



SHAREHOLDER

UPDATE

October 2020



Dear Shareholder

It has been an extraordinary year, with New Zealand – like many parts of the world – facing one of the greatest health and economic challenges of our lifetimes in the COVID-19 pandemic. Never before have our services been so important to New Zealanders, and I am proud of the way Spark people

have met the challenge of keeping New Zealanders connected to friends, family, work and school, while keeping one another safe and healthy.

I am also proud that despite the challenges that materialised in the fourth quarter from COVID-19, Spark has delivered another strong financial and operational performance in FY20 – the final year of our three-year strategy. We delivered EBITDAI in the mid-range of our guidance at \$1,113 million, and returned to top line growth (up 2.5%) after two years of flat revenue. We announced an H2 FY20 total dividend of 12.5c per share, 100% imputed, bringing the total FY20 dividend to 25c per share.

If you haven't already, you can read more about the FY20 result – including the impact of COVID-19 and the way we have supported our customers through these challenges –

in our Annual Report at www.sparknz.co.nz/investors.

Many of you will have seen that our Chair Justine Smyth was made a Companion of the New Zealand Order of Merit for services to governance and women in the Queen's Birthday honours in June. We are very proud to have Justine as our Chair, and Spark has benefitted greatly from her commitment to diversity – with the results in our business speaking for themselves. We are sure you will join us in offering her our sincerest congratulations.

Our country has some significant challenges in the months and years ahead, and Spark is committed to doing our part to help New Zealand adapt and recover from the impact of Covid-19. We would like to thank our shareholders for your ongoing support, and wish you and your whānau good health, and a safe and happy year ahead.

Ngā mihi

Jolie Hodson
Chief Executive

Looking to the future

Spark has changed a lot in the past three years. We have adopted Agile ways of working and continued our transformation from a traditional telco to an end-to-end digital services provider. We ended this financial year with a business that is fit and ready to face the challenges of the future. And in this time of global uncertainty, our company purpose – to help all of New Zealand win big in a digital world – has taken on a new level of importance.

In that context, we are now looking ahead to the next three years. At our Investor Strategy Update on 16 September,

we presented our new strategy through to FY23. The strategy takes what makes Spark different, and a better choice for our customers than our competitors, and builds on it – helping us grow in both our established markets and in future markets.

It also sets out a bold aspiration to create a positive digital future for all of New Zealand – by making sure our business is operating as sustainably as possible, by supporting New Zealand's economic recovery and transformation, and by championing digital equity.

OUR PLAN ON A PAGE

Our Purpose

TO HELP ALL OF
NEW ZEALAND
WIN BIG IN A DIGITAL WORLD

Āwhinatia ngā tangata katoa o Aotearoa
kia matomato te tipu i te ao matihiko.



1 World Class **Capabilities and Culture**

- Simple, intuitive customer experience
- Deep customer insights
- Smart, automated networks
- Growth mindsets

2 Grow **Key Markets**

- Wireless
- Broadband
- Cloud

3 Accelerate **Future Markets**

- IoT
- Digital Health
- Sport

4 A **Positive Digital Future** for all of New Zealand

- Create a Sustainable Spark
- Economic Recovery and Transformation
- Champion Digital Equity

World-class capabilities and culture

The new strategy identifies four core capabilities that will make Spark truly world-class: a simple, intuitive customer experience; deep customer insights; an automated, smart network; and growth mindsets.

We want to deliver a **simple, intuitive customer experience** at all stages of the customer journey - when they join us, as they use our services, and when they need help with something. We've already laid the foundations for this with our investment in digital channels such as the Spark App, our online help centre, and the artificial intelligence we are using throughout the business. Our chatbot - nicknamed Ivy - is now resolving more than half of all customer enquiries coming through online chat without having to redirect the customer to our (human) customer care teams. This means customer enquiries are solved much faster (since Ivy can speak to many people at once) and our team members have more time to serve customers who have more complex problems.

The transition to new technologies and a much simpler plan line-up (with changes such as the closure of our PSTN or public switched telephone network) will help us accelerate this change and continue to improve our chosen measure of customer engagement - NPS (net promoter score). We are also working to further develop a 'unified frontline' - where our customer service and retail teams will have the skills to move between different customer channels depending on where demand lies.

Closely related to this work is our use of **deep customer insights** as the starting point for all our products and services - both in terms of our product development and how we offer them to customers. A great example of this is our Endless mobile plans, where we used data and analytics

to improve our conversion rate by nine times when the plan launched in May, which is significantly above the industry average.

Building **smart, automated networks** is underpinned by sustained investment in infrastructure with the rollout of 5G, the upgrade of our OTN (optical transport network - our fibre backbone), our investment into connecting rural communities through the Rural Connectivity Group (RCG) and our new Converged Communications Network (CCN) - which replaces the PSTN - our legacy phone network. We have also built automation across our network to improve performance and take out the manual work, freeing up our people for more meaningful activities.

Finally, we want all of our people to have a **growth mindset**. In a nutshell, growth mindset is about creating a culture where our people lean into challenges, champion the customer and adapt at pace. With a business full of people with this kind of mindset then we believe there are no limits to what we can achieve for our business and for our customers. Our goals here are to improve engagement, our Agile maturity and our diversity and inclusiveness. We made strong progress during FY20, with our employee NPS up 25 points to +66 and Agile maturity increasing to 90% of our squads at 3 out of 5 or above. We also now have a 50:50 gender split both on our Leadership Squad and our Board and we have made good progress in reducing the company average gender pay gap over the year - although we acknowledge there is still work to do here.

Growing our established markets

Developing these capabilities will give Spark a big advantage when it comes to growing in our established markets of wireless, broadband and cloud services.

Wireless broadband continues to provide a big opportunity, and 5G will allow us to grow the number of customers on this product even further. In November last year we launched our commercial 5G wireless service in parts of the South Island and, with the Government allocating Spark 60GHz of "C-Band" spectrum in July, we are now able to roll this out further. We launched 5G in Palmerston North in late July and will roll the network out to a further five to seven locations by June 2021.

In Broadband we will maintain market share, by using our multi-brand approach to appeal to different segments and differentiating with value-added services.

The arrival of COVID-19 and the subsequent 33-day lockdown helped accelerate a trend amongst our business customers towards cloud services as a way to access new services and collaboration tools - such as those required for remote or flexible working. We've completed an intense 12-month programme of work to integrate our two businesses - CCL and Revera - to create a simpler business model. We have also launched Leaven, our cloud and digital transformation consultancy to give customers an end-to-end service when it comes to moving into the cloud. Leaven sits within CCL and helps organisations make the shift to cloud-based services and the new ways of working they enable.

Accelerating our future markets

We have chosen to focus on three future markets where Spark has a clear competitive advantage and where there is significant potential for growth.

Spark Internet of Things: In March we partnered with Vector to connect a significant number of Vector's New Zealand-based advanced meters to Spark's 4G-supported "CAT

M1" Internet of Things (IoT) network (with the ability to shift on to 5G connectivity as part of a multi-year rollout). While today's networks have limits on the number of simultaneous connections, the capacity and reliability of 5G technology will see it underpin mass deployment of IoT - and so we see a big opportunity in this space. The Internet of Things (IoT) has a critical role to play in supporting New Zealand's adaption to Covid-19 and improving our productivity as a country.

Digital Health: Spark Health has a clear opportunity to support the digital transformation of the New Zealand healthcare sector, which is likely to be a high priority for the Government. Spark Health has relationships across health, biotech, pharma and health insurance and is now the largest provider of cloud services to the New Zealand health sector. We are now looking to accelerate growth further, with the vision that Spark Health will provide a 'one stop shop' for the health sector, demonstrating the interoperable role that ICT, data, cloud, security and network infrastructure must play in the digital future of health for New Zealanders.

Spark Sport: Over the past few years, the sports broadcasting market has been disrupted by new technologies, providing an opportunity for Spark to enter this space. Spark Sport allows us to offer our customers an additional and valued service - differentiating our offers from those of our competitors. We now have a range of sports available on the platform, and in April announced a six-year partnership with New Zealand Cricket as the official production and broadcast partner for all Blackcaps and White Ferns matches played in New Zealand. When COVID-19 hit, major sports bodies were forced to cancel or postpone sporting events. As a result, we offered Spark Sport for no charge from mid-March until the end of June. While COVID-19 created challenges for all broadcasters carrying live sport it also significantly accelerated streaming connectivity in New Zealand homes.

A POSITIVE DIGITAL FUTURE FOR ALL OF NEW ZEALAND

We will work alongside New Zealand to harness the power of technology and create a positive digital future for all.

Create a Sustainable Spark

Be bold in our business to have a positive impact on our communities and the environment.

- Invest in the capabilities of our people, equipping them to thrive in a digital future
- Reduce our footprint and meet our emissions target of -25% by 2025, investing in our fleet and infrastructure
- Be responsible, transparent and accountable for our social and environmental performance

Economic Recovery and Transformation

Help New Zealand transform to a high productivity, low carbon economy.

- Focus our infrastructure investment on supporting NZ's recovery and transformation
- Support Kiwi businesses to adapt to become more productive, resilient and sustainable through technology
- Support New Zealanders to upskill and adapt to new ways of working

Champion Digital Equity

Champion digital equity so all New Zealanders have the opportunity to thrive in a digital future.

- Extend the reach of Skinny Jump to benefit more households – 35,000 by June 2023
- Partner alongside the Spark Foundation to address barriers to digital equity, including access, skills, trust and motivation
- Champion diversity and inclusion in our business and our communities

A positive digital future for all of NZ

Sustainability remains a core focus for our business, and is integrated into our strategy, where we describe our ambition as "a positive digital future for all of New Zealand". Over the past year, we have reviewed and refined our approach to sustainability – taking into account the need for New Zealand to recover and adapt in the context of COVID-19.

Our own sustainability is a focus, so that we can support New Zealand's recovery and economic transformation.

The principle of equity is at the heart of our approach, and we remain committed to working in partnership to make a positive contribution to digital equity and to continue our focus on diversity and inclusion. This sits alongside the work of the Spark Foundation and Te Korowai Tupu – our Māori strategy. We recognise that how we work will be critical and we will work in partnerships based around shared values, underpinned by the principles of kaitiakitanga and manaakitanga.