



MARKET RELEASE

7 November 2019

Chair's Address and Chief Executive Officer's Review delivered at Spark New Zealand Limited's 2019 Annual Meeting, Spark City, Auckland at 10:00am on 7 November 2019

Chair's Address (Justine Smyth)

Tēnā koutou katoa, mōrena ki a koutou

E te whare, e te papa, tēnā kōrua

Te mana whenua o tēnei takiwā, tēnā koutou

E ngā mate, haere atu rā,

Rātou ki a rātou

Tātou ki a tātou

Nō reira, tēnā koutou, tēnā koutou, tēnā koutou katoa

On behalf of the Board as Chair of Spark New Zealand, it is my pleasure to report to shareholders on Spark's progress over the last year. My name is Justine Smyth.

It is important for our shareholders to have the opportunity to engage with the Board at annual meetings, so we look forward to having a good conversation today.

I want to start with the two new faces on the podium.

I am delighted to welcome Jolie Hodson to her first AGM as CEO; she has had a fast start to her new role over the past four months.

The Board was particularly pleased that we were able to achieve a very smooth and professional succession by appointing Jolie as Simon's successor with effect from 1 July this year.

Jolie is an accomplished leader with a strong record of delivering results and managing complex business units, so to be able to appoint an executive of Jolie's calibre and experience is a testament to the quality of the talent within Spark. She has had experience across most major parts of Spark's business since she joined the Company in 2013.



As Board Directors, we had the opportunity to work closely with Jolie and were consistently impressed with her business acumen, her strategic vision and her quality decision making.

I'd also like to pay tribute to Spark's outgoing Managing Director, Simon Moutter, who finished his time at Spark at the end of June this year. Simon was in the role for seven years and took the company through a period of unprecedented change and re-invention, while delivering business results, cultural change and significant returns for shareholders, leaving us well placed as we look to the future.

We've also had a change to the board composition over the past year. In September, we announced two new appointments.

First, the Board appointed Warwick Bray, as a non-executive director. Warwick brings over four decades of experience in the international telecommunications, technology and media sectors, most recently in senior executive roles at Telstra. We were looking for a new Director with strong financial expertise to join the Board and the Audit and Risk Management Committee. We found an excellent candidate in Warwick – he has extensive finance and strategy expertise combined with deep telecommunications industry experience, which is a rare find.

Secondly, we also decided to appoint our CEO Jolie Hodson to the Board as we round out the experiences and skills on our Board.

In accordance with the NZX Listing Rules, Warwick and Jolie will retire and offer themselves for re-election today. As my last re-election was at the 2016 AGM, I will also retire and offer myself for re-election today.

Now, let's turn to take a look at Spark's performance over the last year.

Financial year 2019 was characterised by a few key themes. It was a year of both delivery for today – and building for the future.

Operating revenues of \$3.5 billion were flat year-on-year, as growth markets were offset by expected declines in legacy voice and managed data and network products.

Earnings before interest, income tax, depreciation, amortisation and net investment income were up 11.1% on the prior year, or 5.8% on an adjusted basis.

Net earnings of \$409 million were up 12.1% on the prior year, or 2.2% on an adjusted basis.

FY19 was a successful year for our mobile business. We significantly outperformed our mobile market competitors, securing over 60% of total market growth in service revenue and connections, mainly driven by growth in higher-value Unlimited plans.



We continued to lead the transition to a wireless future, accelerating customers' transition to wireless by growing both our wireless broadband and wireless voice services. The number of customers on our fixed wireless broadband and fixed wireless voice products grew by 36,000 over the year to 166,000 customers.

We made substantial investments in mobile capacity and networks to match and prepare for growing customer demand and the advent of 5G.

In light of the increased capacity required for the Rugby World Cup, we brought forward a significant amount of investment in our fixed and mobile networks. We upgraded hundreds of existing mobile cell sites as well as building many new cell sites. We extended our content delivery network, upgraded our server infrastructure and made significant upgrades to the core network.

The investments made in FY19 stand us in good stead for the years to come as we accelerate towards a wireless future. We have greater capacity for growth within our network than ever before, giving us a competitive advantage and putting us in the position where we can improve our mobile and broadband offerings in the year ahead.

These preparations also allow us to move at pace towards the launch of 5G services as soon as the relevant spectrum is available.

As a digital services provider, it is paramount that Spark continues to innovate and remain ahead of the technology adoption curve. Our move into sports streaming is a good example of this.

We launched Spark Sport, in March 2019. Putting the service out to customers – from a standing start less than a year prior – was in itself a huge milestone. Then through the second half of the year, we made extensive preparations for the delivery of the Rugby World Cup.

An important driver of improved earnings was our continued focus on reducing cost while improving our customer experience. Our "Quantum" business improvement programme helped us to realise significant productivity savings through ongoing simplification, digitisation and automation of our business. By the end of FY19, we had more than 100 bots or automated digital processes. We also continued to improve our self-service options, such as the Spark App and MySpark, which experienced strong usage growth of 18% in the last year. As you would expect, we saw a corresponding reduction in demand for our traditional care channels, with an 18% drop in calls to our contact centres.



Enhancing and building the experience that we offer customers continues to be a key priority for us. We understand that not all customers want to self-serve and that some customers need more in-depth in-person support, so we are also focused on improving our quality of customer care via phone and live chat. The in-store experience of customers continues to be a huge part of our brand, and so we continue with investments in upgrading and building our stores.

Thanks to the efforts of our amazing Spark people, the business delivered profit growth, stronger operating margins and market share gains. Our progress over the past year means Spark is on track to deliver on the key financial aspirations that we set out in June 2017 as part of the Company's three-year strategy.

We've grown our business in the highly competitive mobile and cloud services categories, held our broadband position, entered new markets like sports streaming, led on cost management and transformed our company culture.

It's very pleasing to achieve these positive outcomes in a year during which we embedded massive organisational change with the move to Agile ways of working.

We credit Spark's continued improved performance on a clear strategy, strong execution and increased customer focus.

Looking forward, we have a strong platform for the year ahead. Today, I can reaffirm earnings and dividend guidance for the financial year ending 30 June 2020 including:

- EBITDAI guidance of between \$1.1 billion to \$1.12 billion
- Dividend guidance of 25 cents per share – at least 75% imputed.

I see the primary role of our Board is to develop a clear strategy and a strong understanding of how we deliver value for the future. I am pleased to say that we are well under way in forming our business strategy for the next few years. Our approach will continue to build on many of Spark's existing strengths, in themes that will be recognisable. You can expect to see us deepen our focus and investment in selected capabilities such as smart networks to unlock more value in our core telco business. We will also be looking at providing a platform for continued expansion into adjacent products and services where we see strong commercial returns.

We will be sharing more on our next three year strategy in the first half of the 2020 calendar year.

Our success as a business is a testament to all of our Spark people. On behalf of the board, I want to thank Jolie and the entire Spark team for their dedication,



commitment and, quite frankly, hard work. And lastly, I want to thank my fellow directors for your challenge, support and insight to making a better Spark.

Nō reira, tēnā koutou, tēnā koutou, tēnā tatou katoa.

Chief Executive Officer's Review (Jolie Hodson)

E ngā rau o te kōtuku, e hui hui mai nei, tēnā koutou, tēnā koutou, tēnā koutou katoa.

Thank you, Justine, and good morning everyone.

I'm pleased to be with you today at my first AGM as Spark's Chief Executive. As a proud Kiwi, it's an honour and privilege to lead Spark, a business that plays such an important role in supporting New Zealand to prosper. Our purpose reflects this as we take bold steps to help all of Aotearoa win big in a digital world and in doing so deliver results for our customers, our people and all our stakeholders.

My immediate focus is on developing our ambition and strategy in conjunction with the board for the next three years to ensure the business continues to lead in service and technology, while investing in the right capabilities to remain competitive into the future.

At the same time, I've established the team around me who will shape and execute this strategy over the coming years. I look forward to sharing more on the strategy with you early next year.

You've heard this morning from Justine about the important progress Spark made during FY19. In a year characterised by strong operational performance and success in the marketplace, I'd like to highlight some of the key focus areas for Spark and talk in more detail about how we intend to take these forward.

Let's start by talking about 5G.

New Zealand needs strong adaptable, infrastructure to power our businesses and communities. From a technology perspective, the fifth generation (5G) of mobile networks will be one of the foundational technologies that enable our future.

In simple terms 5G is the next generation of wireless technology. It follows in the footsteps of 3G and 4G and provides faster speeds and greater data capacity over a wireless network, meaning that our customers will be able to do more, faster, on our mobile networks.



So where are we on the journey towards 5G?

One of the cornerstone partnerships for Spark's 5G development is our relationship with Emirates Team New Zealand.

For context, the America's Cup is increasingly a technology race. By partnering with Spark, the team now have Spark 5G while on the water, they can run multiple live video streams and real-time data back to their base. This buys them more of the most precious commodity in sailing: time to help them improve performance. This showcases in a tangible way, the benefits that 5G can have for businesses.

What is evident is that 5G won't be a switch we turn 'on'; it will be a continuous evolution of our existing technology, alongside some new technology.

A case in point was our recent launch of 5G in Alexandra. Announced just a month ago, this was an exciting moment as it was the first time that 5G customer services had been made available in New Zealand for a limited number of customers.

We chose Alexandra to demonstrate the impact that 5G can have for heartland New Zealand given it has one of the highest wireless broadband uptake rates in the country. We believe that the first meaningful use-case for 5G will be increasing the capacity and speed of wireless broadband offerings.

We know having the right amount of spectrum is vital for Spark to roll out services in a more widespread way. We note that 5G is proceeding much faster in other countries and it is important that New Zealand keep pace with the rest of the world.

The spectrum band designated for 5G by the Government is partially allocated until late 2022 which means long-term rights to use it will not come into effect for some time.

In the interim, the Government has commenced an accelerated process to open up access to some of the spectrum within that band on a short-term basis. This will help bridge the gap until the full range of spectrum is available for use in 2022. We acknowledge the active role being taken by Minister Faafoi and his colleagues to address the necessary policy issues so this accelerated auction process can take place.

In the meantime, we continue to develop the current capability of our 4G network. We have just completed our biggest ever upgrade of our wireless network, which has increased capacity by approximately 80 percent over the past two years. The upgrade includes new cell sites and an extensive rollout of 4.5G, which significantly enhances network performance and capacity relative to 4G.



Next, with the Rugby World Cup still fresh in our minds, I'd like to share a few comments on Spark Sport.

It was a year ago that we announced our ambition to build New Zealand's premier sports streaming business. We did so in the belief that streaming is the future of sports viewing – and that there is room for disruption in the market for distribution of sports content.

Since then, we have achieved a great deal. We have built a new streaming service, Spark Sport, from the ground up. The Spark Sport app is available across a range of different devices and media players, which gives viewers plenty of choice about when and where they want to watch.

We have secured a well-balanced portfolio of initial content, including our most recent announcement as the rights partner for all New Zealand Cricket matches played in New Zealand and for access to match clips from some of the biggest fixtures in international cricket. And of course, we have just hosted one of New Zealand's most iconic sporting events, the Rugby World Cup 2019.

We believe that we have demonstrated that streaming is a successful solution that has delivered a great viewing result for the majority of customers. Our objectives going into the tournament were two-fold: to ensure that as many New Zealanders as possible could enjoy the entire tournament and the benefits of streaming – and to ensure that the platform performed technically well throughout the tournament.

We talked to media earlier this week about our success in delivering the tournament, so I won't discuss this in detail here, but to recap the key points:

We ended the tournament with over 200,000 Spark Sport Rugby World Cup subscriptions, meeting our original expectations when we purchased the rights. This strong uptake, which continued throughout the tournament, demonstrates that customers appreciated being able to buy access to the tournament on a standalone basis.

The Spark Sport platform streamed successfully for all matches bar one, the New Zealand vs South Africa pool match. During the first half of the match, we had an issue and quickly made the decision to activate our contingency plan and showed the second half on TVNZ DUKE.

It was incredibly disappointing for this to happen and we take full responsibility for this. However, the Spark Sport team quickly identified and rectified the issue within 24 hours – and the team offered all impacted customers the option of receiving a full or partial refund.



A small percentage of customers had persistent issues with streaming on Spark Sport which proved to be largely related to their in-home set up. What we observed during the Rugby World Cup is that while the majority of New Zealand homes are now benefiting from higher quality broadband connectivity to the home, a significant number of these homes have not yet optimised their in-home set-ups for live sports streaming on a big screen.

We recognised that this was frustrating for customers and increased our efforts to help more customers get the Rugby World Cup viewing experience they wanted, including free-of-charge in home visits and complimentary devices for customers with hard-to-solve in-home issues. These measures proved very successful.

When we consider the tournament as a whole, we are pleased with the way we delivered the Rugby World Cup to New Zealand. While we want to continue to make it easier for New Zealanders to stream successfully in future, the good news is that many more New Zealanders are now accustomed and set up to stream than before the tournament started.

Looking forward, Spark Sport has an exciting future. With the announcement that Spark Sport will be the official rights partner for all New Zealand Cricket matches played in New Zealand, we have cemented our place as a significant player in New Zealand's sports viewing landscape. And we will continue to look to acquire further rights as they become available as long as they make commercial sense for Spark.

Now, I'd like to say a few words on Agile.

In the last sixteen months, Agile has completely transformed our organisation. Walking around the floors of Spark's head office today, the new ways of working are apparent in the way that people interact and get their work done. It is impressive when we reflect on how quickly the change has occurred.

We started our preparations to move to Agile in December 2017 – and then made the 'flip' to Agile in July 2018. Nine months down the track, we reviewed our progress under the new model and made some further changes to adjust the model to suit our needs.

As a result, our organisation today is change adaptive and better prepared to respond to future challenges and opportunities. We've seen encouraging signs that Agile is delivering to our three objectives of improved employee engagement, faster speed to market and great customer centricity. We've had approximately 30 international companies visit Spark to see how an Agile transformation is delivered at scale.



Our employee net promoter score, which measures employee engagement, increased 9 percentage points between the transition and the end of last financial year.

Our Agile squads have been identifying opportunities and bringing them to market with much shorter lead times and with a much clearer focus on the customer, removing months out of the development process.

The next step for Spark is to unlock greater value and better experiences for our customers by maturing our Agile leadership. To help us achieve this, our focus is on continual leadership and commercial development for our people.

Let me now briefly touch on Spark's efforts in becoming a more sustainable business.

We know it's important for Spark to make a positive contribution to New Zealand. Our sustainability strategy guides our efforts and focus on fairness and inclusion, reducing our environmental footprint, acting with trust and transparency and doing our part to help New Zealand prosper through innovation and greater digital equity.

Our Blue Heart programme has been our primary tool to drive our fairness and inclusion focus for our people.

Fostering greater digital equity for New Zealand through removing barriers to connectivity and digital learning, to ensure that more New Zealanders can take advantage of the benefits of the internet to help them learn, work and connect with family so that New Zealand can prosper.

Spark Jump, our subsidised broadband product for low-income families, has grown in the last year, and we are excited about working with private, community and public organisations to expand our reach and accelerate the number of New Zealanders with access to the internet.

Our primary environmental goal for Spark is to reduce our greenhouse gas emissions by 25% on 2016 levels by 2025; to play our part in addressing and responding to climate change. To help realise this target, we are focusing on improving the energy efficiency of our networks and operations and assessing and adapting facilities for the potential impact of climate change.

To help increase transparency in how we report our progress, in FY19 we introduced the Global Reporting Initiative (GRI) framework into our Annual Report. We also released a new Spark customer privacy policy, that provides transparency about how Spark uses personal information, enabling customers to have confidence in Spark as a trusted data custodian and user.



We made good progress in laying the foundations for our sustainability strategy over the last year; and we will accelerate our efforts in the year to come.

In closing, we operate in a tough industry, but an industry that can and does influence how New Zealand prospers, through providing critical infrastructure and digital services that enable New Zealand to thrive and compete on a global stage.

I'm excited about the opportunities ahead and I'm passionate about leading Spark to bring that future faster to New Zealand.

I look forward to working with you as we deliver on that strategy.

Let me finish by saying that I was delighted to be appointed to the Spark board in September. In accordance with the NZX Listing Rules, I will retire and offer myself for re-election today.

Nō reira, tēnā koutou, tēnā koutou, tēnā tatou katoa and thank you.

- ENDS -

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