



SHAREHOLDER

UPDATE

May 2019

A message from our Chair, Justine Smyth

As many of you will already have heard, on 2 April Simon Moutter resigned from his positions as Managing Director and as a Director of Spark, effective 30 June 2019, and we as Spark's Board of Directors have appointed Jolie Hodson, currently Customer Director, as our new Chief Executive with effect from 1 July 2019.

In almost every respect, Spark today is a vastly different company to the one that Simon re-joined in 2012. We are New Zealand's leader in wireless communications, with a rejuvenated mobile business across both Spark and Skinny brands, a promising Internet of Things (IoT) business and a determination to be at the forefront of 5G. We have made exciting plays in entertainment and sports media, we have invested in a modern, world-class technology stack and we are generating interest in our adoption of an Agile way of working from companies around the globe. We are making important progress with diversity and inclusion in the workplace, and our financial performance ranks among the industry's best in this part of the world. And, of course, Simon led the way in 2014 with the bold call to rebrand the Company, hanging up on Telecom and logging onto Spark.

When Simon became Managing Director in August 2012, he did so in the expectation of a likely five- to seven-year tenure. Accordingly, the Board has been mindful of succession planning from within the

business by giving potential internal candidates opportunities over time to demonstrate they have the right leadership capabilities.

The Board are particularly pleased to have a smooth and professional succession arrangement that allows us to confirm a top-quality internal candidate in Jolie. Jolie is an accomplished leader with a strong record of delivering results and managing complex business units and to be able to appoint an executive of her calibre and experience is a testament to the quality of the talent within the company. She has had experience across most major parts of Spark's business since she joined the Company in 2013. As Board Directors, we have had the opportunity to work closely with her over recent years on a range of important Company matters and we have been consistently impressed with her business acumen, her strategic vision and her quality decision making.

We are delighted to have confirmed an internal candidate, which speaks to Spark's desire where appropriate to develop and promote talent from within.

I am personally looking forward to working with Jolie as we continue the transformation of Spark into a digital service business which is achieving our purpose of helping all of New Zealand win big in a digital world.



Modern Family

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Dear Shareholder

Our results for the six months to 31 December 2018 show Spark's combined focus on innovation and efficiency across our products and services is now flowing through to our financial results.

We were particularly pleased to see further evidence of our improved digital customer experience. Our customers are moving to digital interactions in

bigger numbers - we have seen a 30% decline in the number of voice calls into our customer care teams, and the number of live chats handled by virtual assistants increased eightfold. At the same time, iNPS, which measures the satisfaction of customers who have come to us for help, went up.

Agile ways of working are now embedded across our whole business and at this early stage we are already seeing Agile delivering for our customers. It has allowed us to keep bringing to market new products and services that are aligned with customers' high expectations, despite us operating on a significantly lower cost base than previously. This is because Agile gives our people a clear view of what customers want and the structure to get on and deliver this with clear focus.

Let's take a look at the numbers:

Revenue saw a slight (0.4%) decline to \$1,754m for the half. There were continued revenue increases in our growth products - mobile and cloud, security and service management - but growth wasn't at the levels we've seen over the past couple of years. On the other side of the equation, we saw bigger declines in revenues from our legacy products (such as landlines and managed data). This was because one of our big wholesale customers moved a large number of connections off our PSTN network. This happened in the last financial year (FY18), but as expected we're seeing the full effect in our revenue numbers now.

Reported **EBITDAI** (earnings before finance expense and income, income tax, depreciation, amortisation and net investment income) was up by 7.2% to \$489m. This growth was the result of improved margins in mobile, broadband, and cloud, security and service management - as well as the benefits from our programme of simplification, digitisation and automation.

The mobile story is interesting, because while revenue growth has slowed slightly, we have seen margins improve as customers choose higher value mobile plans. The number of customers on our unlimited plan doubled in the period, and Skinny saw a 16.1% increase in the number of their customers who are on a recurring top-up plan.

Likewise, in broadband we have made some deliberate decisions that have put margins back on a more sustainable track. We changed copper pricing, reflecting the higher cost of providing this service; we introduced

Shock and devastation following events in Christchurch

Like the rest of New Zealand and many around the world, we at Spark were shocked and devastated by the horrific terrorist attack in Christchurch.

In the aftermath, we have been supporting those of our people who were directly or indirectly affected by the event. This includes those whose family or friends were caught up in the attack, and those who were in lockdown for many hours on the day the attack took place. We are incredibly grateful that our people in the region are all safe, but our hearts go out to the families who have lost loved ones in these most terrible of circumstances.

As the news of the attack was unfolding, we were deeply disturbed to hear a video of the terrible act was being distributed online. To prevent this content being viewed or spread further, Spark's cyber security team joined with other major New Zealand broadband providers to block access to websites where the video appeared. This is not something we have done before and it was not done lightly, but we believed it was the only responsible course of action in the circumstances.

It was clear, however, that in situations like these Internet Service Providers are very much the ambulance at the bottom of the cliff. That is why in the week following the attacks we joined with Vodafone NZ and 2degrees to write an open letter to the owners of the global major social media

the "Unplan" which emphasises value in the core offer rather than relying on acquisition or retention incentives; and we kept growing Wireless Broadband, which is helping to reduce our access costs.

Reported **NPAT** (net profit after tax) was down 5.6% to \$153m. In the prior period (H1 FY18) our NPAT included a \$28m dividend from our investment in Southern Cross. However, Spark and its joint venture partners are working to agree terms with Telstra on a deal that would see Telstra invest in the Southern Cross Next cable. If this deal proceeds, and the cable goes ahead, then Southern Cross will need capital to invest in building it. For this reason, Southern Cross decided to withhold dividends for the six months to 31 December 2018. We believe the build of Southern Cross Next will be an excellent long-term investment for shareholders, but not receiving the dividend has impacted on our net profit for this half.

We announced an H1 FY19 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.

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

On a personal note, you will have already heard that I will be stepping down from the positions of Managing Director and Director of Spark at the end of this financial year. I have given my absolute best to putting Spark onto a positive track over the last seven years, so the Company can fully deliver on its purpose to 'help all of New Zealand win big in a digital world'. I feel it's the right time to pass the leadership baton on and I am delighted the Board has chosen an outstanding leader in Jolie to succeed me. I haven't made any decisions about what I'll do after I finish at Spark, other than committing the first couple of months to spending some quality time with my family.

I'd like to thank you for your support and engagement over the past seven years. I know that I am leaving your Company in the very best of hands.

Simon Moutter
Managing Director

platforms - Facebook, Twitter and Google - asking them to prevent this terrible use of livestreaming happening again. We recognise the speed with which social network companies sought to remove Friday's video once they were made aware of it but believe more needs to be done to prevent content like this being made available in the first place.

In response to the tragedy itself, Spark opened access to our WiFi network in Christchurch and put in place free mobile calling in and out of the area for 24 hours. We wanted to make sure those people who needed to contact family and friends could do so without worrying about the cost.

Our Givealittle team was inundated with requests for pages to support the victims and their families. The official Victim Support page on Givealittle has since received more than \$10 million from generous donors. Spark Foundation is making its own donation to offset most of the Givealittle service fee, covering everything except third-party transaction costs such as credit card charges.

We hugely value and respect the Muslim members of our team and view this attack on them and their faith as an attack on our values. Our answer is to strengthen our unity, connect with each other, show support and love. As-Salaam-Alaikum. Peace be upon you and peace be upon all of us.

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SPARKSPORT.CO.NZ

Spark Sport platform launches in beta; on track for RWC2019

Just under a year ago, we announced we'd secured the broadcast rights to Rugby World Cup 2019 and other premium rugby tournaments. In the time since, we have been working hard towards the launch of our Spark Sport service - from which we believe we can build a viable, standalone sports media business.

In mid-March, this new service went live at sparksport.co.nz, in time to stream the Australian Formula 1 Grand Prix. In keeping with our agile approach, we launched the service in "beta" - which means the core functionality is working, but improvements and additional features will continue to be added all the time. During the initial launch period, we are offering customers a 30-day free trial. After the 30-day trial, access to premium content will cost \$19.99 a month, excluding access to the Rugby World Cup 2019.

In the first few months of service, Spark Sport has already successfully streamed hundreds of hours of live and on demand content, including several Formula 1 Grand Prix, World Rally Championship rounds, NBA games and FIH Pro League hockey matches.

Spark Sport offers a range of features and options. Customers can watch live sporting events in real time, can pause at any point, and can 'rewind' up to four hours. Once live events are complete, they will also be available on demand for people who have missed them or want to watch them again. From launch the service is available on most iPads and iPhones, Android

devices, AirPlay to Apple TV, Chromecast and popular web browsers. In the coming months, we'll be expanding this list, so that the service is available on Apple TV, Samsung, Panasonic, LG and Sony Smart TVs, with further platforms still to be announced.

We are now well into our planning for Rugby World Cup 2019 and in April announced pricing and other details for the tournament. A Spark Sport tournament pass for RWC2019 will cost \$59.95 if purchased during May, rising to \$79.95 if purchased between June and September, and finally \$89.95 if you leave it to the last minute and buy in the last few days before the tournament. These passes will provide live and on demand access to all 48 matches in the tournament, on a wide range of devices. Twelve matches will be available for free with TVNZ and for Spark Sport free-to-view account holders, including every New Zealand pool and knock-out match. Some of these will be live and some delayed. All the details may be found on our website at sparknz.co.nz/news/Rugby_World_Cup19.

We also have a full Help section on our Spark Sport website (at <https://help.sparksport.co.nz/faqs>) for customers who want a bit of guidance setting themselves up for streaming. This includes some introductory help videos, featuring Scotty Stevenson: <https://help.sparksport.co.nz/getting-started/help-videos>.

The next generation of mobile technology

The deployment of 5G, the next generation of mobile technology, will be crucial for Spark's future growth and a big driver of innovation. We are working towards launching our 5G network by July 2020 at the latest.

One of the challenges we face when talking to our customers and wider New Zealand about 5G is how to explain the benefits the network will deliver when we are still more than a year from launch. That's why in November last year we opened New Zealand's first interactive 5G test lab in Auckland's Wynyard Quarter.

The Spark 5G Lab has a dual purpose. It's primarily designed to be a collaboration space for New Zealand innovators, entrepreneurs and companies like Emirates Team New Zealand to have early access to 5G, so they can test and develop products and experiences that will define the future. The lab will also host technologies that showcase some of the possibilities and benefits of 5G such as robotics, virtual reality, facial recognition, Internet of Things (IoT), smart cities, emergency services drones and driverless cars.

At the opening of the lab we started an official countdown to Spark's proposed 5G network launch date, with Spark stating its goal to have 5G live on Auckland Harbour by 1 July 2020 for Emirates Team New Zealand to use as part of its preparation to defend the America's Cup. Access to the 5G network's reduced latency and higher bandwidth means that through the on-water testing stage the Emirates Team New Zealand designers back at base will be able to get data and analytics in real-time. This will be a big part of their planning and strategy - with scope for 5G technology to truly "help the boat to go faster".

"With 5G our design-thinking can evolve faster, allowing us to explore more design options and buy us more of one of the most precious commodities in the America's Cup - time. This could be a game changer for us," says Dan Bernasconi, Head of Design at Emirates Team New Zealand.

Spark also collaborated with NZ autonomous vehicle company Ohmio Automotion in March to test New Zealand's first 5G-connected driverless car on Auckland streets.

Dr Mahmood Hikmet, Ohmio's Head of Research and Development says, "A 5G network can be up to 100x faster than 4G, which unlocks the true potential for autonomous driving, as messages need to be transmitted and decisions made in real-time. A significant drop in latency - or the reaction time when one device talks to another - will give cars human-like reflexes and opens up multiple possibilities for connected infrastructure and a smart city ecosystem."

We believe this test was only the second of its kind in the world to date.

As we have stated several times over the past few months, our 5G network deployment is contingent on Spark securing additional 5G spectrum, with the frequencies known as C-Band and mmWave the most referenced bands globally when it comes to 5G. We were pleased in February to hear the Minister reaffirm the Government's intention to auction 5G spectrum in early 2020. While we were hoping this auction might have taken place later this year, we remain committed to our launch timeline and to rolling out 5G network capabilities as soon as the necessary spectrum becomes available.

News in brief

Spark launches kids watch that phones home

In November, Spark launched SPACETALK, a kids' all-in-one smartphone, watch and GPS device. The kids watch is designed for children aged 5-12 years who are becoming more independent but are not yet ready for a full functioning, expensive smartphone. The watch is equipped with a wide range of practical features including the ability to stay connected throughout the day via text messages voice messages, calls and interactive emojis.

Mainfreight uses Spark's first IoT Asset Tracking service

Kiwi businesses can now track valuable assets with Spark's new Internet of Things (IoT) Asset Tracking service. The service is already providing New Zealand's largest freight and logistics company, Mainfreight, with crucial real-time data on the segregation bins they use to transport hazardous goods.

Mainfreight's CIO Kevin Drinkwater said before IoT, locating valuable assets was very much a manual process with the team undertaking stock takes around depots and sending reports back to the office. By the time this happened the data was already out of date.

"Now, we see GPS locations of bins mapped to one dashboard and are alerted in real-time when something is where it shouldn't be or has been stationary for too long."

Spark launches the broadband plan that flexes with you

We know broadband customers don't always use the same amount of data each month, so late last year Spark launched the Unplan - which gives you the freedom to use more data when you need to, and savings when you use less data. The plan gives customers three pricing tiers based on actual data usage. You can have as much data as you need for a fixed price, but then also get the benefit of discounted pricing in months when your data usage falls below 60GB or between 60GB and 120GB.

There is also a choice to include entertainment on your broadband plan, with the option of Unplan Entertainment. This plan also has three pricing tiers based on your usage and includes Lightbox for the life of your plan, and Netflix for 6 months.



GET
NZ'S FIRST HOME
BROADBAND PLAN THAT
FLEXES WITH YOU

THE UNPLAN

Every month, Unplan automatically moves you between three price tiers based on your usage: \$65 for less than 60GB, \$75 for between 60GB and 120GB, and \$85 for usage above 120GB. Join Spark's Unplan for 12 months today.

Unlimited on Fibre, restrictions on Wireless.

T&Cs apply. Not available in all areas and eligibility criteria applies. Early termination fee applies. Ask us for more information.

Spark Future Director appointed as Director on New Zealand Post Board

Nagaja Sanatkumar, GM of Global E-commerce at clothing retailer Icebreaker, joined the Spark Board in September 2017 as a Future Director. This appointment was extended in September 2018 for a further six months, until June 2019.

Since her appointment, Nagaja's strong retail, digital and customer experience has been highly valued by the Spark Board. We were therefore delighted that Nagaja has taken the next step in her governance career, having been appointed to the New Zealand Post Board. She began this appointment in March 2019.

Spark Board Chair Justine Smyth said "it's been a privilege working with Nagaja over the past 18-months, she's contributed a huge amount to discussions, sometimes helping us to see a completely different perspective on a particular issue. We are delighted about her appointment to the NZ Post Board and wish her all the best for that role."

The Future Director programme is run by the New Zealand Institute of Directors and aims to give talented people with an interest in corporate governance the opportunity to observe and participate in boardroom discussions for a 12-month period. These aspiring directors attend all board meetings, although they do not have voting rights and are not involved in decision-making.

Nagaja says her role as Future Director at Spark has been a great step in her governance career.

"Sitting on the board of New Zealand's largest digital services company was an incredible experience and opportunity. I learned a lot from accomplished leaders on the Board and management team of Spark and I look forward to bringing this to my new role on the New Zealand Post Board."

With Nagaja's new appointment, her final Spark Board meeting was in April 2019. The Spark Board will consider the appointment of another Future Director in the coming months.

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