

# Shareholder Update

October 2015



## Dear Shareholder

Welcome to our second Shareholder Newsletter for 2015.

In August this year we reported on our first financial year trading as Spark New Zealand. The results showed that some important milestones have been reached.

Firstly, another year of terrific execution means we have now returned to modest profit growth after many years of financial decline. Secondly, for the first time, revenue from our traditional fixed business comprised less than 50% of our total revenues. This shows that the nature of our business is continuing to evolve as we become a digital services provider.

While the market remains brutally competitive, our financial results show how we're winning in the market. We're fast closing in on number 1 in mobile, we're leading the race to Cloud and we're powering ahead in key segments like under 35s and Aucklanders.

We believe we are making the right investments. We're nationwide on fibre and 4G, supported by a huge core Optical Transport Network and best-in-class data centre and Cloud computing capability. We've rebuilt our IT stack to put customers at the centre of our architecture. And we've invested in new products like Lightbox TV, Putti apps, Qrious big data analytics and Morepork home security.

Our brands are thriving. Spark's market appeal is much wider than Telecom's was and on almost every measure of customer preference and reputation, the trends are positive. And to support our main brand, we have specialty service brands like Revera, Skinny, Bigpipe and Lightbox, which are all top rated brands in their field.

Spark New Zealand's net earnings after tax from continuing operations for FY15 were up 16%, to \$375 million.

We achieved this profit growth despite a slight decline in operating revenues. While our revenues are growing in mobile and IT services, it's still not yet enough to offset the ongoing decline in legacy services such as fixed voice calling. But by reducing operating costs through initiatives such as the Turnaround Programme, we managed to post an improvement in our bottom line profit.

Mobile connections continued to grow, up 172,000 in the 12 months to 30 June 2015. We have rapidly closed the gap on Vodafone to around 150,000 connections, having been around 600,000 behind them just 2 ½ years ago.

Broadband revenues returned to modest growth in FY15, driven by a focus on higher value plans. Broadband connections increased 1.6% despite intense competition, particularly at the entry-level end of the market.

IT services revenue rose 5.5%, underpinned by our investment in Cloud computing services through Revera and Appserv, and in data centre infrastructure, including new and expanded facilities in main centres.

Our strengthening financial performance has given the Board of Directors confidence to increase the annual dividend payment to shareholders from 17 cents per share in FY14 to 20 cents in FY15 - and the Board anticipates dividend payments in FY16 will total 25 cents. That's a significant increase - and a deserved return for our owners who have kept faith during tough times over recent years.

Three years ago, we set out a long-term plan to turn the old Telecom around. These financial results are an important milestone. Put simply, they confirm that we're on track to deliver the Spark New Zealand turnaround story.

Yet while we are proud of what we have achieved so far, we can never stand still. The rate of change in our world is constantly accelerating - so we need to keep pace. We need to change gears into the second phase of our strategy, which is all about building on the platform we've created and leading New Zealand into the digital future.

That's our ambition, to become a winning business, inspired by customers to unleash the potential in all New Zealanders.

For more details on our full-year financial results, see our investor centre [investors.sparknz.co.nz](http://investors.sparknz.co.nz).

**Simon Moutter**  
Managing Director



## Becoming Digital First

We are now in the digital age, and for most businesses, digital disruption is a reality. Companies who are great at digital services, such as Uber, Amazon, AirBnB and Air New Zealand are winning in the market.

This is why Spark has set up a new strategic programme called Digital First. Led by Anna Curzon, formerly of ASB Bank, the Digital First programme is a group-wide initiative to coordinate and accelerate the many digital initiatives going on across the business.

It is the next step in our strategy to transform Spark, through the delivery of digital services that help unlock possibilities for customers, businesses, and New Zealand itself. It's how we will become a life services platform for New Zealanders at home, work and play.

Digital First is about delivering amazing service experiences that people love so much they want to tell their friends about it. Digital First will fundamentally reshape Spark into a smarter, more agile, more efficient company, with awesome digital experiences at its heart.

The reality is Spark is already on this journey. Many new products or services - like Lightbox and Morepork, were designed with digital customer experiences top of mind.

But it is also about improving existing digital experiences. Over 300,000 people use our customer app each month - so we're constantly looking to improve the app experience for these customers.

We intend to accelerate that process and become better at designing and delivering digital experiences than anyone else in New Zealand. A 'digital first mind-set' will start with the customer and work back to a digital solution.

To become Digital First, Spark will:

- Invest in the talent, strategies and platforms to become world class at digital
- Adopt digital best practise, disruptive mind-sets and above all else, obsess on the customer experience
- Make it easy and rewarding for customers to have a better relationship with us, whatever digital channel they choose to use
- Become the number one employer of choice for top digital talent
- Use information and insights about our customers to drive better relationships

Digital thinking will, over time, influence everything we do in our business including the way we design, develop, serve, price, market and sell. The Digital First programme has already started with apps for customers, investors and staff, however there is a much bigger pipeline of digital initiatives to work on underway.

The staff app has been a great success. We believe it's a first for a large New Zealand business and within just a few weeks more than 20% of our staff are using it - and three quarters of these use it more than 3 times a day.

## Look after the things you love with Morepork

In early August Spark launched its new home security product Morepork.

Morepork is exclusively available to our customers on a Spark broadband plan allowing them to keep an eye on their homes remotely from their smartphones.

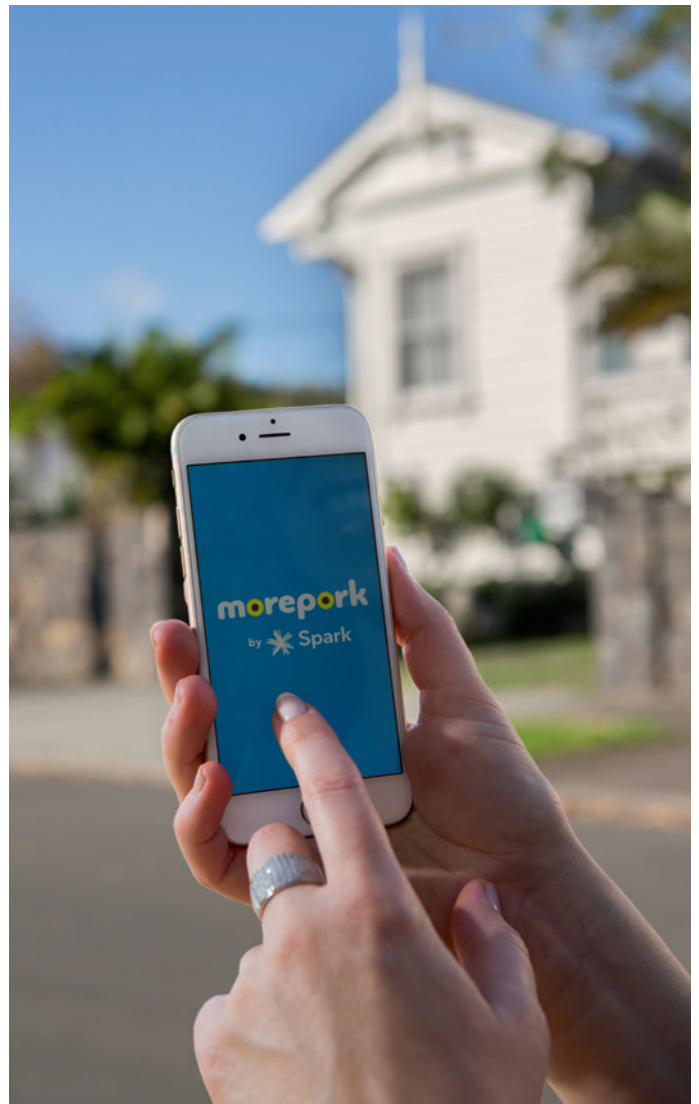
Morepork monitors homes with sensors and cameras connected to the cloud and sends alerts to customers smartphones if it picks up any changes in the house, like movement or windows and doors opening. Morepork can also take a photo or record a video clip for users to view.

Users can 'peek in' at any time via the Morepork app to see live stream video, arm and disarm the alarm remotely, check whether doors and windows are closed and if the teenagers got home from school safely.

General Manager of Smart Living Gemma Croombs says Morepork's an alternative to traditional security and alarm systems and it's just the beginning of our foray into smart living.

"Morepork's the first of a range of smart, useful products we're developing to make life easier for our customers. When it comes to the smart home, customers want awesome tech that's simple to set up. So we've taken the best hardware components and designed Morepork so that it's easily self-installed and users choose where cameras and sensors are positioned to suit their home and the things they want to look after."

Check out more information about Morepork, including how to go about buying it, at [morepork.nz](http://morepork.nz).





## Time to go a Roaming

In August this year we launched new Roaming Data Packs for 16 countries in response to the phenomenal increase seen in the amount of mobile data used by customers travelling overseas.

Over the last three years, there has been a more than 460 percent increase in the total amount of mobile data used by customers travelling to China in an average month, in addition to large increases in data usage throughout Australia.

We launched two Roaming Data Packs that give 1GB of mobile data across one week. The Australia Roaming Data Pack can be purchased for \$39 and the Roaming Data Pack for 'Zone 2' countries (which includes China and 14 other countries) will cost \$49 for one week.

Home, Mobile & Business Chief Executive, Jason Paris says it's no surprise our customers are using their smartphones more while travelling - particularly in China.

"With the NZ-China free trade agreement opening up a raft of new business opportunities between the two countries, we're seeing our customers not only travel more often to China, but the need to stay connected while they are over there is more important than ever before.

"Whether it's responding to emails, talking to their family back home over Facetime or video-conferencing a client elsewhere in the world, mobile data is the thing they need. Our new Roaming Data Packs allow them to do all those things affordably and easily whether they're in Beijing, Sydney, Seoul or New York."

Customers can download Spark's Roaming app or to purchase a pack, customers can go to their Spark My Mobile app or visit [spark.co.nz/roaming](http://spark.co.nz/roaming). Don't forget you can also check out the Tech in a Sec clip for more information about the roaming app and for more tips and tricks on the best ways to stay connected when overseas.

## Fibre Landline

Previously, Spark Ultra Fibre customers who wanted a landline needed two separate connections - one for their fibre broadband service, and the other for their copper landline service. The introduction in May this year of Fibre Landline means Spark can provide broadband and landline services over a single fibre connection.

Spark Fibre Landline works differently from most other voice-over-fibre products because it provides customers with a dedicated 'lane of traffic' for their landline service and another for their data service, all over one fibre connection.

Instead of carrying all our customers' fibre broadband and landline traffic over the top of broadband, we're able to manage and monitor these services separately, promoting better voice quality and improved broadband performance. This is important because it means as fibre becomes available to more New Zealanders, customers with a landline will continue to have a smooth experience making calls even at busy times on the network.

Customers can also choose to use Fibre Landline as a standalone service without a broadband connection - especially helpful to those living in areas such as new sub-divisions and buildings where fixed telecommunications are only available over fibre.

To find out more go to [spark.co.nz](http://spark.co.nz).



## Regional New Zealanders to benefit from greater rural connectivity options

Following nationwide trials, Spark New Zealand officially launched its Rural Wireless Broadband service in July, giving eligible New Zealanders throughout Heartland New Zealand access to a reliable and faster internet service.

Rural Wireless Broadband triallist and Aka Aka Dairy Farmer, Tony Walters says: "Rural Wireless Broadband really has surpassed our most optimistic expectations. The device was easy to set up and within minutes we were good to go, there was no mucking around with installation of an external antenna or any additional set up costs.

"Living in rural New Zealand, you get used to slow internet speeds and it kind of becomes the lay of the land which is pretty frustrating as we're already strapped for time. Spark's Rural Wireless Broadband service has given us internet speeds that we've never had before and best of all we've actually got enough data to take advantage of the service.

"Being able to access the internet faster allows our farm to make better use of the latest apps and online farming tools to do things like store, record and analyse on-farm data. All of this helps us make better, more informed decisions, making sure we can work faster and smarter," said Mr Walters.

As we rapidly expand the 4G network to rural New Zealand over the next few years we expect the number of customers that can access the Rural Wireless Broadband service to increase at that same pace. Spark already has 4G services available in regions, towns, cities and rural locations across New Zealand. We have also delivered 4G services over the 700MHz spectrum to hundreds of mobile sites nationwide and have extensive plans to continue to expand our 4G footprint over the next few years.

## 2015 Annual Meeting

The 2015 Annual Meeting for Spark New Zealand Shareholders will be held in the Conference Centre at Level 2, Spark City, 167 Victoria Street West, Auckland at 10.00am on 6 November 2015.

This year we are offering shareholders the opportunity to attend and participate in the 2015 Annual Meeting via an online platform in a virtual annual meeting trial. By signing up for the virtual annual meeting trial, you will be able to watch the Annual Meeting, vote and ask questions by logging on using your computer from anywhere a broadband connection is available.

Further information, including how to register for the virtual annual meeting trial, can be found in the Important Information section at the back of the Notice of Annual Meeting.

## Protecting yourself

We've recently heard more reports of phone scammers claiming to be from Spark, as well as from other companies. While we have been working with the police, community groups and the media to raise awareness of the risks, keeping safe on the internet and over the phone should always be a top priority.



Here's a quick checklist to help keep yourself safe in an online world.

- Be very cautious about providing personal details - particularly banking or credit card details - to someone who has called you out of the blue. Most businesses (Spark included) would never do this.
- If you have concerns about the legitimacy of a call, hang up and phone the organisation back on the number listed on their official website, or in the telephone book.
- Don't click on suspicious links in emails.
- Don't use the same password for your online banking, your email and your social media accounts.
- Change your passwords regularly and don't go back to old passwords, always set up and use a new one.
- Keep your software and anti-virus programmes up to date.
- Recognise when it's too good to be true - for example lottery win notifications.
- If you believe you have been victim of a scam, contact your bank immediately.

To find out more about Spark products and services, visit [spark.co.nz](http://spark.co.nz) or visit your nearest store.

We welcome any feedback, which you can provide via email to [investor-info@spark.co.nz](mailto:investor-info@spark.co.nz)

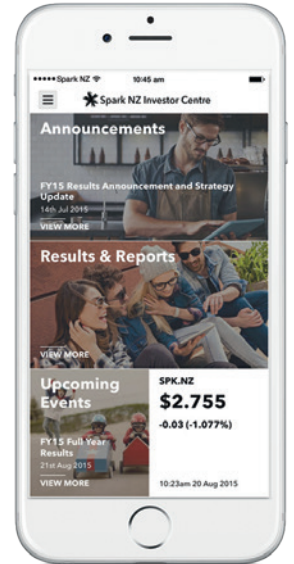
## Download the Spark Investor Centre App

There's now an Android and iOS smartphone app for everyone who has shares in Spark New Zealand - and it's available now. Built as part of our Digital First programme, the Spark Investor Centre app is a great way to stay up to date with what is going on at Spark New Zealand.

The app is a one stop shop for anyone who is interested in Spark New Zealand. Using the app, shareholders can stay up to date with company announcements, results and reporting dates and access share price information, annual reports, investor presentations and dividend information. It's more proof that we're a truly digitally focused company committed to helping New Zealanders do more with technology.

### To get the app:

- Search in the Google Play or Apple store for "Spark Investor Centre"
- Download and install the app
- Open it! There's no login required.



## 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.

### NZX registered holders:

Go to [linkmarketservices.co.nz](http://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.

### ASX registered holders:

Go to [linkmarketservices.com.au](http://linkmarketservices.com.au) and 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.

