

Spark<sup>nz</sup>

Spark ARENA



**SHAREHOLDER**

**UPDATE**

October 2017

# A LITTLE MUSIC CAN TAKE YOU BACK

Creating memories that last forever by getting you closer to the music.

**LITTLE CAN BE HUGE**



## Dear Shareholder

In August 2017, we were very pleased to announce that our financial results for FY17 met the guidance we'd provided the market, despite the fierce competition we face. We achieved this result by making some big calls over the year, which all had a laser focus on the customer experience - including giving customers the option of

moving to newer technologies like wireless broadband and fibre, moving Xtra email to a NZ-based provider, and putting significant resources into improving the Spark HMB customer experience and winning new Spark Digital customers.

Total revenues were up 3.3% to \$3.614 billion for the year, driven by strong revenue growth in IT services (up 19.0%) and mobile (up 5.6%). Earnings before interest, tax and depreciation (EBITDA) were up 3.0% to \$1.016 billion, and overall net earnings were up 13.0% to \$418 million. FY17 revenues, EBITDA and net earnings include a \$20 million gain from the sale of surplus land at Mayoral Drive.

Our Upgrade New Zealand programme, to move customers from legacy copper to fast fibre and wireless broadband, has charged ahead. Wireless connections have grown to 84,000 (up 72,000) and fibre connections to 172,000 (up 73,000). The combination of moving customers off copper where they are having a poor experience and investing heavily in our customer care channels has seen a marked improvement in customer service metrics.

We've also given customers more reasons to be with Spark. At the consumer level, we signed partnerships with Netflix and Spark Arena, to complement our Spotify and Lightbox offerings; and at the larger end of town, Spark Digital saw strong take-up of the telecommunications-as-a-service offer to government, which is helping to make public services more customer-centric.

On the network side, we began decommissioning the PSTN network - which we are replacing with next generation IP technology, and we pushed forward with 4.5G to provide better mobile and wireless broadband services. The Spark Ventures and Wholesale team continues its strategy of acquire, partner and build activities. Over the financial year, it expanded its portfolio with the purchase of Ubiquity and investments in Mycare and homes.co.nz.

We can rightfully be proud of the progress Spark has made, but we must also be realistic about the challenges ahead. While Spark is performing well compared to our competitors, we're in an industry where it is tough to grow profitably, and there is a trend towards commoditisation.

As technology becomes more complex, customers also look to us to make it simple for them, and they understandably have little tolerance if our processes are complicated or difficult, or if services are unreliable. While we now have 37% of our broadband customers on new technologies, we still have a long way to go to give all our customers better services. And we must continue to build on our vastly improved customer service levels by making it easier for customers to solve problems without having to call us.

At our Investor Day on 30 June we announced three new areas of focus for the business, which directly address these challenges.

First, we will emphasise wireless services over fixed, and prioritise investments in our mobile network. We know there is a growing appetite for wireless technologies and the service experience they offer, and we will use the improved speed and capacity advantages offered by 4.5G (and, in the future, 5G) to deliver a better service.

Second, we will make our brands work harder to serve all customer segments, especially price sensitive customers looking for the best deal. We know there is a growing segment of the market who want the basics done well with no frills, and we intend to leverage Skinny and other brands to meet the needs of this segment.

Lastly, we will lower our operating costs and enhance customer experiences through radically simplified products and services, and take automation and digitisation to new levels. This will not be at the expense of service quality - in fact the opposite is the case, as in most cases automation and digitisation will enhance the customer experience. For example, during the year we successfully introduced Tinkerbot, an automated machine-learning fault diagnostic robot, which monitors our network looking for patterns that indicate common faults and then reports them - reducing the need for customers to call us and report a fault.

Despite the headwinds we face, Spark is in a great position to succeed in the digital era. We've invested in all the right areas and we are embracing the rapid change in technologies as we seek better outcomes for our customers and to stay ahead of competitors. We will continue to accelerate change and to focus on where we can be truly useful and deliver for our customers.

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

A handwritten signature in black ink, appearing to read 'Simon Moutter', written over a light blue horizontal line.

**Simon Moutter**  
Managing Director

## Changes to Chair and Board



Justine Smyth

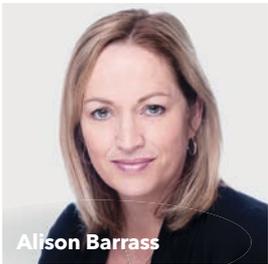
Alongside our results, we also announced that our Chair, Mark Verbiest, will retire in November this year. Mark has led the Board since 2011, making an enormous contribution to Spark and guiding the company through a period of massive transformation.

Justine Smyth will succeed Mark as Board Chair at the end of our Annual Meeting of shareholders on 3 November. Justine has been a Director of Spark since 2011 and is currently chair of both Spark's Audit & Risk Committee and the Human Resources and Compensation Committee. She will become the first ever woman to Chair Spark, and will be one of only two women to chair a top 20 New Zealand listed company.



Alison Gerry

We also announced three further changes to the Board: Justine will succeed Mark as Chair of the Nominations & Corporate Governance Committee, Alison Gerry will succeed Justine as the Chair of the Audit & Risk Management Committee, and Alison Barrass will succeed Justine as the Chair of the Human Resources & Compensation Committee. This means that from 3 November the three most senior positions on the Spark Board will be occupied by women, and 3 out of our 7 independent Directors will be female.



Alison Barrass

The Board will commence recruitment for a new director in due course and will take the time to ensure the right person with the right set of skills is found.

## Upgrading New Zealand update

Our Upgrade New Zealand programme is about moving customers off legacy copper and on to newer and more reliable technologies like fibre and wireless broadband.

In our last Shareholder Newsletter we said we were targeting 50,000 wireless broadband connections by June 2017. We are delighted to have truly exceeded this target, with 84,000 connections as at the end of the 2017 financial year. This is testament not only to the reliability and ease of the wireless product, but also to the dissatisfaction many of our customers feel with their copper connection. In the past 12 months, we have logged around 279,000 copper faults with Chorus, and the average time to resolve these faults was more than 30 hours. Wireless broadband provides a viable alternative to copper for customers who are low-to-medium data users living in an area with good 4G coverage. Our research shows customers on wireless broadband are more satisfied with the product than copper on all measures, including speed.

We have also made a big push for more fibre connections over the year, with our fibre numbers increasing by 73,000 to 172,000. Fibre is our default option for customers if it is already installed in the home, and we recommend it to medium-to-high data users and people who need a fast connection for gaming and other data-intensive activities.

Our aspiration by 2020 is to have at least 85% of our customer base on new technologies, with 20-25% of our base on wireless broadband and a further 60-65% on fibre. We expect this will significantly improve the experience our broadband customers have with us.

**NZ'S**  
**UNBEATABLE**  
**UNLIMITED**  
**MOBILE PLAN**  
**\$79.99**

Now there's no stopping you NZ. Unlimited Data + Talk + Text + Spotify and Lightbox on us, only \$79.99 per month.

Max speeds reduced after 22GB. No tethering or hotspots. Standard NZ and Aus numbers.

Spotify, Lightbox and Spark terms apply. Limited time offer.

**Spark leads the way with unlimited mobile plan**

Spark has recently launched a market-leading unlimited mobile plan, which we believe will give our customers a compelling reason to increase their spend with us by moving up from lower-value plans.

For \$79.99, Spark is offering unlimited mobile data, texts and minutes, with Spotify and Lightbox included. We believe this is one of the best value unlimited plans in the world.

Kiwi customers have been calling for an unlimited data plan at an accessible price for some time. Such plans are very popular overseas, with the latest US consumer research showing 28% of US customers are now on unlimited plans. And the response to our plan so far has been very positive.

Mobile data use has risen exponentially on the Spark mobile network, more than tripling over the past year. We now recognize that data is a necessity for many of our customers, and we want to remove any anxiety they might feel about hitting their cap.

There are some restrictions on the plan. It can't be used for tethering or hot-spotting and we will slow maximum speeds after customers have used 22GB of data in a month - although on the slower speed they will still be able to do most of what they want to online, such as browsing the net, using social media, listening to music and streaming video (at a medium quality).

We've been able to launch this plan because of the major investment we've made in the mobile network over the past three years, which has given us a significant uplift in capacity.



## Being a good corporate citizen

Spark aims to unleash the potential in all New Zealanders. To realise this ambition, we must be a good corporate citizen, which means doing the right thing by our people and customers.

For the past two years, we have given a detailed account of how we will ensure the sustainability of our business and contribute to the wellbeing of the wider community by publishing a comprehensive Environmental, Social and Governance (ESG) report. This includes robust measures and targets around long-term growth and business sustainability; how we're cultivating a workplace of diverse and engaged people; how the Spark Foundation is encouraging generosity and unleashing potential through digital learning; how we are enabling environmentally sustainable choices through ICT; and how we're applying best practice governance and risk management.

This year we have also introduced our Supplier Code of Conduct, which we will implement in the coming year to ensure sustainability through our supply chain.

We were particularly pleased during the year to become the first company in New Zealand's telecommunications sector to receive Rainbow Tick certification. Rainbow Tick is a continuous quality improvement programme, which helps an organisation ensure it is an inclusive workplace for people of diverse gender identity and sexual orientation. Spark achieved the accreditation within nine months, following the positive engagement that resulted from our first corporate entry in a Pride parade. There is more work to be done in this area but the achievement demonstrates the willingness of Spark's people to create a strong culture of inclusiveness where it's easier for everyone to bring their whole selves to work.



The full ESG report is available on Spark's Investor Centre at [investors.sparknz.co.nz](http://investors.sparknz.co.nz)

## RBI2 Announcement

We were delighted to find out in August that the Rural Connectivity Group, our joint venture with Vodafone and 2Degrees, has been awarded funding by the government to deliver better broadband and mobile services to tens of thousands of Kiwis living in regional and rural areas, under the RBI2 (Rural Broadband Initiative 2) and the Mobile Black Spot Fund (MBSF).

The Rural Connectivity Group has secured between \$150 million and \$250 million of funding from the Government to help deliver improved broadband to New Zealanders through the use of mobile technologies. This will see us build at least 400 new cell sites to deliver services to a minimum of 30,000 homes and businesses. We will get mobile coverage to a further 1,000+ kilometres of state highways and more than 100 popular tourist sites.

RBI is a set of infrastructure deployment programmes designed to address the broadband needs of rural New Zealand. MBSF was set up to improve the availability of mobile services to support safety on state highways and enhance visitor experience at key tourist destinations, which do not currently have coverage from any mobile operator.

Exact locations for new cell sites are still being determined, and will be subject to factors such as obtaining appropriate land and consents, however there are indicative maps at [crownfibre.govt.nz](http://crownfibre.govt.nz).

We expect the rollout of this project to be complete by 2022, with the start date to be announced shortly.

## 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](http://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](http://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](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)



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