



## MARKET RELEASE

3 November 2017

### **Chairman's address delivered at Spark New Zealand Limited's 2017 Annual Meeting, South Level 4 Lounge, Eden Park, Auckland at 10:00am on 3 November 2017**

On behalf of the Board, management and people of Spark, it is again my pleasure to report to shareholders on progress at this, my final meeting of Shareholders. I would also like to take the opportunity to reflect on the six years that I have been your Chair, and the changes I have seen over that time, both within the business and in the market more generally. Changes that have been dramatic to say the least.

As many of you will know, I spent seven years on the Management Team of Telecom in the early 2000s. I'd been away from the company for a few years, and I just about fell off my seat when Wayne Boyd phoned to ask if I would consider becoming the Chair.

I have to admit, I most definitely had a feeling of unfinished business, given the well-publicised challenges the company had from the mid-2000s onwards.

I welcomed the challenge of leading the Board of this new Telecom, now without the monopoly fixed infrastructure business post the split of Chorus in December 2011.

We knew for the business to succeed we would need to bring about massive cultural change - creating a culture that would put customers at the heart. To achieve this successfully would be significant – it would take both time and commitment.

We started with the Board, putting a lot of time and thought into the members and deliberately making it diverse, perhaps the most diverse in NZ at the time.

Once appointed, the Board had a standing start in late 2011, and we began by determining our purpose and how we would operate as a group –a purpose that is still valid today. We took as our inspiration global telco best-in-class examples and metrics.

And so we began the transformation of the business.

Our first job, and the most important thing a Board can do, was to hire a new CEO. We needed someone with deep knowledge of the complexity of the business, but also the vision and confidence to embark on a major transformation programme. Simon's background with the old Telecom, his vision for customer centricity, and his outstanding track record at Auckland Airport, convinced us he was the person for the job.

With Simon on board, we began a 3-year turnaround programme, which involved re-engineering our systems, becoming competitive again so we could win with customers, re-branding the business, and a relentless focus on improving the customer experience, taking cost out wherever we could.



Transformation became embedded into the business as a constant accelerating process.

Transformational change is exactly that – transformative. It involves making big, bold calls that reshape the business for the long term. It means responding to the changing expectations of customers and changes in the competitive landscape very quickly.

Over the last five years, we have made some very big calls.

I'd like to share with you a couple of examples of how these bold choices have set your company up for a more promising future.

Firstly, Cloud services – or what we also call Platform IT services. Over recent years, we have invested more than a quarter of a billion dollars of shareholders' capital building new data centres and acquiring Cloud-focused businesses like Revera and CCL. As a result, Spark has moved rapidly from, frankly, a “wanna-be” in this space to the undisputed New Zealand domestic market leader. In FY17 our Platform IT revenue was just shy of \$250 million, an increase of 25% on the previous years revenues.

Secondly, our investment in new mobile network spectrum. Shareholders will be well aware of our good progress in growing mobile revenue and market share. And that's been built on strategic investments in spectrum assets. In 2015, we paid \$158 million to purchase more 700 megahertz spectrum rights than any other network operator. 700 megahertz has been described as “prime waterfront property” when it comes to mobile spectrum and this purchase, combined with other spectrum assets, set Spark up with the network capacity to take full advantage of the exciting, rapid advances in mobile technology. This has underpinned a tripling in data consumption across our mobile network in the past year. It's also allowed us to shift close to 100,000 customers onto our Wireless Broadband product, giving them better, more flexible broadband services than they previously experienced on the aging copper network.

So, what have we achieved for shareholders from this transformation?

We have managed to offset the decline in legacy businesses, such as calls from landlines, with more revenue in growth areas such as mobile data and platform IT services. We've returned to earnings growth – modest growth of a few percent, but growth nonetheless - and we have repositioned the company as a future-focused digital services provider.

Here's a few numbers worth highlighting:

Every year, we lose around \$100 million of revenues from our legacy Voice and managed data operations – in FY17, the figure was \$104 million. That means in July 2016, we started the financial year knowing we needed to make another \$100 million from elsewhere just to stand still. But as a result of those earlier big strategic calls, we more than made up for this by growing our mobile and Platform IT service revenues by \$112 million in FY17.

Perhaps the most dramatic sense of the transformation comes from taking a five-year view – comparing Spark today with the Telecom that emerged following the separation from Chorus in FY12. Our FY17 revenue is almost \$1 billion lower than in FY12. Given that our FY12 EBITDA was just over a billion dollars, such a massive revenue decline could well have had a devastating impact. But despite this much lower revenue base, our EBITDA has remained at around the billion-dollar mark. What's more, our net earnings



after tax are \$100 million higher, and our dividends per share have increased by 25%. And I would suggest it's beyond dispute that Spark today is in much, much better shape to face the future with optimism than the Telecom of five years ago.

That brings us to today.

You have no doubt seen this year's Annual Report, which is titled "the new pace of normal". Now, that's a nice little catch-phrase, but you may be wondering, what does it really mean for Spark as a company, for our customers, and for how we create value for you as shareholders?

The new pace of normal speaks to how we must operate as a business in a rapidly-changing world with exponential advancements in technology and computing power. It's about being faster, bolder, more nimble and more agile than we have ever been before. Put simply, if we are to remain a successful company, we must keep transforming ourselves faster than things are changing in the world around us.

Although our efforts during the past five years mean we can look to the future with a lot of confidence, we know we'll continue to face headwinds. Our high margin, legacy business will continue to decline, and intense market competition and digital disruption will put pressure on margins in the growing parts of our business – particularly home broadband and, increasingly, in mobile. That means our focus on reducing costs and enhancing customer experience must remain.

The most effective way to do this is to radically digitise and simplify our products and services, and to make the best use of automation and artificial intelligence. And it's not just about lowering our costs – greater use of digital technologies means we can dramatically enhance the service experience for our customers. This is a big focus for the business – and we are already making substantial progress with the introduction of "bots" to solve problems for our customers before they even know those problems exist. This move towards digitisation and automation also reflects a recognition that the power of the customer is now stronger than ever. There is plenty of evidence that people who purchase or are serviced for things digitally are happier and stickier customers. Spark is quickly becoming a market leader in this very exciting space, and Simon will shortly share with you more about our plans.

With this disciplined approach to customer experience and cost, and bold approach to seizing opportunities, we have managed to increase dividends, increase free cash flow, and set ourselves up for the future - during a time when prices for many of our main product lines have literally halved for customers and all the players in our industry are facing competitive and financial pressures.

In FY17, we paid total dividends of 25 cents per share and we aim to do the same for FY18. Our aspiration is to grow earnings over time to fully fund a total dividend per share of 25c or more. Also in respect of FY18, I reconfirm the guidance we have previously given to the market.

Of course, the best strategy in the world can only take us so far - and the health of your investment relies on Spark having the best and the most talented people to execute its strategy. We know a crucial means of finding and keeping the best talent is to ensure the business is diverse and provides an inclusive environment, so everyone can bring their true self to work.



Simon will speak more about this, but I'm really proud of the huge amount the business has done to improve both diversity and inclusion and, while we have a long way to go, this approach is starting to make a difference.

The appointment of Justine Smyth as Board Chair, and Alison Barrass and Alison Gerry as chairs of two board subcommittees, as well as the appointment of women to three pivotal roles in Simon's team is evidence Spark has developed a talented bench of women at board and senior manager level, and we are actively identifying talent throughout the business and providing leadership development in order to retain and promote our future leaders.

While we are on the subject of outstanding talent, I would like to introduce you to Spark's first Future Director, Nagaja Sanatkumar. Future directors is an initiative established by the Institute of Directors, the NZSA and others to develop the pool of talent available to be considered for director roles in the future. They sit in on board meetings with the objective of learning what (hopefully!) good governance looks like. Nagaja is General Manager of Global eCommerce at innovative New Zealand clothing retailer Icebreaker and has wide digital consumer experience at a senior level, including at Amazon and Expedia. With her experience in retail, digital and customer experience I believe Nagaja will bring a huge amount of value to our board discussions and provide us with an opportunity to learn from her while she learns from us! I know the board is very much looking forward to working with you over the coming year Nagaja.

Spark plays an enormously important role for New Zealand, and we take that role very seriously. Everywhere I look, people are talking about the importance of technology – for social outcomes, environmental outcomes, and of course in business.

We want to work with our customers as they use technology to solve the big problems and seize the big opportunities available to New Zealand. What we do impacts on the lives of everyone who lives in our great little country and that's why we have chosen to make Spark's mission to unleash the potential in all New Zealanders.

The fact that as a company we've managed to maintain profitability and are on a modest growth path, despite operating in one of New Zealand's most competitive markets is testament to the hard work and strategic skill within the business. It is a result of making the big calls and instilling a strong cost management discipline.

It has been a privilege to serve as your Chairman over the past six years, during which time I've seen Telecom reborn as a single entity, then the transformation from Telecom to Spark, and now Spark carving out a space as a highly competitive and innovative digital services company focused on New Zealand customers.

I believe Spark is now match fit and up for anything. Of course, the challenges remain, but we now have the right culture, mindset and leadership.

I am pleased to pass the baton on to someone as capable and talented as Justine Smyth. Justine has also sat on the Spark Board since 2011, and has served as Chair of the Audit and Risk Management and the Human Resources and Compensation Committees of Spark. She has extensive governance experience – she is currently a director of Auckland International Airport, and has previously been a board member for the Financial Markets Authority (where we worked together) and Deputy Chair of New Zealand Post. I leave knowing that leadership of the Board is in very good hands.



Spark is a business that I firmly believe will continue to play a major role in our country's future in decades to come and I and I look forward to watching its continued success as a Spark shareholder and customer.

-ENDS-

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