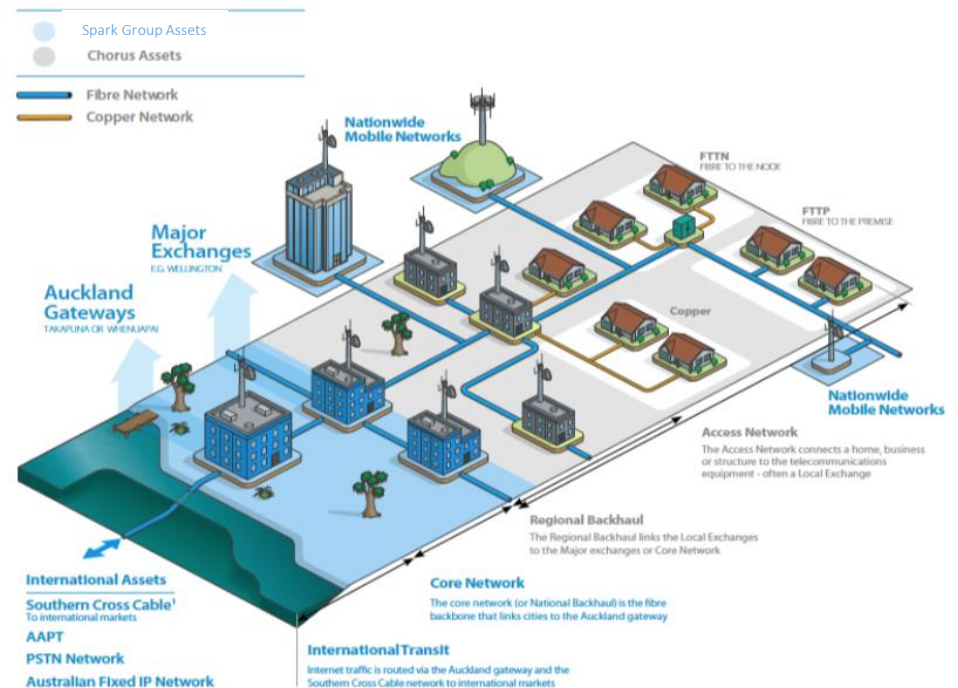
Natalie Bishop, Treasurer

Spark Group Overview



Company and industry overview

- The Spark Group provides telecommunications, ICT and digital services in New Zealand
 - 2m + mobile connections
 - ~680k broadband connections
- Key infrastructural assets that support 3G/4G mobile and data networks across New Zealand
- The Spark Group operates in the fixed line market where regulated inputs are purchased from Chorus on equivalent terms for all retail service providers
- Mobile and IT markets are largely un-regulated



Spark NZ today is very different from the Telecom NZ of two years ago



Traditional fixed and mobile telco infrastructure focus and mind-set

Customer oriented digital services provider with retailer's mind-set

Defending legacy product revenue, building bespoke IT with low margins

Emphasis on growth in data, mobile and ICT platform services

Low customer satisfaction and declining market shares

Stable and growing market shares through superior customer focus

Declining Telecom brand and static Gen-i brand

Fast rising and preferred Spark core brand with multiple highly preferred specialty brands

High cost driven by complex platforms, products, offerings and processes

Simplified platforms and products run at materially lower cost

Multiple geographic markets

NZ markets only

Slow, conservative and defensive culture

Fast moving, winning culture built upon an owners mind-set

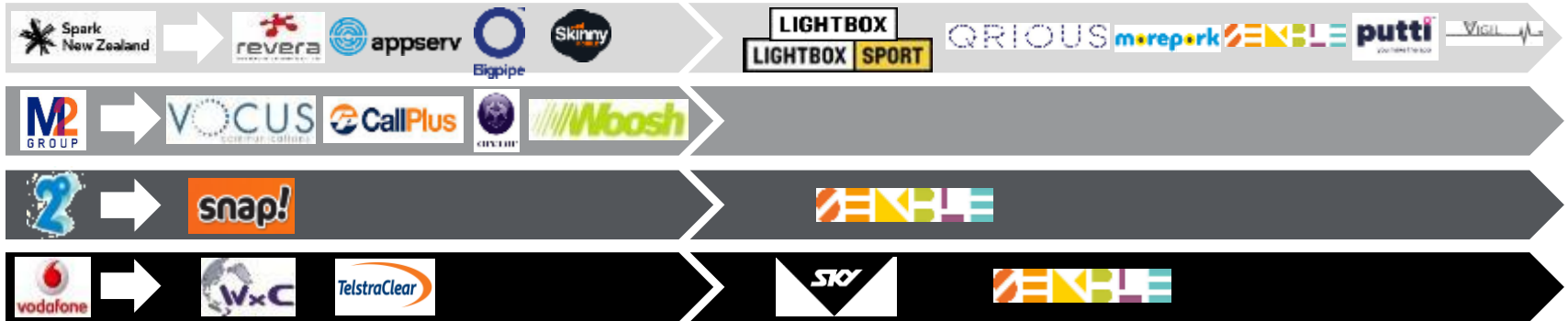
Technology driving change in the New Zealand market

Key Changes

- Consolidation occurring naturally to achieve scale benefits as broadband resale margins are squeezed, creating more full-service players
- Focus is shifting outside of the telco market with diversification into non-core revenue streams to create deeper customer relationships and provide new revenue streams e.g. Media
- Non-traditional players are entering telco markets - e.g. Trustpower offering broadband
- Regulatory stability is returning, with retail service providers now largely outside of direct impact

Telco market activity:

Adjacent market activity

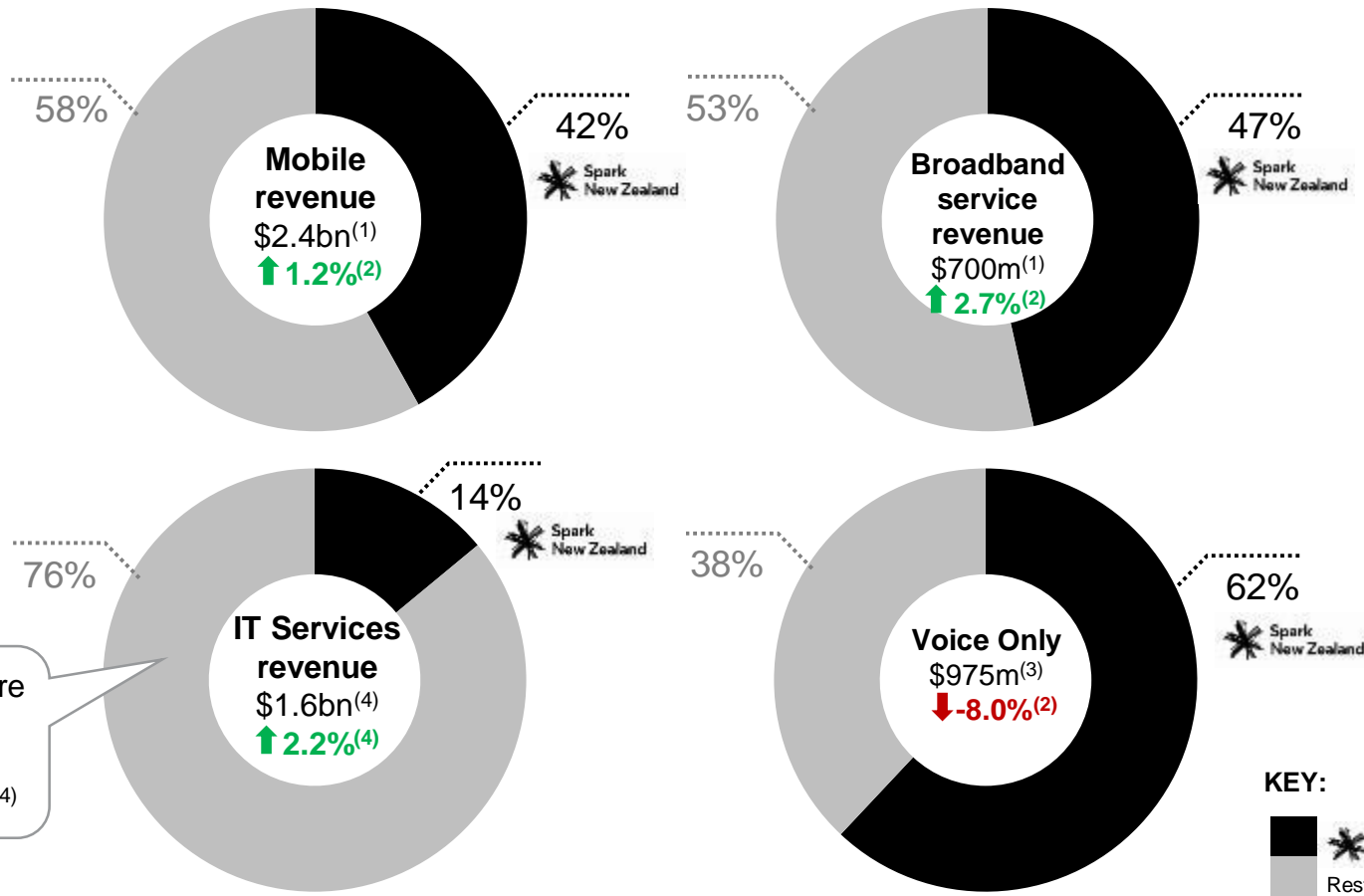


Impact

- Four integrated providers hold 93% of the Broadband market
- All major players now full-service providers
- Three established operators competing in mobile market, with several Mobile Virtual Network Operators (MVNO's) (with six now on Spark)

Spark NZ well positioned in key markets

Revenue is stable and/or growing in key and future markets, while we are managing declines in voice markets



(1) Total market revenue FY15, IDC New Zealand Telecommunications tracker
 (2) FY13-15 CAGR market revenue, IDC New Zealand Telecommunications tracker
 (3) Voice Only is access and calling revenue for voice-only customers, excludes an estimate of the access component that relates to broadband customers. Spark's share of these revenues **excludes** wholesale services provided to other retailers
 (4) Source: IDC tracker - FY15 and IT Services excluding procurement - H2 FY15

Strategy shifting into next phase

FY14 & FY15: Stabilised revenue/margin and reduced costs:

- Reduced prices to compete
- Refocused on NZ market
- Rebranded as Spark New Zealand
- Divested non-core assets
- Completed Turnaround Programme
- Reduced costs for financial stability
- Invested in new growth areas and brands
- Expanded and upgraded data networks
- Re-engineered IT systems
- Built new organisational culture

FY16 & beyond:

- Our focus for FY16 and 17 is to drive market revenue/margin growth, while continuing to drive improvement in unit costs
- Our EBITDA margins now sit around the top quartile of international benchmarks of comparator organisations
- Therefore, a return to top-line revenue growth is essential for sustainable EBITDA growth
- Spark NZ aims to grow value through a long-term focus. We will do this through seeking long-term revenue growth from core, adjacent and new markets
- Emerging revenue trends in our re-based business provide encouragement that a return to sustainable revenue growth is possible



FY16 strategy adjusted to suit phase 2 growth agenda

Ambition

At Spark New Zealand, our ambition is to be a winning business, inspired by customers to unleash the potential in all New Zealanders

Goals

To be New Zealand's:

- Benchmark for amazing customer experiences
- No 1 provider of mobility, data and cloud solutions
- Market leader in digital life and business services
- Best run and most efficient business

Strategic Programmes

Win Key Markets

Digital First

Spark Talent

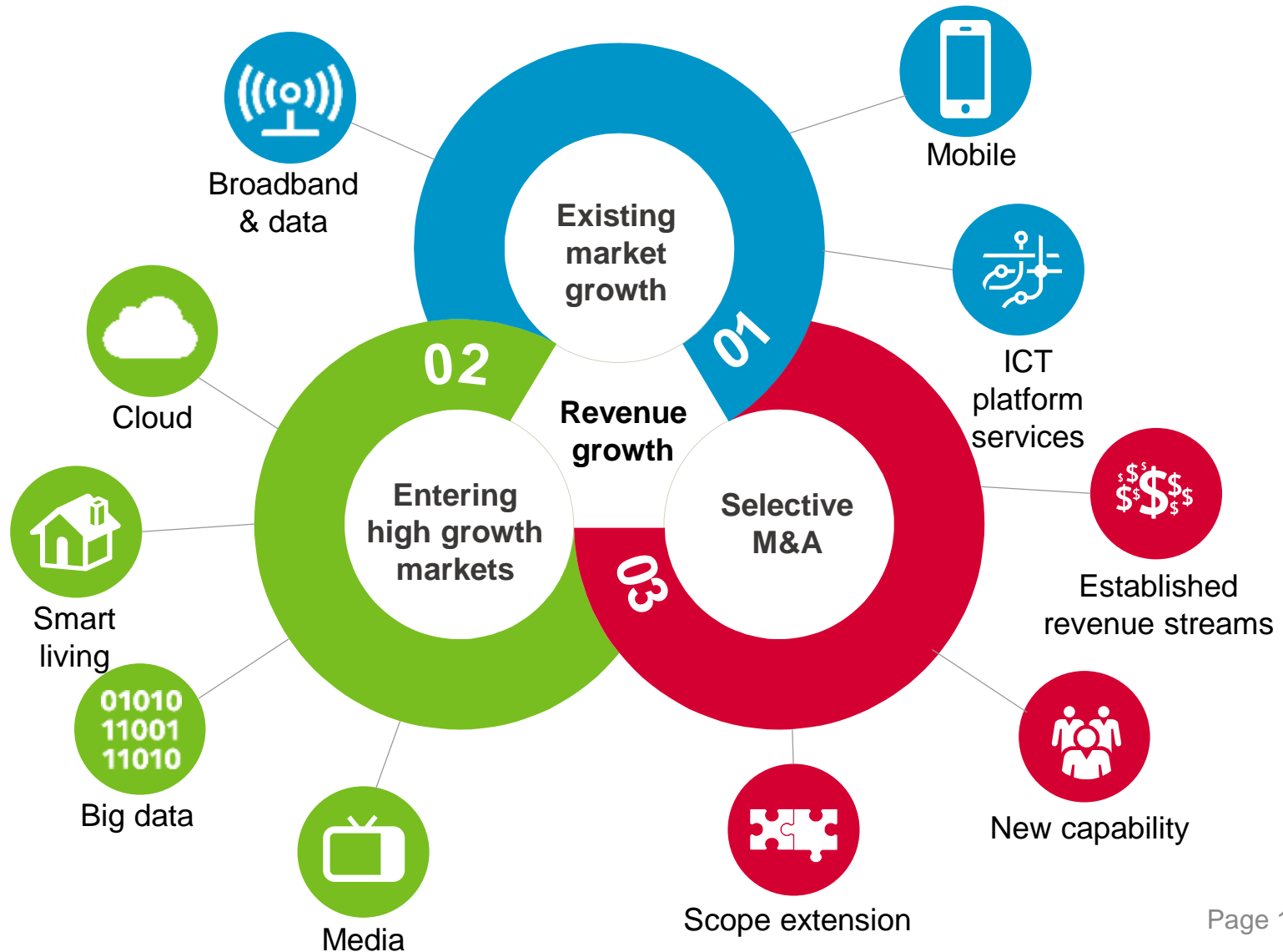
Customer Inspired

Spark Brands

Foundation

New Zealand's best data network and digital services capability

Three potential key sources of revenue growth being pursued



Margin improvement driven by efficiency and technology

We continue to see long-term efficiency and cost-reduction opportunities

Opportunity:

- **Continuing operational and delivery efficiencies**
- **Realising benefits from re-engineering now in its final year of delivery**
- **New Digital First strategic programme**
- **Software based networking technology**
- **Driving more products onto mobile networks (which we own end-to-end)**



Where it will show up:

- **Major shift to online and on-device customer self-service**
- **Less duplication in back office, much faster customer delivery**
- **Improved online capability, speed to market and business intelligence**
- **Increased automation, better customer management**
- **Less network support**
- **Improved mobile margins**

Financial Information and Capital Structure

As at 30 June 2015



Selected financial information and ratios

Spark Group				
Selected financial information and ratios				
\$m	As Reported FY 2013	Adjusted FY 2013*	As Reported FY 2014	As Reported FY 2015
Operating revenues and other gains	4,189	3,735	3,638	3,531
EBITDA	922	874	936	962
Net profit after tax from continuing operations	238	270	323	375
Net profit after tax from discontinued operations	-	(32)	137	-
Net profit after tax for the year	238	238	460	375
Net cash flows from operating activities	885	885	614	630
Cash and cash equivalents	118	118	208	80
Total assets	3,493	3,493	3,243	3,206
Total debt	976	976	690	692
Total liabilities	2,080	2,080	1,535	1,428
Equity	1,413	1,413	1,708	1,778
Debt/EBITDA	1.06 x	1.12 x	0.74 x	0.72 x
Interest expense	74	74	60	54
EBITDA/interest expense	12.46 x	11.81 x	15.60 x	17.81 x
Standard & Poor's (S&P) Long Term Credit Rating	A-/stable	A-/stable	A-/stable	A-/stable

*Adjusted FY 2013 - following the sale of the AAPT business in February 2014, certain FY 2013 financial information has been represented to show the AAPT financial results as a discontinued operation. This enables enhanced comparability between FY 2013, FY 2014 and FY 2015 for the continuing operations of the Spark Group. More information on this adjustment is contained in note 8 to the FY2014 financial statements which are contained in the Disclose register at www.business.govt.nz/disclose.

FY15 Results Scorecard

Key financials			Product revenue			Market share and connections		
	FY15	H2		FY15	H2		30 June 2015	Change
Revenue Growth	(2.9%)	(3.2%)	Mobile Revenue Growth	4.4%	6.4%	Mobile share (revenue)	41% ⁽¹⁾	2% ⁽²⁾
						Mobile customers	2,178k	8.6%
EBITDA Growth ⁽³⁾	2.8%	8.7%	Broadband Revenue Growth	0.6%	0.6%	Broadband share (connections)	46% ⁽¹⁾	(1%) ⁽²⁾
						Broadband customers	680k	1.6%
DPS	20 cps	11 cps	IT services Revenue Growth	5.5%	4.2%	IT services share (revenue)	14.5% ⁽¹⁾	0% ⁽²⁾

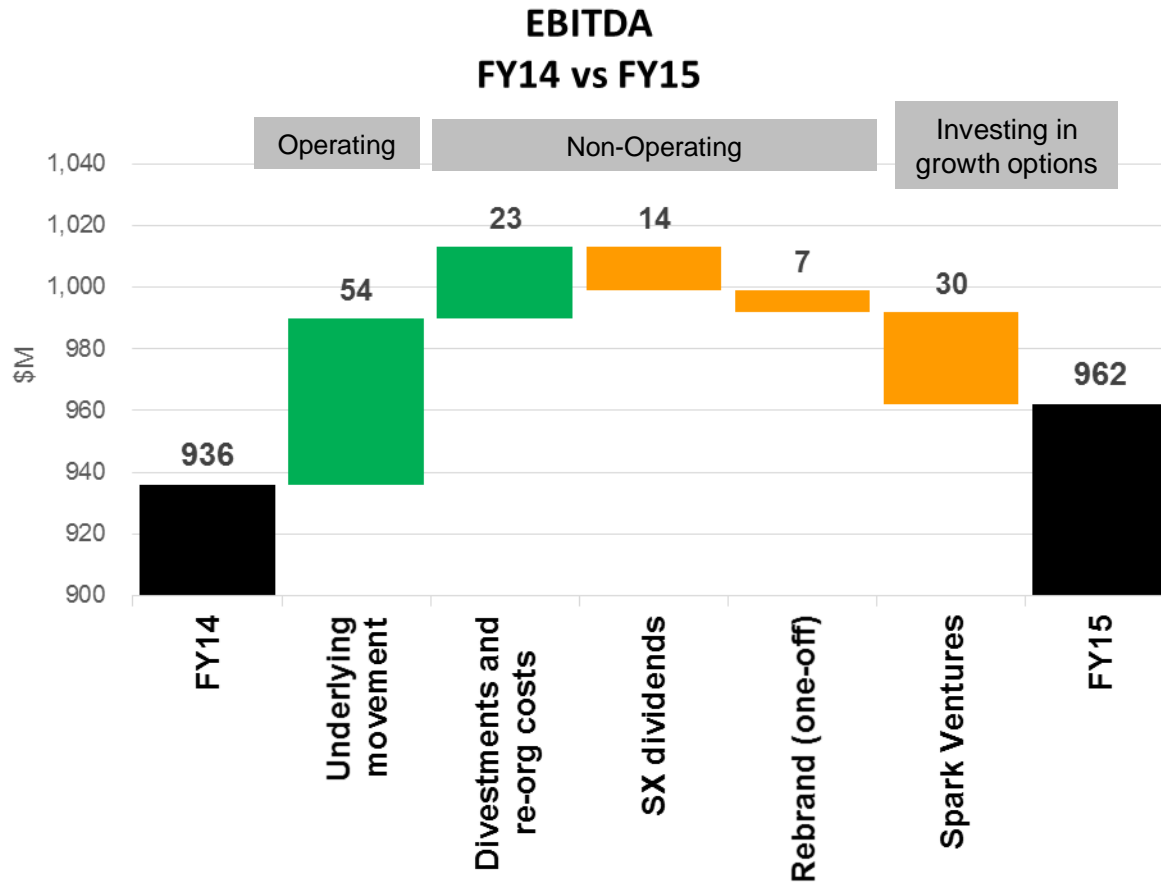
⁽¹⁾ Market share estimate

⁽²⁾ Percentage Point estimate vs June 2014

⁽³⁾ H1 FY15 includes re-brand costs, while H2 FY15 includes \$32m gain on sale from divestments

EBITDA waterfall

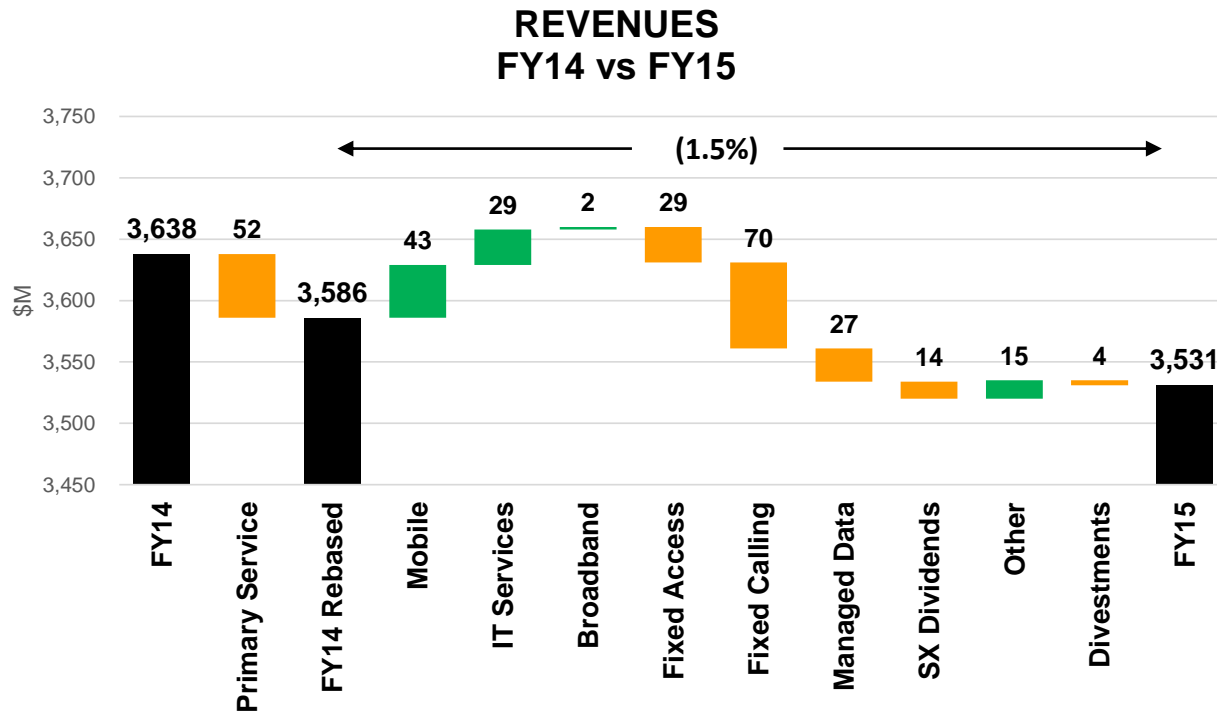
Underlying operating EBITDA improving on solid operational performance



- Underlying operating EBITDA improved on solid operational performance
- Divestments deliver one-off gains but are mostly offset by lower Southern Cross (SX) dividends and one-off rebrand costs
- Operating EBITDA funding investment in Spark Ventures' growth options

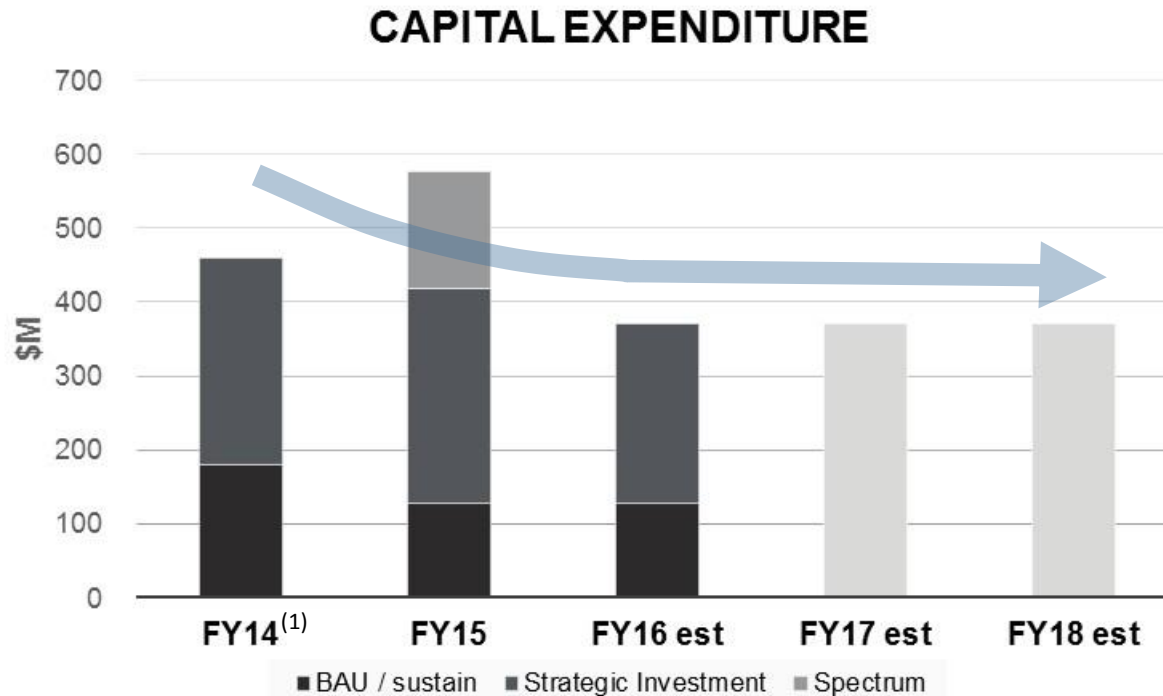
Revenue waterfall

Revenue rate of decline slowing as fixed calling is offset by mobile and IT services growth



- \$52m reduction due to primary service regulatory changes (nil impact on margin)
- Strong growth in Mobile and IT Services
- Broadband revenue stabilised
- Access and calling revenue decline continues
- Managed data down due to competitive pricing pressure
- An increase in net gains on disposals reflected in Other revenues

Capital Expenditure now at target levels



- H2 FY15 Capex of \$169m included strategic investments in Single Radio Access Network (RAN) and Re-engineering
- FY15 Capex (excl spectrum) to sales ratio of 11.8%

- Targeting sustainable long term Capex of below \$400m per annum
- Over time capital investment will be rebalanced from IT Re-engineering to other strategic programmes that deliver the best data network and digital services capability
- New Digital First Programme to be managed within this envelope

⁽¹⁾ Excludes \$35m of Capex relating to AAPT discontinued operations

Capital Structure

Remain committed to conservative capital structure and single 'A Band' Credit Rating from S&P

Spark NZ has maintained an A-/stable credit rating from S&P since the Chorus demerger in 2011.

Internal policy of Net Debt/EBITDA to not exceed 1.1 x on a long run basis, which approximately equates to S&P's 1.5 x adjusted debt-to-EBITDA threshold for the rating.

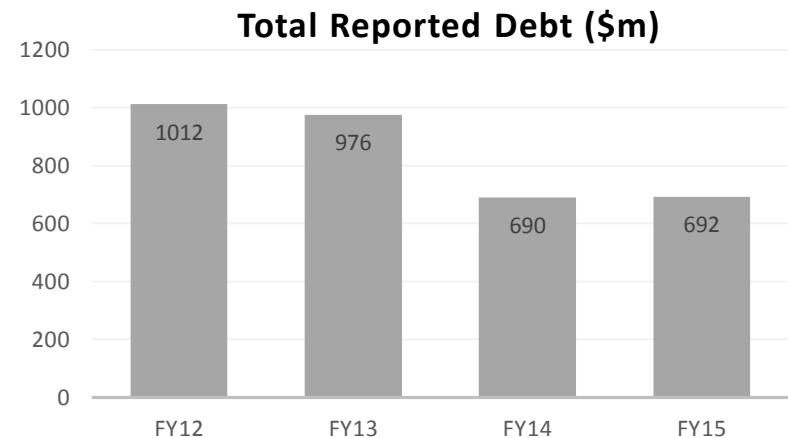
As at 30 June 2015, well inside this threshold with low debt levels.

Preferred method of shareholder distributions is to sustainably grow ordinary dividends over time in line with earnings growth

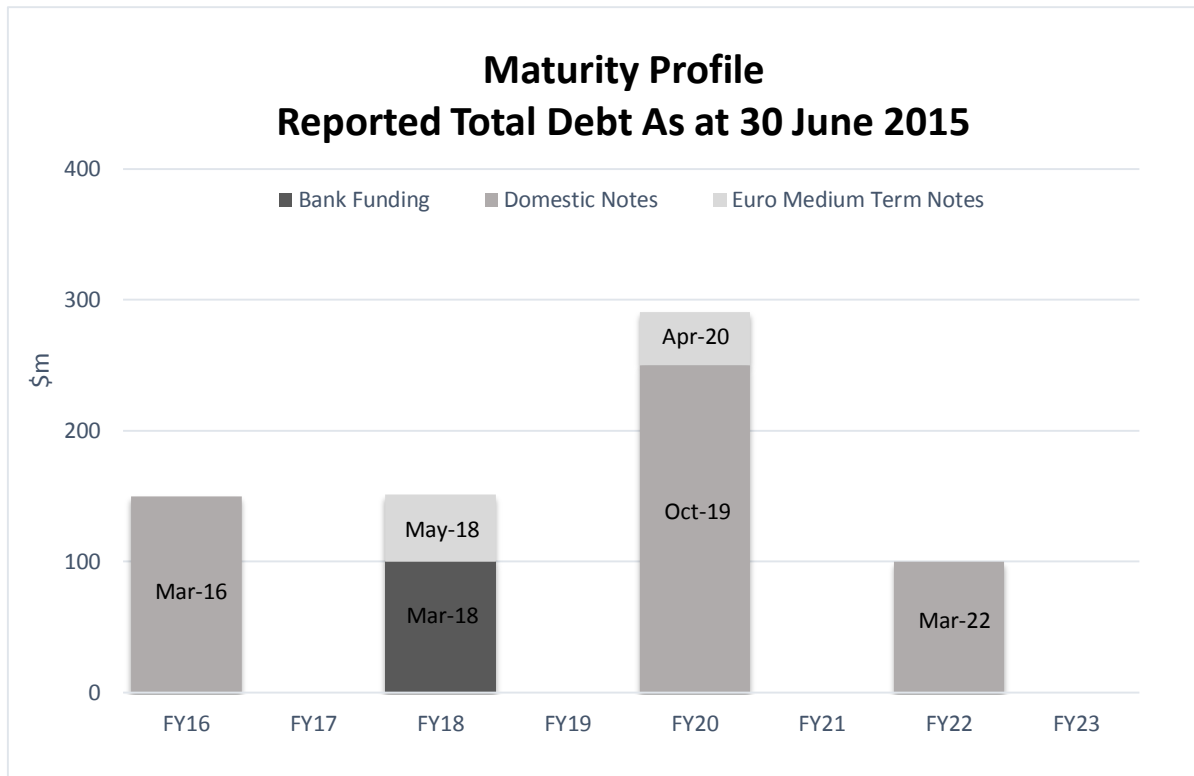
On-market share buybacks and special dividends used as appropriate to reset capital structure

Intention to return debt to a more appropriate level by:

1. An on-market share buyback of up to \$100 million in the 2015 calendar year - 35% complete as at 31 October 2015.
2. FY16 guidance of 3cps special dividend, subject to no adverse change in operating outlook.



Funding



- Intention is to spread maturities, to avoid material funding requirements in any 12 month period.
- Maintain unutilised committed funding facilities of at least 110% of next 12 month's peak net funding requirements.
- In September 2015, a \$100 million revolving credit bank facility was established (maturing in November 2016).

Spark NZ also has a committed standby facility of \$200 million maturing in April 2018 (undrawn as at 30 June 2015).



Bond Offer Information

Key terms of the offer

Issuer	Spark Finance Limited
Description of the Debt Securities	Unsecured unsubordinated fixed rate bonds
Guarantee	The Bonds are jointly and severally guaranteed by Spark New Zealand Limited and the other Guaranteeing Group Members (as defined in the Trust Deed) on an unsecured basis
Purpose	General corporate purposes
Issue Amount	Up to \$100,000,000 with the ability to accept oversubscriptions up to \$50,000,000
Maturity Date	Friday, 10 March 2023
Interest Rate	Equal to the sum of the Base Rate plus the Issue Margin, on the Rate Set Date
Indicative Issue Margin	1.00% to 1.15% p.a
Interest Payments	Quarterly in arrear in equal amounts on 10 March, 10 June, 10 September and 10 December in each year during the term of the Bonds, commencing 10 March 2016
Denominations	Minimum denomination of \$5,000 with multiples of \$1,000 thereafter
Listing	Application has been made to NZX to quote the Bonds on the NZX Debt Market under the code SPF560
Expected Issue Credit Rating	A- (Standard & Poor's)

Key dates and process

Date	
20 November	PDS Lodged & FMA process
23-24 November	Roadshow – Auckland, Wellington
30 November	Offer Launch
4 December	Offer closes – bids due 2pm
4 December	Allocations and rate set
10 December	Issue Date
11 December	Expected Quotation Date

Appendix



FY16 Guidance

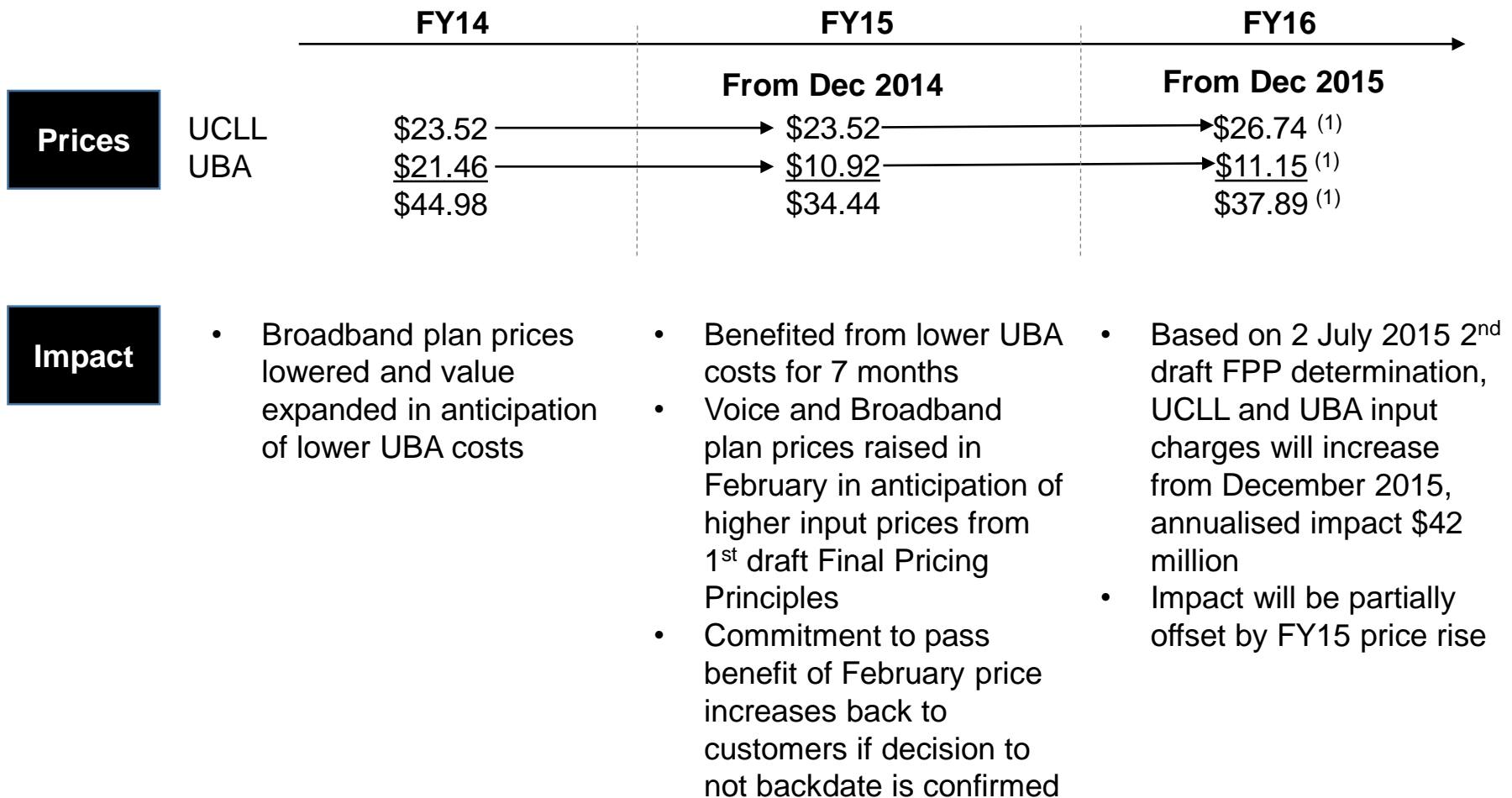
	FY15 Actuals	FY16 Guidance
Reported EBITDA ⁽¹⁾	\$962m	0-3% growth
Capex (excl spectrum)	\$418m	around \$380m
Dividends Per Share ⁽²⁾	20 cps fully imputed	Ordinary Div 22 cps ⁽²⁾ +Special Div 3 cps At least 75% imputed

Based on our Q1-FY16 performance we are reaffirming the guidance provided at the H2 FY15 results announcement.

(1) EBITDA guidance is relative to FY15 continuing operations and assumes copper broadband input costs based on IPP pricing to 1 Dec 2015 and then 2nd draft Final Pricing Principles (FPP), with no backdating

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

Regulated Input Charges



⁽¹⁾ Based on Further Draft FPP determination at 2 July 2015