

Shareholder Update

April 2015



Dear Shareholder,

Welcome to our first Shareholder Newsletter for 2015.

A year ago I was reflecting on what a big year 2013 had been. Now, twelve months later, it's clear 2014 was even bigger.

It was a year of enormous and far-reaching change for our business. We've continued to execute relentlessly on the clear strategy and ambition we set ourselves two years ago. We've laid a solid foundation based on a new Spark New Zealand brand that puts customers at the heart of everything we do.

Across the entire organisation, we've been delivering on a number of fronts;

Spark Home, Mobile & Business has continually provided New Zealanders with better value broadband and mobile services, giving them the cool new stuff to share their experiences with each other, as well as thanking them for their loyalty through things like the Automatic Thanks Machine.

Spark Digital has continued to support big New Zealand businesses on their path to the future, providing them with the data centre, IT and Cloud capability to ensure that their vital products and services keep getting delivered more effectively and efficiently.

Spark Ventures has kept growing their portfolio of new businesses, including the successful launch of Lightbox which is now providing all New Zealanders with better online entertainment choices.

Spark Connect has been building New Zealand's best data network - including rolling out 4G mobile, re-engineering our IT stack, and launching fibre services everywhere UFB is available, as well as amping up our coverage in popular holiday spots around New Zealand for the summer.

And through the Spark Foundation's ownership of Givealittle, we've been using digital technology to revolutionise the charity and giving sector.

Our financial results reflected the hard work, as well as the challenges ahead. They showed that by doing great things for our customers, we're starting to win. The growth we're achieving in mobile, broadband and IT services is creating real momentum across the business.

2015 will be another big year. While it won't be easy and there will be significant challenges ahead of us, we've put the business in the best position for over a decade to return to genuine, sustainable growth.

If 2014 was the year that we laid the platform for future success, then 2015 is the next phase of our reinvention, a year in which we build upon the work we've done to turn the business around.

So for the rest of this year we'll go hard at reshaping the way we work to ensure the greater focus on customers. We'll be introducing our Digital First programme, which will be all about using new digital service concepts to deliver fantastic customer experiences, similar to the way Air New Zealand has revolutionised the travel process.

We're in no doubt we need to keep changing to succeed. We'll continue striving to offer better services and provide more value. That's the thing about change. It's risky. It's unrelenting. It's often punishing. But it's also positive, energising and, ultimately we hope, rewarding for our shareholders.

I can't wait.

Simon Moutter
Managing Director



Lightbox going great guns

There's been lots happening at Lightbox, Spark New Zealand's internet TV business. Late last year Lightbox formed a joint venture partnership with Coliseum Sports Media to bring premium sports content to more New Zealanders.

The venture is called Lightbox Sport and will include 100% of Coliseum Sports Media New Zealand content including Golf, English Premier League football, French TOP 14 rugby and future sports content for the NZ market. It's a strategic move which gives Lightbox great options as the online content market in New Zealand develops.

In February 2015, Spark decided to offer its more than 600,000 home broadband customers a chance to embrace their inner TV binge watcher by shouting them a year's Lightbox subscription to watch their favourite shows. We did this because it's still a new category and we want to encourage more New Zealanders to give it a go.

Lightbox is an online TV service with over 6,000 ad-free hours of insanely good TV including hit shows like Breaking Bad, Outlander, Better Call Saul and Suits - which can be devoured on computers, tablets, TVs and PlayStations - and with great content and devices constantly being added.

TV viewers used to have to 'nibble away' at their favourite show, episode by episode, week by week. But with Lightbox, they can choose whether they want to binge on the whole series in one sitting, or spread it out over the month. And they can watch it on their TV via a growing range of devices without the annoyance of advertising.

The future of TV is online. One billion hours of online TV is now watched globally each month, and we know the TV watching habits of our customers are rapidly shifting to on-line and on-demand - where they can watch what they want, when they want, ad-free. So we decided to kick off the year by saying "thanks" to our broadband customers - and offering them the great perk of 12-months of Lightbox, on us.



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New Zealand businesses well placed

According to the 2015 PwC New Zealand CEO Survey, 84% of CEOs highlight mobility as a key strategy for customer engagement. This is unsurprising given nearly three quarters believe changes in customer behaviour and technology are the two most disruptive forces they will face in the next five years.

The Digital Evolution Index rates New Zealand a 'stand out' country. We've had high levels of growth in the past, and we're in a better position than many countries to grow in the future. The research by PwC suggests that New Zealand CEOs recognise this. They have a good grasp of the challenges ahead and the changes they will need to make in their businesses as a result.

At Spark New Zealand we're right with them, ready to help New Zealand businesses and New Zealanders to unleash their potential and make the most of the digital opportunities that will arise as those next billion internet users come online.

Mobile is a driving force in disruption; it is revolutionising not only the way value is created but also how customers perceive it. The Digital Evolution Index, produced by the Fletchers School at Tufts University, shows the far-reaching changes hitting the global digital economy in the next few years: while the first three billion people on the Internet started off as users - surfing, emailing, and browsing before they became consumers in digital markets - the next billion will be consumers from the start.

They'll be mobile from the start too.

New Zealand needs to support this rapidly changing consumer behaviour with a strong digital infrastructure: more cables connecting us to the world; a high quality domestic fibre network; world-class data centres; fast and extensive 4G networks (particularly on 700 MHz); and ready access to fibre connections for consumers. If New Zealand businesses are to stay relevant and competitive, they also need the tools to tailor and personalise their products and services, to know what their customers (and prospective customers) need and when they need it.

For Spark New Zealand, this is our core strategy. We're investing heavily in the new Trans-Tasman cable, we've built a new high-capacity, high-speed Optical Transport Network that acts as a fibre backbone for our network, and we're growing New Zealand's datacentre capacity and accessibility through our acquisition of Revera and Appserv, as well as our \$60 million state-of-the-art Takanini data centre.



We've invested hundreds of millions in 4G, buying more 700 MHz spectrum than any other network - a crucial investment in our future capability. We've established Connect 8 with Vocus Communications to deliver better fibre services to business, and as New Zealand tops the OECD table for fibre growth in 2013/2014, Spark is the only ISP delivering fibre services in every UFB area.

While our industry - like many others - is undergoing an intense period of change, we're grabbing opportunities to be on the right side of this disruption. We set up big data analytics company Qrious to help New Zealand businesses use data to make better decisions and create more value, and we've taken a stake in Putti, a platform that enables New Zealand businesses to rapidly and easily deploy mobile-ready websites and applications. We're getting businesses ready for the future Internet of Everything with our Connected Mobility (M2M) and cloud platforms.

Hailing the Black Caps

Many New Zealanders were thrilled to see the New Zealand cricket team rising to the unprecedented heights of a World Cup final. We've been treated to some amazing sporting theatre. At Spark New Zealand we couldn't help but ponder the recent transformation in the performance standards of the Black Caps, and consider the learnings or parallels both for Spark New Zealand and many other New Zealand businesses.

We were particularly struck by the incredible job the Black Caps have done in improving their fortunes after a reasonably long and sustained period of inconsistent or underperformance. We were also struck by how quickly New Zealanders have come in behind the team now that they are delivering the results.



Some observations on the Black Caps and possible organisational parallels to reflect on;

- Recognising the brutal truth of where they sat relative to the competition and setting out to build the capability needed to move from losing to winning.
- Building a pragmatic and consistent leadership group that's got a hugely ambitious goal in mind (winning the World Cup) and showing a clear commitment to pursuing that goal in their own way, regardless of the critics or the inevitable stumbles along the way.
- Having a good balance within the leadership group - from the backroom shrewdness of Mike Hesson to the 'follow me' of Brendon McCullum. It's about getting the right mix.

- Making some really tough calls - for example changing skippers, not because Ross Taylor was a poor captain at all, but because they believed Brendon McCullum would be even better and could take them to the next level of performance. Some gifted players didn't make the cut for the World Cup team, not because they lacked talent, but because the selectors made the call they weren't the right fit for the type of team they wanted.
- Showing real intent - it is easy to wonder why McCullum doesn't curb his attacking instincts and consolidate once he's made a quick score... but the winning intent he so vividly demonstrates is absolutely essential to the Black Caps success. It's a winning attitude that rubs off on others.
- Taking risks - when you're stuck in a pattern of underperformance, you need to take risks to change the dynamic. During the tournament the Black Caps set incredibly attacking fields almost unheard of in a one-day game, deciding that in order to win they needed to take risks and attack.
- Putting the team first - a lot of our cricketers have spoken publicly over the tournament, and not one of them put their own individual aspirations ahead of the team. Some of them like Kyle Mills may be disappointed for not playing, others like Grant Elliott could justifiably be pleased about his own outstanding performance, yet they've all put the team first.
- Not being satisfied - in times past, the Black Caps might have been satisfied with reaching the final, or even the semi-final. But again we were struck by the message after the semi-final that they didn't believe their job was done at all - McCullum spoke of 'earning the opportunity' to go all the way.
- Executing under pressure - the training environment in the Black Caps is now much more intensive than it used to be, with a relentless focus on executing skills under pressure. As a result, nearly every single player in the team has played a match-winning role at some stage in the tournament, often in the most intense periods of a game.
- Digging deep - inevitably, things will go wrong at some stage, but the Black Caps have shown that when the odds tilt against you, it's absolutely possible to dig deep, persevere, and tilt the odds back in your favour.
- Inspiring others - regardless of the final result, the Black Caps have galvanised sports fans around the country in a way not seen since the Rugby World Cup in 2011, and seldom seen ever.

At Spark New Zealand, our goal is to galvanise our customers to unleash new possibilities for New Zealand - it's a big ambition but the Black Caps have shown it's possible to capture the imagination of many people beyond just a traditional fan-base.

We'd like to hail the Black Caps as an organisation that, like Spark New Zealand, has committed to a major improvement programme to literally 'turn around' its fortunes, and is delivering on that commitment.

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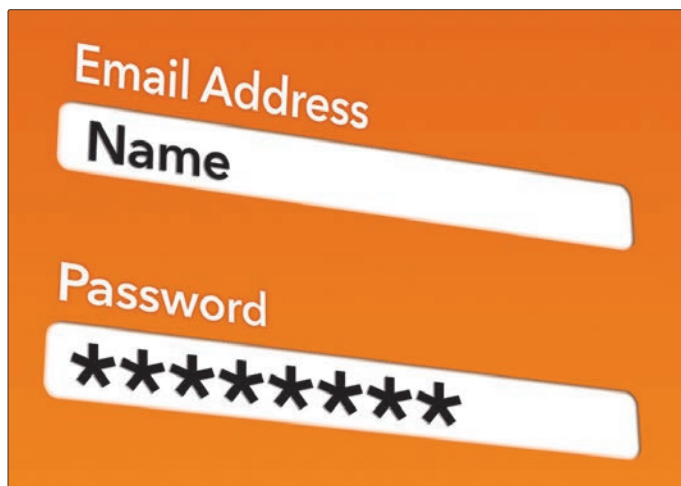
Protecting yourself online

We've recently been warning customers about further reports of scammers claiming to be from Spark.

The fraudsters are reportedly telling customers that their Spark services will be cut off unless they change their settings or clean up their computers. The customers are then directed to a website where they are asked to download some software, from which the fraudsters can gain remote access to their computer.

Research by the Ministry of Consumer Affairs shows that New Zealanders are losing over \$400 million per year to scammers with many people being targeted online.

It's important to note we will never ring customers out of the blue and ask them to view their computer remotely, to provide banking or credit card details, or to log on to their online banking.



With so much of our lives online, keeping safe on the internet should be a top priority. Here's a quick checklist to help keep yourself safe in an online world.

- Don't include sensitive information (such as passwords or credit card details) in emails and never store sensitive information in your email application.
- Do use a unique password for your email – and preferably one that you only use for email.
- Don't use the same password for your online banking, your email and your Twitter account.
- Do change your email password regularly and don't go back to old passwords, always set up and use a new one.
- Don't click on suspicious links and watch out for phishing scams. Scam emails can appear to come from someone you know.
- Do recognise when it's too good to be true – for example lottery win notifications.
- Do know how to quickly change your password using the simple links Spark provides.
- Don't open unexpected attachments – if in doubt delete the email and contact the person who sent it to confirm it is the real deal.
- Do keep your software and anti-virus programmes up to date.

We've set up a Scam Hotline and we're encouraging anyone who believes they have been contacted by a scammer to call on 123, option 9.

For further information on protecting yourself online, consumeraffairs.govt.nz/scams and netsave.org.nz have lots of handy tips.

Spark New Zealand completes next milestone in major reengineering programme

Spark New Zealand has successfully implemented the second major stage of its ongoing programme to reengineer and update its key customer service IT platforms.

The reengineering programme is a key part of our technology transformation and a game changer in our journey towards becoming a truly customer-inspired and highly efficient business.

This second stage, which took many months to build and cutover in early March, saw a large-scale migration of 25 years' worth of customer data from decades-old legacy customer management systems to a set of next generation-class customer management systems based around world-class CRM software.

In a lot of cases that means we have moved on from old fashioned 'green-screen' customer information systems centred on the copper-wire connection to leading-edge systems centred on our full relationship with each customer.

It's a quantum leap that gives us significantly better customer management capabilities, with all our customers on one system and their information accessible across all our customer touch points. This means we are able to understand our customers better, and know their history, preferences and needs.

Electronic Shareholder Communications

Spark New Zealand shareholders can choose to receive all communications electronically. This makes it more efficient and convenient for you, plus it reduces environmental impact and cost.

You can select how you receive communications from Spark New Zealand by visiting the Link Market Services website.

NZ registered holders:

Go to linkmarketservices.co.nz and select "Investor Login" on the top right hand side of the page. Please select "Spark New Zealand Limited" from the issuer drop down box. You will need your CSN/holder number and FIN to complete the investor validation process.

AU registered holders:

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To find out more about Spark products and services, visit spark.co.nz or visit your nearest store.

We welcome any feedback, which you can provide via email to investor-info@spark.co.nz



**Spark
New Zealand**