



Shareholder Update

October 2016



Dear Shareholder

It's been another incredibly busy period for Spark. The financial results for the year ended 30 June 2016 demonstrated the company is continuing to perform well as we move into the next phase of our ongoing business transformation.

The growing parts of our business (mobile and platform IT) are now

bigger than the declining parts (fixed line voice and legacy data). This is a real turning point for us and reinforces the moves we have been making to reposition the company.

Total revenues of \$3.497 billion were down just a bit, however after adjusting for the impact of prior year business sales, changes to Chorus charges, and acquisitions this year, the total operating revenues and other gains were actually up 2.5% on a like-for-like basis.

Earnings before interest, income tax, depreciation and amortisation (EBITDA) were up 2.5% to \$986 million and net earnings before income tax increased by 6.2% to \$512 million - after income tax it was down slightly because the tax we paid was up quite a bit to \$142 million.

Our performance in some exceptionally competitive markets has been excellent. We are clearly winning in the mobile market. Spark has clinched the leading market share in mobile revenue this year, achieving \$1.134 billion revenues for FY16, up 11.3% for the full year, compared with Vodafone's recently published estimate of \$1.065 billion in revenues.

In broadband, our focus on higher-value plans and adding customer value through digital services, such as Lightbox and smart living solution Morepork, has helped a 5.4% growth in revenues. There has also been excellent growth in IT services revenue, up 11.1%.

In media, while we're generally supportive of market consolidation where it leads to better outcomes for consumers, Sky's monopoly in premium sports content - and the lack of a viable and credible wholesale market that provides better online, on-demand choices for New Zealanders to watch their sports - is a key concern.

We believe a merged Sky/Vodafone will be able to leverage its monopoly power in the sports content market, to the detriment of consumers. We have therefore opposed the merger in its current form in our submission to the Commerce Commission.

Our most immediate issue though is customers experiencing unacceptable delays when contacting our call centres. While supply constraints and visibility of fault restorations are beyond the control

of ISPs like Spark, we do not shy away from the fact that, as their digital service provider, we are responsible for the experiences of our customers.

This is our highest priority right now and we are moving fast on a number of fronts. While we still have a long way to go, wait time performance has been improving markedly in recent weeks as a result of the work we've done to date.

In June 2016 Spark completed a four-year, \$238 million Re-engineering Programme. The programme saw 52 legacy IT systems retired, 41 systems consolidated and over 100 million customer inventory records migrated. Completed on time and on budget, it lays the platform for the delivery of excellent digital customer services.

The next phase of our strategy is concentrated on delivering market-leading customer experiences, which will underpin the development of a competitive, sustainable and well-led business with a strong financial performance and capital foundation.

We will also continue our commitment to New Zealand's future. We're investing in New Zealand innovation through our Spark Ventures team and through our support of a wide range of start-up sector programmes. And we continue to invest in our nation's future through the Spark Foundation and through our support of community initiatives, especially in technology education for young New Zealanders.

In May this year, I led a delegation over 50 New Zealanders to Israel to study their highly successful innovation eco-system and to consider ways that New Zealand can accelerate its own economic performance on the back of more innovation and entrepreneurship. It's early days but the delegation has agreed to tackle some specific actions that we believe can help make a difference.

The reason for all of this investment in New Zealand's future is simple. Digital technology can make a significant and positive impact on our nation's social and economic wellbeing. It can enable Kiwi companies to compete - and win - on the world stage. That's why we're passionate about using technology to be truly useful to our customers, helping make our country better and enriching the lives of all New Zealanders. And if we help New Zealanders and New Zealand businesses succeed, Spark will also succeed.

For more details on our full-year financial results, see our investor centre investors.sparknz.co.nz.

Simon Moutter
Managing Director

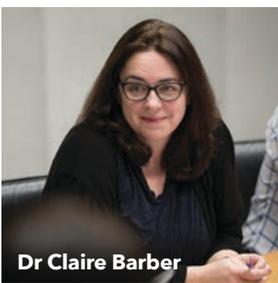
Leadership and Governance for the future

There's been a number of changes made to our Board of Directors and to our Leadership Team of late as we continue to gear up for the future.



Mark Beder

Mark Beder, is our new Chief Operating Officer and leads Spark Connect, which designs, builds, and maintains Spark's core networks, IT and physical infrastructure, including property and data centres. Mark is responsible for building the best network experience and optimising the huge investments in data networks, mobile, and IT to set Spark up for success and growth, and enable New Zealand's digital future.



Dr Claire Barber

Dr Claire Barber is the new Chief Digital Officer, and leads Spark Platforms, a new business unit that develops best-practice digital platforms. A key partner to Spark Home, Mobile and Business, Spark Digital and Spark Ventures, and drawing on expertise from across the company, Spark Platforms is responsible for ensuring that our products and services are truly digital and that our customers' needs are at the centre of everything we do.



David Havercroft

David Havercroft, has taken on the role of Chief Transformation Officer to help oversee all the moving parts of the next phase of our strategic transformation.



Jolie Hodson

From 3 October **Jolie Hodson** will be taking over the reins from the departing Tim Miles as the new CEO of Spark Digital. **David Chalmers** is joining Spark on 17 October as the new Chief Financial Officer. David was most recently Chief Financial Officer for Mediaworks where he was also interim Chief Executive Officer.

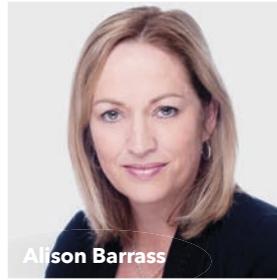


David Chalmers

And from 1 October **Ed Hyde** is replacing the departing Rod Snodgrass as CEO of Spark Ventures. Like Claire and Mark, Ed is an internal promotion, reflecting both a commitment to building capabilities for future growth, recognition of our rising talent and sound succession planning. Ed has been instrumental in the success of Spark Ventures to date, helping Rod build the Venture portfolio via a number of key roles, most recently as CEO of Qrious, our fast-growing data analytics business.



Ed Hyde



Alison Barrass



Alison Gerry

On the ongoing Board succession front Spark New Zealand has appointed two new directors, **Alison Barrass** and **Alison Gerry**. Alison Barrass brings with her a strong background in marketing-led innovation and brand development, while Alison Gerry has extensive Governance experience, currently serving on a number of Boards of outstanding New Zealand organisations.

Spark partners with Kiwi company to bring email home

Spark announced in September this year it will be moving its Xtra email service to New Zealand-owned email provider, SMX.

Spark will progressively move Xtra customers to the new email platform over a three month period from January next year. We will be communicating directly with customers to let them know about the changes and what to expect over the coming months.

Most importantly, it means Xtra email customers will be able to retain their existing email addresses.

Spark Home, Mobile and Business CEO, Jason Paris says that its decision to partner with Auckland-based SMX is great news for customers and for New Zealand business.

"Our customers tell us that their email service, including their @xtra.co.nz email address, is critically important to them. After a positive nine year relationship with Yahoo, we have decided to transition our email service to SMX, a New Zealand based provider. We know that email is a critically important service to our customers and we are dedicated to making this transition as seamless as possible for our users."

Mr Paris says the company is pleased to be partnering with a stand-out New Zealand company.

"SMX is one of the leading cloud email providers in New Zealand and we are confident in their ability to bring customers' email data back home, safely and securely. Partnering with SMX will allow us to move all of our customers' valuable email data back to New Zealand and host it locally in our own state-of-the-art Takanini data centre.

Spark says it is doing everything it can to ensure minimal disruption to customers' Xtra email service in the next few months as the company will carry out a significant amount of work behind the scenes to ensure the migration runs as smoothly as possible.

Founded in 2006, SMX is a New Zealand-owned cloud email technology company. Shareholders include Trade Me founder Sam Morgan and The Warehouse founder Sir Stephen Tindall. More than sixty percent of New Zealand government departments use SMX for their email security. As the key cloud email security component in Fujitsu's cloud service platform, SMX is growing strongly in Australia. A rapidly expanding area of SMX's business is the provision of cloud email messaging platforms, such as that developed for Spark's business email and Xtra Mail customers.

'Spark Pay' raises prospects for entry-level employees

Spark has made a commitment to a higher wage economy by introducing a benchmark that ensures all staff are paid a competitive salary well above minimum pay levels. The company's new 'Spark Pay' scheme will ensure that all non-commission based employees at entry level will earn at least \$40,000 starting salary plus company benefits. In addition to their salary staff receive a generous monthly Spark credit, and life, income and trauma insurance, which equates to just under \$3000 annually.

Spark's General Manager of HR Danielle George says Spark has been working towards this solution for a while to ensure the company attracts the best talent to serve its customers.

"As a company we have revised our entire value proposition, exploring how we can best deliver meaningful benefits such as life insurance and product credits, offering our employees incentives that will meet the needs of a very diverse workforce.

"We've looked at what other companies have done and then developed a benchmark scheme that works for us. We believe it's vitally important that our people are paid at a level which recognises the complexity of our industry, yet is sustainable for us to remain competitive. As one of New Zealand's larger employers our emphasis is on ensuring we are setting the standard for others to follow, and influencing the best people to consider a career with Spark."

Danielle continues, "This is about being a responsible employer, Spark has always paid above the minimum wage to ensure that we attract the top talent, then worked to develop them into higher paid roles. We realise that we have more to do, this is just a start in helping transform New Zealand into a higher wage economy."

Entry-level commission based employees such as those in retail stores can expect to receive an average of approx. \$46k after 12 months - more if they outperform their targets - plus almost \$3000 in company benefits.

Spark currently employs more than 5000 full and part-time staff and spends about a fifth of its operating costs on labour expenses. While Spark has always paid above the minimum wage the new Spark Pay policy has benefited over 250 employees who received pay increases to bring them up to the new target.



2016 Annual Meeting

The 2016 Annual Meeting for Spark New Zealand will be held in the Conference Centre at Level 2, Spark City, 167 Victoria Street West, Auckland at 10am, Friday 4 November 2016 (New Zealand Time).

Shareholders are able to attend the Annual Meeting in person or alternatively, attend virtually via an online portal from anywhere a broadband connection is available. This may be attractive particularly to those shareholders who do not reside in Auckland. Shareholders that opt to attend virtually will be able to watch the Annual Meeting, vote and ask questions during the Annual Meeting via the online portal.

Spark New Zealand's Virtual Annual Meeting portal can be found at virtualmeeting.co.nz/spark2016. Further information, including how to register for the Virtual Annual Meeting, can be found in the Notice of Annual Meeting.



100 Rural Broadband sites

In August 2016 Spark switched on its 100th Rural Broadband Initiative (RBI) cell site, expanding 3G and 4G mobile coverage to the Reikorangi area.

One of Spark's main aims is to improve access to mobile coverage across regional New Zealand, and the Government's RBI programme has been key to quickly growing the network across rural areas. Spark has located its equipment on all the Government's RBI sites where it didn't already have mobile coverage, and has plans to co-locate on a further 16 RBI sites by the end of 2016, taking the total to 116.

Reikorangi, a small town nestled in the Akatarawa Valley of the Tararua Ranges has previously experienced poor mobile coverage. Now, residents and visitors to the small town on the Kapiti Coast can do now more things in more places with their mobile devices, after the recent investment by Spark in new infrastructure needed to improve access to mobile services.

General Manager of Networks for Spark, Colin Brown says the vastly improved mobile coverage in Reikorangi will give locals better and faster access to mobile services, helping them to stay connected with family, friends and colleagues.

"We're excited that Reikorangi is now home to Spark's 100th RBI site, connecting the area to the rest of the country. 4G means that it will be even easier for people to share, upload and download content faster and more reliably than ever before" said Mr Brown.

Spark's 4G coverage in Reikorangi utilises the 700MHz radio spectrum, which means customers who have previously experienced slow internet speeds on a fixed copper line may now be able to sign up to Spark's Wireless Broadband service.

"4G on the 700MHz spectrum is ideal for the rural areas of New Zealand, as the signal can travel further from the cell site than other frequencies. Our Wireless Broadband product uses the 4G mobile network and allows customers fast, reliable and affordable internet access. This is key for people who currently lack access to an adequate fixed internet service," said Mr Brown.



Spark amps up its mobile plans for customers

Spark is now giving new and existing pay monthly customers up to 60% more mobile data, launching new data heavy plans in early September and including Spotify Premium (music streaming) and Lightbox (TV online) in most of its plans, in response to the changing way that New Zealanders are using their mobiles.

Clive Ormerod, GM of Customer & Marketing for Spark explains, "New Zealanders are using their mobiles more and more for data intensive activities such as listening to music, watching video and engaging in social media. So we're including much more data for our pay monthly customers at no extra cost to them. We want our customers to know that they can rely on Spark to help them stay connected, entertained and get things done on the go."

"To make sure that gamers, cat video watchers and those who continually check out the surf webcam can relax in the knowledge that their data usage is covered, we are also launching new data heavy plans, including a \$99.99 open plan packed with 15GB of data."

Spark adds Lightbox and extends Spotify Premium to enhance the value of its plans

Spark's packing in even more value, by including Lightbox (worth \$12.99 per 30 days) in all its pay monthly consumer mobile plans at no extra cost. With a stellar line up of TV content, including binge-worthy shows like Outlander, Suits and Mr. Robot, the addition of Lightbox to pay monthly mobile plans will be a major bonus for Spark's new and existing customers.

Hundreds of thousands of New Zealanders use Spotify every day to listen to their favourite tracks. From today, customers on Spark's \$39.99 mobile plan will receive access to Spotify Premium (worth \$12.99 per month) at no extra cost. This extends Spark's existing offer of Spotify Premium to all new pay monthly plans. And as part of Spark's ongoing partnership with Spotify, business customers now also receive access to Spotify Premium on selected business plans.

Ormerod explains, "Our usage data shows there's a growing appetite for entertainment on mobile. Customers are accessing a range of media on their mobiles, including streaming Spotify Premium on the go, and watching TV with Lightbox while connected to WiFi. We want Spark to be the company that helps them open up this world of entertainment through their mobile."

More for Spark pay monthly mobile customers

Spark says the increase in data and extras is about bringing its customers technology that can enable their lives at home, at work and on the go.

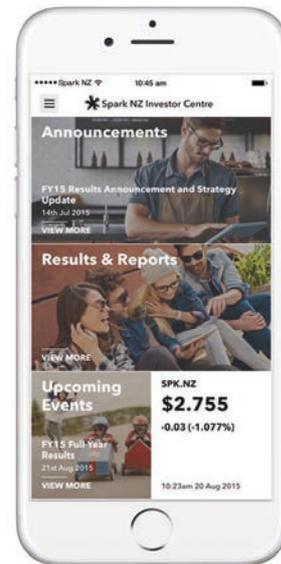
Download the Spark Investor Centre App

There's now an Android and iOS smartphone app for everyone who has shares in Spark New Zealand – and it's available now. 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 has invested 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.

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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