Shareholder Update

April 2016

Spark New Zealand

Dear Shareholder

Welcome to our first Shareholder Newsletter for 2016.

Each day, more and more New Zealanders are choosing Spark. And we're working harder than ever to help make their lives just a little better, every day. That is in turn leading to improved financial performance.

On 18 February 2016 we announced our financial results for the six months to 31 December 2015.

Notably, for the first time in many years, mobile and IT services revenue growth, excluding divestments and regulatory changes, has more than offset the ongoing decline in landline voice and legacy data products, demonstrating a successful rebalancing of the company's focus.

We've established an outstanding network and digital services platform. We have improved our executional capability and our focus on understanding customer needs. We've got stronger and more relevant brands. This is all making us a more agile, more competitive and more resilient business, with a greater capacity to create options for the future.

Total operating revenue and other gains decreased by 4.1% to $1,723 million in H1 FY16. After re-basing for changes arising from earlier divestments, changes to the way regulated access charges for Spark Wholesale are billed and the acquisition of the CCL Group, the underlying total operating revenues and other gains have increased by $27 million, or 1.6%.

The return in FY15 to earnings before interest, tax expense, depreciation and amortisation (EBITDA) growth was reinforced in H1 FY16, with EBITDA up 4.4% to $455 million, while net earnings were up 7.5% to $158 million.

The performance in mobile has been particularly strong, with a focus on driving value rather than connections continuing to lift mobile revenue. Our value-add and multi-brand strategies have helped differentiate us from the competition.

In broadband, Spark is focused on holding its market share in the higher-value end of the market. But work is needed to shore up a decline in share in lower value segments, with aggressive price-based competition fuelling high rates of churn across the industry.

Demand for fibre is booming, with Spark performing well in acquiring new orders. However, a poor industry-wide fibre provisioning process is impacting customers, driving an increase in complex queries involving multiple parties and placing pressure across our contact centres. A dedicated effort on a number of fronts is underway to improve the customer experience.

The half-year saw the lengthy Commerce Commission process to determine the regulated charge for access to the copper network finally draw to a close, with material fluctuations between the draft determinations in 2014 and 2015 and the final determination in December 2015. This unfortunately has led to unexpected and significant increases to the costs to ISPs, and in turn, to retail prices for our customers.

Our Cloud and data centres strategy execution was highlighted by an excellent performance from Revera, and reinforced by the acquisition of South Island CCL Group in December 2015.

For shareholders, the Board's intention is to pay an annual ordinary dividend of 22 cents per share and a special dividend of 3 cents per share, subject to no material change in outlook. We anticipate that special dividends could continue into FY17 subject to no significant business changes.

We're looking forward to the rest of the FY16 year. Technology will have an increasingly powerful role to play for our country, and Spark New Zealand is absolutely committed to enabling New Zealanders and New Zealand businesses make the most of it.

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

Simon Moutter
Managing Director

Survey shows older New Zealanders just as tech smart as youngsters

Run a Google image search of 'older people and technology' and the results are riddled with a recurring theme – grey hair, confused expressions and short sentences brutally encapsulating why, apparently, old people and technology don't mix.

There's no mystery around what the 'internet' thinks about older adults and technology, but what's the situation really like? Spark joined with social website GrownUps to find out. Unsurprisingly, they discovered the memes are wildly off the mark.

The survey, which ran during November and December 2015 on the GrownUps website, was completed by 1,500 people over the age of 55. Over 70 percent of respondents said they felt confident or very confident using technology, compared with only two percent who said they lacked confidence. The survey also discovered a very high rate of internet use amongst this group, with 90 percent saying they go online several times a day.

The majority of survey respondents were 55 and above – a generation that has lived through an age of reinvention, and is known for redefining social values. We're now seeing them completely redefine what it means to grow old.

Technology, it seems, is helping them do that. Based on the survey results, more than 90% are using the internet to find information – learning new things on new devices and totally disproving the out-dated adage, "you can't teach an old dog new tricks."

Many are also using the internet to keep in touch (84%) and to socialise (67%), with Facebook overwhelmingly the most popular social platform. And they're not just doing all this on a desktop computer, half are doing it on a smart phone or tablet.

So if the memes are all wrong and the adages aren't holding up, what do older adults picture when they think about themselves and technology? Here's what they had to say:

From a 65–69 year old: "I have instant access to the answers to questions via Google. I was able to repair my "unrepairable" camera, I was able to fix a problem with my car's computer… I was lost in an industrial area of Dublin and, using Google maps, was able to discover where I was and how to navigate to Belfast."

A 70-79 year old said that with technology it's "much easier to be in contact virtually anywhere, to access the Internet on the move, to stream music and use Google maps to be directed to places. My PS3 enables me to stream music and movies via Spotify and Netflix. I also use a Kobo reader to download books."

These results paint a picture of active, ingenious, sharp-minded individuals who aren't slowing down but, rather, are just getting started – and they're doing it with technology.

Together with GrownUps, Spark has selected five tech-savvy seniors to form The Age Hackers – a group of over-60s charged with challenging stereotypes in this space by showing how they use technology in their daily lives, and encouraging people of all ages to do the same.

For more information see **grownups.co.nz/agehackers**

Just $20.75 a month for a Morepork Security Starter Kit

With the home DIY season in full swing we're working to make our smart home security product Morepork more accessible for all New Zealanders. Based on feedback from people at Spark and the frontline team talking to customers, we've made it even easier to get set up with a Morepork Security Starter Kit. Now you can split the entire cost of the kit over 24 months to pay just $20.75 a month.

If it suits you better you can still pay the entire kit cost upfront ($498) instead. While subscription to a monthly Morepork plan is required there's still no term contract with either option. Visit **morepork.nz** to sign up.

Terms and conditions: Broadband, Spark mobile coverage and compatible smartphone required. Subscription to a monthly Morepork plan at the standard price required. Morepork terms and charges apply. Any outstanding deferred payments become payable immediately if your plan ends.
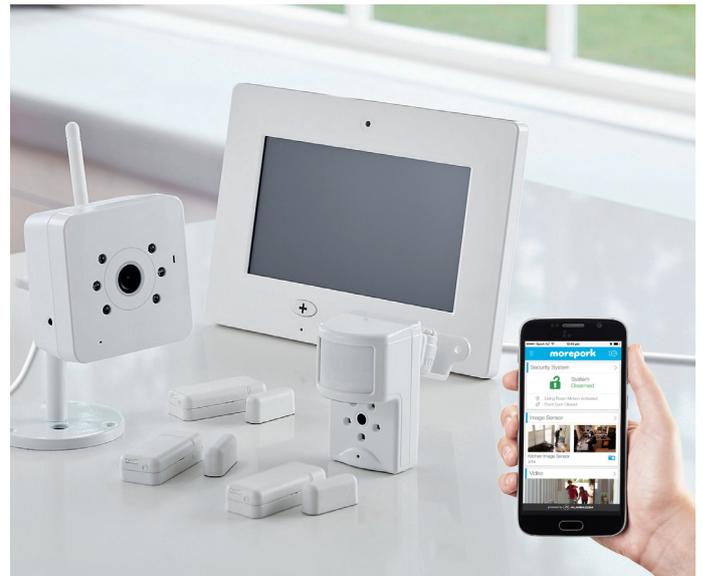
Spark acquires CCL and boosts its Cloud services capabilities

In December 2015, Spark signed an agreement to acquire privately-owned South Island based IT infrastructure and professional services company Computer Concepts Limited (CCL) for $50 million.

The acquisition adds further momentum to the growth strategies of Spark Digital and CCL, improving their capabilities, expanding their market reach and deepening the Spark New Zealand Group's Cloud and platform IT services offer.

Our strategy is to better enable our customers to succeed in a digital world, and Cloud is an integral part of that. This acquisition builds on the earlier purchases of Revera and Appserv, and with CCL now in our group we are better positioned to assist New Zealand businesses.

Founded in 1990, CCL provides innovative, engineering-powered ICT solutions to a variety of clients, from some of New Zealand's largest and most complex organisations, to smaller innovative local businesses. CCL is flexible, fast and experienced. It prides itself on building quality services, designed and deployed by some of New Zealand's most passionate and experienced engineers.

The CCL brand will be retained and CCL will continue to run as a standalone business, in the same way that Revera does – which has proven to be a very successful model for Revera staff and customers. Ultimately, this is a good move for Spark Digital and for CCL, and more importantly, for the clients of both companies. Spark New Zealand's acquisition of CCL supports our ambition to unleash the potential of all New Zealand businesses.
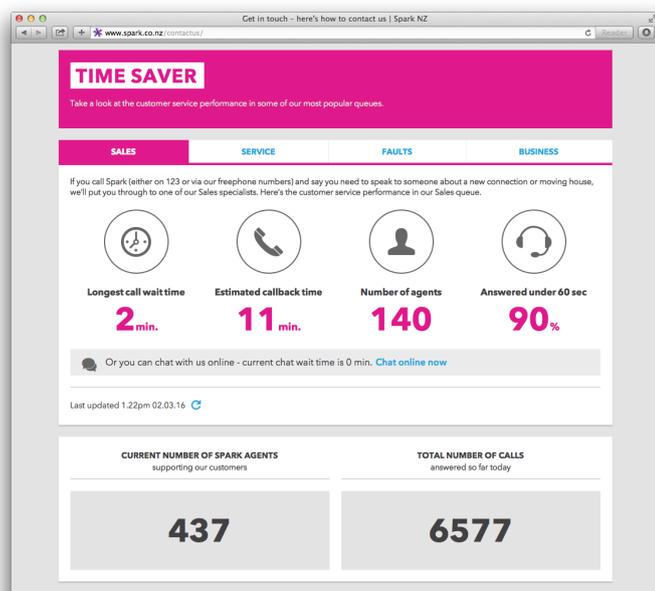
Spark continues focus on customer service improvements

Spark is acutely aware that the fibre provisioning process is having a negative impact on customer service experiences, so we are taking action to address the problem.

Firstly, we've hired more customer service people. All of the 100 new customer service agents Spark committed to employing back in September 2015 are now trained and answering phones in our contact centres, and we have hired a further 40 new agents. This brings the total number of customer service agents at Spark to around 1,200 people answering around 120,000 calls a week.

Bringing on new agents is just one of a number of things Spark is doing to dramatically improve its customer service performance, amidst a trend towards longer and more complex customer calls, driven by the growth of new technologies like fibre broadband.

Spark also wants to make things easier for customers who prefer to solve their problems online. We know some people just want to pick up the phone and talk to someone, and so this recruitment drive is about making it easy for them to do that. But a growing number of our customers say calling us is a last resort for them – they would far rather find the answer to their problem on our website or through our app, so we are also improving the tools and information available through our digital channels.

One of these tools is the Spark Outage Map. The map gives a real-time view of any problems on the Spark mobile, broadband or landline networks. It uses icons to show where a problem is, what it is, when it began and when it has been fixed.

We know there is nothing more annoying for our customers than when they think there is a problem with their individual home broadband or mobile connection, take the time to reset their modem and check all their wiring, then call us and find out the problem is a wider network issue. This map means they can check online via mobile internet to see if there's a problem right at the beginning, and will be able to see when the problem is fixed.

The Outage Map follows Spark's launch of the Timesaver tool which shows call volumes and service metrics such as wait times, as well as extending our Live Chat service to 24/7.

Spark is also working with Chorus and other fibre lines companies to streamline the fibre installation process.

We have seen some improvement but we know there is still a long way to go. We will keep working hard to make it easy for customers to sign up for new products and sort out any problems, using both online and traditional service channels, in the coming weeks and months.

Celebrating the Abel Tasman Beach campaign

Spark is proud to have been one of the first Kiwi companies to get behind the Abel Tasman beach campaign on Givealittle, which is owned and operated by the Spark Foundation, the charitable arm of Spark New Zealand.

The winning tender follows the successful Givealittle crowdfunding campaign which raised over $2 million in a tight timeframe of just 3 weeks. With over 30,000 backers, the project achieved its goal 3 days early.

What Duane Major, Adam Gard'ner and others in the team have achieved is truly remarkable and it has taken crowdfunding in New Zealand to a new level – building on the vision Spark Foundation had when it acquired Givealittle just over three years ago.

The Abel Tasman beach campaign was a huge success not only in meeting its campaign goal but also in showcasing what Givealittle is about – backing goals of all different types and turning the dreams (that in this case started as a BBQ conversation) into reality.

With the Abel Tasman Givealittle page exceeding its $2 million target, the Spark Foundation has been reflecting on all the wonderful causes Kiwis have supported. As the Spark Foundation's Half Year Results and Givealittle's Year in Review show, 2015 was a record year for generosity.

And here's a snapshot of the Spark Foundation's activities over the past 6 months:

- Volunteering – Spark people gifted 570 volunteer days to local communities.

- Payroll Giving – 8.3% of Spark people donated using payroll giving. Schools and charities received $273,591, with $214,236 coming from employees and $59,355 being matched by the Spark Foundation.

- Mobile Phone Recycling – We saved 10,655 mobile phones from the landfill, through RE:MOBILE.

- Manaiakalani digital learning – 10,000 students across New Zealand completed the first year of the three-year Manaiakalani Outreach Programme, proving the programme works beyond Tamaki.

And here's a summary of how Kiwis crowdfunded in 2015 using Givealittle:

- In 2015 New Zealanders made 259,978 donations to 7,190 pages. New Zealanders gifted $20,341,734.98 in total, that's 166% more than in 2014!

- The largest page was for the Nepal Earthquake response which raised $370,387 and helped the country to rebuild.

Spark plugs in phone box electric car charging stations

In an Australasian first, Spark is piloting the use of Electric Vehicle (EV) chargers fitted to phone boxes near Auckland, a move the company has dubbed 'SparkPlugs'.

SparkPlugs give electric vehicle drivers the ability to 'top-up' their car batteries at selected phone boxes, extending their car's range and combating 'range anxiety' – the fear that you won't be able to reach your destination, one of the main obstacles to widespread adoption of electric vehicles. SparkPlugs will help make planning long distance trips easier, with more places to plug in and recharge along the way.

Using our phone boxes as top-up charging stations is an innovative idea, and yet another way to breathe new life into the humble phone box. More than a thousand of them are now WiFi hotspots too, which was another Australasian first, so they're quickly becoming a kind of 'digital Swiss army knife'.

More importantly, this piece of Kiwi ingenuity is another part of Spark's commitment to New Zealand. As the number of electric vehicles rises we imagine the possibility of a network of EV chargers all around the country, connected to thousands of public phone boxes, helping unleash the incredible potential of the electric vehicle community.

We are proud to be playing a small part in the growing electric vehicle movement in New Zealand – every little bit makes a difference to our future. Electric vehicle drivers justifiably feel good about doing their bit for the environment, and we want to help that feeling last a little longer.

Five phone boxes near Auckland are part of the SparkPlugs pilot, with three already converted and operational. They are listed on Plugshare – a crowdsourcing app that plots charging stations all over the world. The pilot will run through to the end of April 2016, and, if it's successful, Spark will look at expanding the network, provided the necessary permissions and consents are obtained.

More information about how to use SparkPlugs is available at spark.co.nz/plug

Download the Spark Investor Centre App

Check out the Android and iOS smartphone app for everyone who has shares in Spark New Zealand. 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.
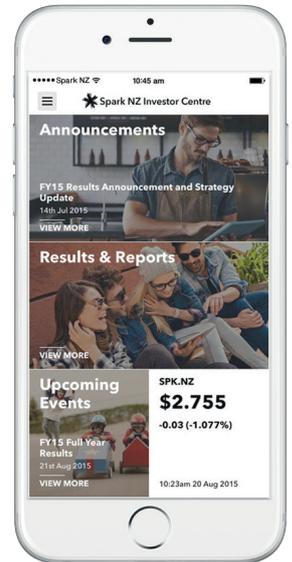
Electronic Shareholder Communications

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:

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**

SPA1810_A4_3/16