



SHAREHOLDER

UPDATE

October 2018



Dear Shareholder

I was delighted to announce to the market in August that Spark had delivered against operational and financial targets in FY18, while undergoing one of the biggest change programmes in our company's history as we transitioned to an Agile way of working.

As in prior years, during FY18 we saw a moderate improvement in revenue, up 1.0% to \$3,649m. This was driven by outstanding growth in our mobile business and in cloud, security and service management, but as in prior years, we continued to see a decline in our legacy voice, managed data and networks revenues. The good news is that while legacy revenues were down \$100m, revenue from our new growth areas was up \$132m - more than offsetting the decline.

The other big thing affecting our result was we chose to accelerate our "Quantum" business improvement programme, by taking on more cost this year to set ourselves up for a strong FY19. We made this decision because as we began the transition to Agile ways of working, we became increasingly confident we can operate more efficiently under this model. The implementation cost from this change programme of \$49m meant our EBITDA (earnings before interest, taxation, depreciation and amortization) result for the year was down 2.7% to \$989m.

This year we continued our focus on three strategic pillars: an increased emphasis on wireless technologies; leveraging our multiple brands to win in all customer segments; and being the lowest cost operator through simplification, digitisation and automation.

This helped drive a number of highlights over the 12 months. Spark was the only mobile operator to see growth in mobile

market share, revenue and margins in FY18. We also grew to 116,000 customers on our wireless broadband product, which is helping make broadband more profitable by reducing wholesale costs.

Our programme of simplification, automation and digitisation helped us make some big improvements to digital self-service channels. The introduction of artificial intelligence, through chatbots and other automation tools, reduced customer service voice calls by almost a quarter year-on-year. At the same time, we've seen customer satisfaction (measured by Net Promoter Score) improve for both the Spark and Skinny brands.

Our multi-brand strategy continued to help us win customers across different market segments - particularly in price-sensitive markets. Low-cost brands Skinny and Bigpipe drove the majority of our FY18 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.

I would like to thank you for your continued support over the year. We believe our strategy sets us up for a strong FY19. As we look ahead we are confident we can continue to deliver for you as shareholders, while making a wider contribution as we help all of New Zealand win big in a digital world.

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

Simon Moutter
Managing Director

Going Agile

Over the past few months, Spark has undertaken one of the biggest transformations in our company history, as we transitioned to an Agile way of working.

Agile is a business organisational model that has been used for a number of years by some of the world's largest digital services businesses. It replaces the traditional "pyramid" type management structure with small, multifunctional teams (called "squads") of around 6-10 people who are focused on achieving a particular thing for customers (for example, building a new product or service, or improving an existing product or service). These teams work in 2-weekly cycles to make small changes quickly and continuously. They use customer satisfaction data and other tools to understand how customers are responding to our products and services and where any sources of frustration might be - and then they work to fix those sources of frustration.

Multifunctional teams and a flat structure mean there is no need to 'hand over' work to another part of the business or seek approvals from above. Teams have all the people and skills they need to deliver for customers, fast. Furthermore, by focusing our work on Spark's overall purpose - to help all of New Zealand win big in a digital world - and our contribution to customers, Agile ensures all of our people are engaged and feel empowered to make a difference.

While it is very early days, we are already seeing some positive indicators from those teams who have fully adopted Agile ways of working. Early data and anecdotal evidence shows they feel more engaged with and positive about their work, are spending less time in meetings or managing emails and have substantially sped-up the time it takes to deliver products and services for customers.

We are one of the first large businesses in New Zealand to transition all our people to an Agile way of working. It's a big and bold call, but we are confident it's the right one for Spark and are excited about what this new model will help us achieve in the years to come.



A standalone sports media business

Spark is committed to being a key player in New Zealand's rapidly evolving media landscape. Our journey began in 2014 when we launched Lightbox, and this service has now reached a new milestone with 355,000 subscribers at the end of FY18. Lightbox has also developed new revenue streams with its pay-per-view movie service and premium subscription service, both of which launched in FY18.

We now see further opportunity in this space for a standalone sports media business. We recently announced that we'd secured the rights to Rugby World Cup 2019, the English Premier League for three seasons from 2019, and Manchester United TV - with more content announcements to come. We will offer these sports via a subscription model and will stream them via a specialist sports platform.

Our ambition is to transform the way sport is distributed and viewed in New Zealand in the same way general entertainment viewing has been transformed by the likes of Lightbox, Netflix and YouTube. However, we continue to be disciplined when it comes to these investments, with a focus on a package of rights that we're confident we can commercialise.

Our sports service will launch early in 2019 and we'll have details of pricing and packages closer to the launch date.

CHOOSE YOUR UNLIMITED HOME BROADBAND DEAL

6 MONTHS HALF PRICE
When you join Spark unlimited broadband for 12 months

OR

50" SONY SMART TV FROM \$10 PER MONTH OVER 24 MONTHS
When you join Spark unlimited broadband for 24 months

SIGN UP INSTORE TODAY

New Spark customers only. Spark, Netflix and Lightbox terms and charges apply. Sony TV offer cannot be redeemed online. Early exit fee of \$199 + the outstanding balance of your interest free TV payments applies. See spark.co.nz for full terms and come in store for details.

Our 5G future

In our August 5G briefing paper "The Evolution Towards a Revolution" we made it clear Spark is on track to start providing 5G services to New Zealand consumers and businesses from 2020.

Our technical and network planning is advancing, as we successfully conducted outdoor and indoor trials earlier this year. We have already begun a build programme to increase the number of cell sites in our existing mobile network - which will enable us to meet near-term capacity demand as well as lay the groundwork for the network densification required for 5G.

5G is the fifth generation of wireless communications technology, which is starting to be rolled out around the world. It will provide additional mobile network capacity at a lower incremental unit cost than under 4G and 4.5G, helping us keep ahead of growing customer demand for more data at faster speeds.

Crucial to us planning for and building a 5G network is clarity on when additional 5G spectrum will be available and in what bands. We have urged government to allocate the two most likely spectrum bands - mid frequency C-band and high frequency mmWave band - as soon as possible. We are particularly keen to ensure 5G services can be delivered in time for the 2020-21 America's Cup in Auckland as an international showcase opportunity.

America's Cup Partnership

Spark will be the official telecommunications and connectivity partner for Team New Zealand and for the 36th America's Cup event.

As America's Cup racing becomes more and more driven by technology innovation, the crew on the boat and the team back at the base rely on the immediate availability of real time data to get the best performance on the water. Seamless connectivity can make the difference in gaining that competitive edge, and this is where Spark hopes to make a real difference. We see a huge opportunity to align the development of Spark's 5G network and services with the spirit of innovation that Emirates Team New Zealand has always shown at the America's Cup.

Later this calendar year we will launch a 5G Innovation Lab in Auckland's Wynyard Quarter Innovation Precinct, which will allow partner companies to test and develop applications over a pre-commercial 5G network. It will be just a few hundred metres from the Emirates Team New Zealand base, which will create great opportunities to start testing real world applications of 5G in live environments.

Spark Foundation announces new partnerships

Spark Foundation is helping young New Zealanders successfully navigate their digital futures through three new partnerships with Code Club Aotearoa, Digital Natives Academy and 21C Skills Lab.

The Foundation is determined that no young New Zealander gets left behind in the digital world. These partnerships aim to be the catalyst for change that creates a lasting impact; working alongside organisations to create and scale programmes that inspire kids to build the skills and capabilities now required.

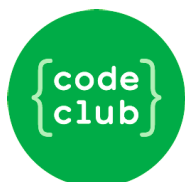
The partnerships follow the end of the Spark Foundation's five-year commitment to Manaikalani Education Trust and the development of Givealittle to become a largely self-funding platform.

A quick description of each organisation is below:

Code Club Aotearoa: a nationwide network of volunteer-led coding clubs for kiwi kids aged 9-13 years old. Providing a fun way for children to learn computer programming and software design, the Code Club wants to grow the number of code clubs around New Zealand and give every kiwi kid the opportunity to learn to code, no matter who they are or where they live.

Digital Natives Academy: a living digital hub where tamariki can learn code, rangatahi can join eSports leagues, whanau can integrate virtual tikanga and kids of all ages can access the latest tech in a safe environment. Aims to inspire young people and their families to create, transform, shape and develop their own digital tools.

21C Skills Lab: developing and launching the Like a Boss programme across 30 schools in 2019 with a goal of equipping kids with the knowledge and skills to succeed in a rapidly changing world of work. The programme is an opportunity for secondary school students to build their own people or planet-focused business and develop 21C skills along the way. Each student is given \$20 of start-up capital and the tools to create, launch and operate their own venture allowing them to make a difference in and outside of the classroom.



21C
skills lab

NEW

Season 2
Mr Mercedes

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LIGHTBOX

WATCH NOW >

COMING SOON

Rent for \$7.99
Oceans 8

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LIGHTBOX

Movies

Partnering with Netsafe to stop scams

We've been working hard to reduce scamming activity and raise awareness for customers this year. Phone and email scams are a global problem, with scammers becoming increasingly sophisticated when it comes to the technology they use and the stories they tell. While Spark plays an active role in monitoring and blocking scams, it's not always possible to detect every single scam call or email campaign.

The most effective way to keep our customers safe is to help them identify the difference between interactions with us versus interactions with a scammer. To do this, we have partnered with Netsafe to develop a brochure with simple guidance on how to spot a scam, how to stay safe, and what to do if you think you have been scammed. The brochure will be translated into Chinese to assist the Chinese community, which has recently been targeted by scammers posing to be from the Chinese embassy.

We are making education brochures and smaller wallet cards available at Spark stores around the country, and they will also be dispatched with every new phone purchased from Spark. As older customers may be more targeted by scammers, we have placed brochures in branches of Age Concern and Senior Net.

This is one of the many proactive initiatives Spark has put in place over the past year. In April we launched a webpage that lists real-time scam alerts, so customers could see the latest reports of scammers posing to be from Spark. Soon after, we included a safety reminder on the bottom of customer bills, so they are frequently reminded to think twice. We have also trained frontline staff to help front-foot scam education with customers on the shop floors - ensuring staff are prepared to discuss methods in which a customer can protect themselves and their family.

A key message for our customers is that Spark will never contact you out of the blue and ask for personal information like banking details or passwords. We also recommend people avoid calling back international numbers they don't recognise and if they are unsure if a call is genuine, it is best to hang up.



We'll do anything to keep prices low and customers happy

skinny.co.nz

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:

linkmarketservices.co.nz please 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:

Go to linkmarketservices.com.au please select "Investor and Employee 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 holder number (SRN or HIN) and postcode to complete the investor validation process.

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



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