



SHAREHOLDER UPDATE

April 2018



Dear Shareholder

In February we announced our financial results for H1 FY18, which show that Spark is making good progress on its transformation strategy and the three focus areas that underpin it: an emphasis on wireless technologies; using our suite of brands to better serve price-sensitive customers; and driving improvements in customer experience and cost-to-serve through simplification, digitisation and automation.

Revenues were up 1.6%, to \$1.82 billion for the half year, despite intense competition in all our markets. This is on the back of continued strong performance in mobile, up 8.0%, together with cloud, security and service management, up 17.5%.

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

The performance in mobile was a big highlight of the half. We saw increases in mobile connections, revenues and margins – with overall mobile ARPU returning to growth for the first time in two years. The successful launch of our unlimited mobile data plan, which set a new benchmark for value, encouraged customers to upgrade to this higher-value offer, and the online-only Skinny Direct service helped grow mobile margins at the price-sensitive end of the market.

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

We also saw strong performance in cloud, security and service management revenues, as a result of customer demand for the flexibility and benefits offered by “as a service” cloud-based products. Mobile and cloud growth continues to more than offset the declines in voice, managed data and networks.

Spark’s sub-brands Big Pipe and Skinny continue to resonate well with price-sensitive customers. Skinny and Bigpipe secured most of our

broadband connection growth in the half year and Skinny Direct continues to grow in the mobile market. Skinny’s excellent customer service was once again recognised, with Skinny named the winner of Consumer NZ’s People’s Choice award for the third consecutive year. As a company that was “born digital” Skinny has been showing the way for Spark as we ramp up our simplification, digitisation and automation initiatives.

These initiatives continued at pace over the six months to 31 December 2017. We’ve now dramatically simplified the plans we offer across Home, Mobile & Business (HMB) and Spark Digital – migrating more than 166,000 HMB customers on to new fit-for-purpose plans, offering better value and digital self-service options, and stopping further sales of more than 5,000 outdated managed data plan variants through Spark Digital.

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

Based on the results from the first half of FY18, we have affirmed full-year EBITDA guidance of 0-2% growth versus FY17 actual EBITDA (excluding net gain from sale of Mayoral Drive Carpark) and declared a total H1 FY18 dividend per share of 12.5c, made up of a 75% imputed ordinary dividend per share of 11.0c and a 75% imputed special dividend per share of 1.5c.

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

For more details on our financial results, see our Investor Centre at investors.sparknz.co.nz.

Simon Moutter
Managing Director

Agile ways of working: what it is all about

For some time, we have been looking at how adopting Agile ways of working might help us reach our aspirational targets for customer satisfaction and company culture. Agile is a way of working created by software engineers in the 1990s. It replaces traditional hierarchical control with a flatter structure and self-managing teams, and involves working on smaller, faster incremental improvements (to products, services, etc.) and a focus on end-to-end outcomes.

While we previously planned to “scale up” to Agile ways of working, our investigations – including looking at how Agile has benefited large companies offshore – have led us to see significant benefit in adopting Agile across the whole organisation. We are now working through the implementation of this and expect the new model to be in place during Q1 FY19.

We’ve made huge progress over the past few years transforming the business into one that is focused on the customer and can respond quickly to changes in the market. Moving to an Agile way of working will help us take the next step, by creating a faster rhythm for designing and delivering digital customer experiences, strengthening our focus on our customers, and energising our company culture with a much bigger focus on “doing”.

Our success to date has come from taking big, bold decisions, and the move to Agile is another big step forward for us. We’re taking the best learnings from around the world and adapting them to the New Zealand and Spark context. We have an opportunity to do something quite remarkable and set ourselves up to become a leading player in New Zealand’s digital future.



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News in Brief

- In mid-March we officially switched on our low-power Internet of Things network, which we have been trialling in the industrial and agricultural markets. Our first IoT customer is Levno, a resource management firm. The low-power network is suitable for when sensors or devices are transferring small amounts of data and are reliant on battery power. We are also testing complementary IoT technology on our mobile network, which is suitable for where sensors and devices are transferring large amounts of data regularly and real-time access to that data is critical.
- The Spark Foundation continued to expand its Spark Jump programme, which is now connecting 676 families in areas throughout New Zealand. The programme aims to bridge the digital divide, by offering subsidised broadband to families with school-aged children who are not currently connected.
- Spark has added contact centre, unified communication, cloud security access brokerage and site connectivity services to its already expansive Telecommunications as a Service (TaaS) portfolio. These additions have further strengthened Spark's ability to offer government agencies seamless end-to-end TaaS solutions that deliver improved business outcomes and leverage various common capability agreements.
- Over summer, we trialled a “portable” version of our wireless broadband product, which allowed customers to use their home broadband on holiday. Customers on the trial were able to simply unplug their modem at home and plug in at their New Zealand holiday destination. We’re now working through feedback from customers about the trial product and considering next steps.

Changes to the Spark Board

We were delighted to announce Pip Greenwood will join the Board as an independent, non-executive Director from 1 April. Pip has significant experience in capital markets, mergers and acquisitions, telecommunications, and governance. We very much look forward to her joining the board, at which time our Board of Directors will be 50% female. We are proud of this milestone and believe it reflects the pipeline of strong, capable female leaders available for us to draw from and demonstrates commitment to our long-term aspiration to have >50% of Directors and leaders at Spark being female or non-New Zealand European.



A resilient and flexible network

Our success in mobile and in offering wireless broadband is only possible because of the massive investment we've made in our mobile network.

We've continued rolling out 4.5G across New Zealand and now have it live on 38 large sites in 30 locations. This technology is an enhanced version of 4G, delivering three to five times the speed and network capacity. It also helps us prepare for a 5G future, by giving us a deeper understanding of the more intensive data use-cases that will be made possible by 5G. Spark is currently the only New Zealand mobile operator rolling out 4.5G.

We have also strengthened the resilience and capacity of our core network by adding a third mobile node or Evolve Packet Core (EPC). We previously had two mobile EPC nodes handling large volumes of traffic, based in Auckland and Christchurch. The new third node, located in Porirua, gives us the flexibility to shift and re-route traffic around as required, particularly in the case of a natural disaster or emergency. This incremental increase in capacity supports our future technology requirements, including the roll-out of 4.5G and the expansion of our wireless broadband service.

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Lightbox to relaunch on new media platform

As part of our H1 FY18 results we announced that Lightbox is upgrading its technology platform and will shortly launch some new features and services. These include an on-demand, pay-per-view movie service called Lightbox Movies; an option for either standard and premium TV subscription options – with premium including enhanced features such as temporary downloads; and Lightbox Kids – a dedicated safe area for children's content.

The upgrade will be completed in April and will see Lightbox migrated to the Brightcove platform. This is a standardised media platform used by other organisations like TVNZ, which will give us the capability to expand and develop Lightbox in the future.

By offering on-demand movies through Lightbox, we are adding a capability known as Transactional Video On Demand (TVOD) to our existing Subscription Video on Demand (SVOD) model. This will mean that both existing Lightbox subscribers and casual visitors will be able to rent the latest movies without a subscription – giving us a new revenue stream, as well as making Lightbox an even better proposition for existing customers.

Existing Lightbox TV subscribers will be able to log in to Lightbox and rent pay per view movies. People who don't have a Lightbox TV subscription will be able to create a profile and rent pay per view movies with no contracts or strings attached.

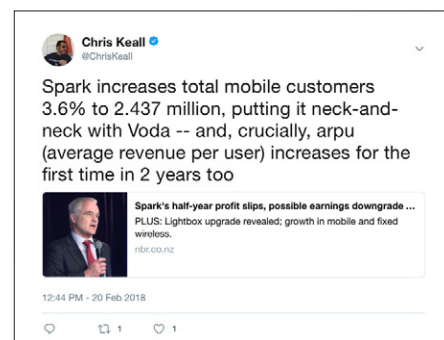
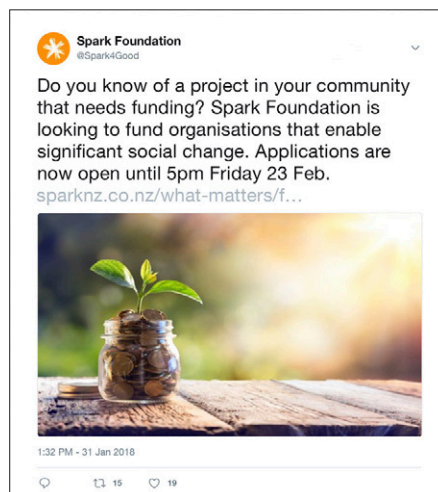
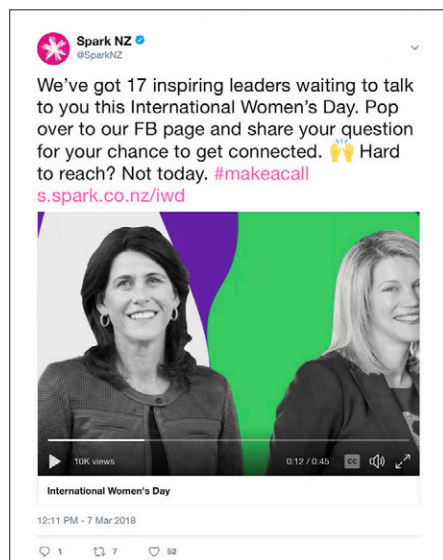
Customers on the premium service will be able to download content to their mobile devices, making it available to view offline when they're travelling or away from an internet or mobile connection. They will be able to seamlessly watch over multiple devices and enjoy higher quality viewing at lower bandwidth requirements. Spark customers on eligible mobile and broadband plans will continue to get a standard Lightbox subscription included in their plan – or they can choose to pay a small top up charge to access the Premium subscription.

All Lightbox TV customers will be able to access the dedicated Kids TV area. TV content will be available via the normal subscription packages, while children's and family movies will be available to purchase through Lightbox Movies but only once an adult has consented to the purchase. Password pin protection between adult and child profiles will make it easy for parents to keep their children entertained and safe at the same time.

Movie titles for launch are still being confirmed, but Lightbox plans to have hundreds of titles immediately available with many more added every week.

Top picks from the world of social

Here's a quick snapshot of how Spark is appearing on Twitter and Facebook.



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.

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

