



MARKET RELEASE

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Chair's Address and Managing Director's Review delivered at Spark New Zealand Limited's 2018 Annual Meeting, Spark City, Auckland at 10:00am on 2 November 2018

Chair's Address (Justine Smyth)

On behalf of the Board, leadership and people of Spark, it is my pleasure to report to shareholders on Spark's progress over the year, and to talk a little about strategic direction over the next three years.

As you know, this is my first Annual Meeting of shareholders as your Board Chair, and I would like to start by saying how proud I am to be in this position. The Board and all Spark people are acutely aware of the importance of our products and services to New Zealanders, as digital connectivity becomes fundamental in so many areas of life. We take this responsibility seriously.

As our shareholders, we know you care deeply about Spark doing the right thing – both in terms of sustainable growth and operations, but also when it comes to how we treat our customers, wider stakeholders and how we contribute to New Zealand society. We are determined to live up to your expectations.

Over the course of FY18 we saw the continuation of two big trends affecting our business: the insatiable demand for our services, and customers expecting more for less, putting continuing pressure on margins. To illustrate this: data consumption over the financial year increased by 60% on our mobile network (including wireless broadband) and by 30% on our fixed broadband network, but our revenue only increased by 1%.

At the same time, the decline in legacy businesses – primarily landline and managed data - meant we had to make up more than \$80m of operating earnings before we could get into growth.

In this context, the financial year to 30 June 2018 was a solid performance for Spark.

We saw continued growth in mobile and in cloud services over the year, and this more than offset the declines from our legacy products. Spark was the only mobile operator to grow mobile revenues, connections and ARPU in FY18. Our wireless broadband product - which is now in more than 116,000 homes and businesses - is helping to improve margins in a very challenging broadband market.



We are excited about future wireless technologies – such as 5G – and the opportunities these will bring Spark. Simon will be speaking in more detail about 5G and its importance, not only to Spark but to New Zealand as a whole.

While we are very pleased with growth in both mobile and in cloud services, we know our customers will continue to demand more for less in the future – and so Spark must address this trend by driving hard to further reduce operating costs. Crucially, we can't do this at the expense of the customer experience, so our approach is less about trimming back what we offer and instead on transforming it through digitisation and automation. We're now doing some very exciting things in this space, which Simon will expand on shortly.

Our strong performance and clear strategy for ongoing growth both create a solid platform for FY19 and today I can reaffirm earnings and dividend guidance for the financial year ended 30 June 2019 including:

- EBITDA guidance of \$1.025 billion to \$1.055 billion, excluding dividends received from our investment in Southern Cross and impacts from adoption of new accounting standards; and
- Dividend guidance of 25 cents per share - at least 75% imputed.

As shareholders, you may have heard either from us directly or through the news media – about Spark undergoing a big programme of change as we adopt Agile ways of working.

Agile is one of those terms that is used a lot in business. It can describe a lot of different things – and has a lot of associated jargon and misconceptions. I'm not going to bombard you all with jargon today. But I did want to briefly talk about what Agile ways of working mean for how Spark is organised and how we operate, and to touch on the three big reasons we have gone down this route and why we believe it will give us a significant and enduring competitive advantage.

For Spark, Agile means we've replaced the traditional hierarchical structure with smaller, self-managing teams. These teams are made up of people with different skillsets and backgrounds – for example you might have a marketing person in the same team as a developer, a customer experience specialist, a network specialist and a product designer.

Each team is working towards a specific customer outcome, whether it be developing a new product, such as our recently released "unplan" broadband offer, or improving an existing product or customer journey.

Because all the skills needed to deliver for customers are in the one team, we can bring things to market more quickly – there's no need to hand things over from one team to another. The flat structure means they are empowered to move ahead and achieve the desired customer outcome with less time spent escalating issues and more time spent dealing with them.

A key feature of Agile is that teams bring products to market quickly – at what we call the "minimum viable product" stage – which essentially means a product has



enough features to be workable for customers but is not fully polished. The team then monitors customer use and feedback and improves it from there. This is the only way Spark can keep up with the pace of technological change and the customer demands that come with it.

Our fully Agile teams are supported by both our customer-facing teams, and teams with specialist skills -such as finance, and legal - who are deployed as needed.

So why have we gone down this route?

First, the world is changing fast and the technology industry in which we operate is changing faster than most. We need to speed up how we bring new products and services to market. Already in our Agile structure we're seeing things that used to take many months being delivered in a few weeks.

Second, our success – and that of many other businesses – is increasingly defined by the quality of the digital customer experience. The Agile approach is to bring a product to market at an early stage then shape and improve it based on customer feedback, insights and data - so it helps us embed customer centricity into what we do every single day.

Finally, it's become clear to us that the traditional, hierarchical model of management will not work for the workplace of the future. If we want to attract the best people – and to get the best out of them - we need a model that encourages collaboration, allows talent to flourish and gives people a true sense of empowerment and purpose in their work. Agile teams all work towards a central purpose and can see clearly how what they are doing contributes to it. We are already seeing the benefits of this, with our employee net promoter score lifting by nine points since September 2017, despite all the disruption caused by our Agile transformation.

The transition to Agile was a timely opportunity to review our high-level strategic goals – making tweaks where we felt they were needed - and to think deeply about what we wanted for our company culture.

Behind me is our refreshed “Plan on a Page”, which brings together our purpose, goals, strategies, and values. This captures what we want to achieve, how we'll achieve it, and who we want to “be” as we go about achieving it.

Spark's strong performance and growth path have given us an excellent foundation to build from when it comes to planning for the next three years – allowing us to be aspirational for our business and for New Zealand.

This is perfectly captured by our new purpose: to help all of New Zealand win big in a digital world. Our purpose sets out the impact we want to have on the lives of our customers, and how we want to enable success for the whole country.

Crucially, it talks about **all** of New Zealand winning big. We chose that word “all” carefully and deliberately – we don't want any New Zealander left behind in the digital world. And we have put in place programmes like Spark Jump – which gives subsidised broadband to low-income households – to help address this.



Our five key goals set out what we want to achieve:

- We want to get above a plus thirty net promoter score – or NPS - on every measure. To give some context to this, the NPS is calculated by asking customers or stakeholders to rate our performance and whether they would recommend us on a scale of 1 to 10. To be regarded as a promoter, a customer must rate us either a 9 or a 10. If they rate us 7 or 8 they are regarded as “neutral” and the ratings don’t count towards the final score. A rating of 6 and below is regarded as a “detractor” and those scores are subtracted from the promoter score. I’m going into detail on this because I want to reinforce how tough it is for us to get an NPS above 30. This is a clear way of ensuring we are providing our customers a world-class digital customer experience. We want to be so good, customers can’t help but recommend us.
- We want to have NZ’s most loved digital brands. We’re definitely moving in the right direction here with improvement in recent years in almost all rankings, but we have some big names to overtake.
- With New Zealand’s best data network, it makes sense we should have the lion’s share of the broadband and mobile market. Within the next three years, we want to hold and then grow our market share of all data connections to maintain more than 42% market share.
- EBITDA margin is our key metric to track our financial performance and our goal is to reach more than 30%. In such a tough market this will not be easy – and would place us amongst the world’s most efficient telco businesses - but we are tracking in the right direction and are confident we can get there.
- Our last goal is to be a recognised leader in sustainability. This is about ensuring our business is set up for long-term and sustainable growth - protecting your investment, while doing the right thing by our people, our communities and our environment.

Backing up these goals are a set of strategies:

- **Being digital first:** designing customer journeys for digital channels first, supporting our customers as they go down these journeys, and supporting our business customers to do the same.
- **Embed agile at scale:** ensuring we are using this new model to become truly customer centric, faster to market and the best place in New Zealand to work.
- **Grow key markets:** this means continuing to grow in the markets that are most valuable to us – for example mobile, cloud and security. It also means investing in future growth areas such as the internet of things and media and entertainment.
- **Extend cost leadership:** This will be achieved through continued simplification, digitisation and automation.



- **Lead on sustainability:** in line with our goals, we are creating active plans across our business to reduce our environmental footprint and serve our customers in a socially responsible manner.

Everything we do should tie up to one of these pillars – they guide all of us when we make decisions.

They are underpinned by our foundations: New Zealand's best converged data networks and digital services capability and a top-decile, inclusive and diverse organisational culture

Our organisational culture is underpinned by all of us, including the board, the leadership squad and all Spark people, living by our four values:

- Whakamana: we empower
- Matomato: we succeed together
- Tūhono: we connect
- Māia: we are bold

These values drive our focus on diversity and inclusion.

Diversity and inclusion has become a bit of a catch phrase, but in Spark we describe it quite simply: we want every single person who works here to feel they can bring their whole self to work.

We are focused on this not for any commercial imperative, but because it is simply the right thing to do. However, we also know it is the right thing to do for business. There is an established body of research showing a diverse board and leadership, in terms of gender, ethnicity, age and background – where the processes are in place to turn diversity into diverse thought - produces better decision-making and better business outcomes.

I'm proud that the Spark board now has an equal balance in terms of gender and is made up of people from very different professional backgrounds – and we are all committed to diversity, both on the Spark board and in New Zealand governance more generally.

However, I also look forward to the day when having a gender balance on your board – and having a female chair - isn't something we're "proud" of, because it is so normal, and I personally am committed to driving towards that in New Zealand.

FY18 was another strong year for Spark, and we are clear on our company's direction: both the challenges, of which there are many, but also the opportunities, which there are far more of in a world where technology is becoming indispensable.

We have considerable strength in our brand and culture, and we believe Agile gives us a big competitive advantage.

We are committed to long-term growth of your investment and to running a successful and sustainable business – both in financial and non-financial terms. It is through this that Spark will help all of New Zealand win big in a digital world.



Managing Director's Review (Simon Moutter)

Thank you, Justine, and good morning everyone.

You've heard from Justine about the solid progress Spark has made over the year, and the huge change the business has undergone as we transitioned to Agile ways of working – which we believe has set us up for future success. As Justine outlined, we are now working to a very clear purpose, which sets out how we believe we can contribute to New Zealand society as we work to build the value of your investment, and we have aligned our three-year goals, strategic pillars, foundations and values with that purpose.

This morning I would like to speak in a bit more detail about two crucial enablers of Spark's future success and the achievement of our goals: the opportunity offered by 5G, which has the potential to transform digital business models; and the groundbreaking work we're doing in digitisation, automation and artificial intelligence.

5G – or the fifth generation of wireless technology – will transform the way we all communicate, conduct business, and live. It will provide us with a network that is smarter, faster and cheaper to use than the one we have today. And it will transform our world from one where we are connecting people to each other and to the internet, to a world where we are connecting almost anything.

For Spark, 5G will drive the next evolution of our business. 4G created opportunities for better services and new revenue streams that we hadn't considered before the network was in operation – such as our wireless broadband product - and we believe this will also be true for 5G technology. I could talk all day to you about what 5G might deliver. Things such as support for autonomous vehicles and virtual reality are often given as examples. But the truth is, it's likely to pave the way for products and services we haven't even thought of yet.

What we do know is the deployment of 5G will be critical to ensuring our country's infrastructure and economy keeps up with the rest of the world, by opening up possibilities for a new generation of digital business models.

Several markets around the world are already pushing ahead with 5G networks. Britain and South Korea are targeting deployment in 2019 and in the USA AT&T is expected to be the first company to launch a 5G mobile network later this year. Verizon has already announced a proprietary variant of the industry-standard 5G.

Clearly, we want New Zealand to be in line with other developed countries when it comes to rolling out this new technology. We certainly do not want to be left behind.

Spark's planning for a 5G network began some time ago. We were the first network operator in New Zealand to deploy 4.5G technology, starting mid-2016, as a pathway to 5G. 4.5G uses a combination of technologies to improve mobile speeds and capacity – and this helped us to understand how a big increase in bandwidth can be catered for through the rest of our network.



In March this year we carried out New Zealand's first outdoor 5G test in Wellington, followed by an indoor trial in Auckland the following month. We will be testing in the rural town of Te Aroha by the end of the year. These tests help us to look at speeds, coverage and the performance parameters of spectrum we'll be using for 5G.

We see 5G as an evolution of our existing 4G and 4.5G services. We will initially deploy it as an overlay on the existing mobile network and then extend it to meet demand.

Traffic on Spark's 4G network is almost doubling every year. We predict that by 2020-21 it will be far more logical to invest in 5G, which provides us with additional capacity at a lower incremental cost, than further expanding our 4G network.

Spark is already making decisions that are contingent on securing additional 5G spectrum and we are having to make those decisions in the absence of any clear policy on when that spectrum will be available or in what bands.

When it comes to initial 5G deployment, the frequencies known as C-Band and mmWave are the most referenced bands globally. We are confident these will be important parts of the New Zealand 5G ecosystem in the near term. Down the track we will also need a low-frequency band to deploy 5G into rural areas as this spectrum can transmit over longer distances.

I won't get into the technical details of each of these spectrum bands today, but if anyone does wish to know more about them, or about 5G more generally, Spark has published a briefing paper on the subject which is available on our website.

Suffice to say we are encouraging the Government to make clear policy decisions on what spectrum will be available, and when, for 5G services in New Zealand. In particular, the Government should move to allocate the C-Band and mmWave bands as soon as possible, to ensure 5G services can be up and running in time for the 2020-21 America's Cup in Auckland as an international showcase opportunity. Australia will auction its C-band spectrum this month. If we don't start to make spectrum policy decisions quickly we will be left behind in the race to 5G by our close neighbours, and many other countries around the world that have already got on and auctioned this spectrum off. We are encouraged by Minister Faafoi's comments yesterday that allocation of spectrum is on track for 2020, but want to emphasise how important sticking to this timeline is.

I can't stress this enough: the policy settings created by Government are fundamental to the performance of our sector and to the transformative impacts it can have on New Zealand's social and economic progress. If I look at where we are in the fixed market, with policy settings changing what feels like every couple of years, it's a stark reminder of what we must avoid in mobile. Seven years after we started deploying fibre, spending over a billion dollars of taxpayer money, we're still selling 30mbps fibre services that are slower than what the copper network can provide, while in Singapore – which started their fibre network only a few years before us - they're selling services measured in Gbps.

There's no innovation in our fibre markets at all, and that's because we have the policy settings wrong. The wholesale price we pay for fibre services is way too high



and the retail prices we charge don't allow for anything like an acceptable margin. Let me tell you now – the retail price for fibre services will start increasing and it is going to keep increasing because the wholesale prices we pay are going to increase every year from now on. It's a massive missed opportunity for our industry and for our country that we can't repeat with 5G.

On the subject of 5G, there has been some media discussion recently on New Zealand's stance towards Chinese technology companies such as Huawei when it comes to building 5G networks. While ultimately this is a matter for the New Zealand Government, let me share with you Spark's perspective.

Huawei is currently a partner with Spark providing technology for our 3G and 4G mobile networks – in particular, the Radio Access Network or RAN, which is the equipment located at cell sites that transmits and receives cellular signals to and from our customers' mobile devices. We use other partners such as Cisco and Ericsson for processing and customer authentication technology within our mobile network core, which is often regarded as the "brains" of the network.

We have found Huawei to be a very good mobile RAN provider for Spark – they're a world leader in mobile technology, they're very responsive to our requirements and have provided good commercial value. Although we have yet to make decisions on our 5G technology partners, based on their track record with us, we see no reason why Huawei should not be among the vendors we consider inviting to the process. And we would hope that our Government would not preclude them from being considered without incontrovertible evidence their technology presents security risks that the comprehensive security management tools we employ in our networks cannot mitigate.

Today, we can confidently say that New Zealand's mobile networks, mobile services and mobile prices are world-class. We are ranked 2nd in the GSMA's Global Mobile Connectivity Index, which covers 163 countries. We have three nationwide 4G mobile networks – the same number the United States will shortly have. The performance of these networks is above OECD averages, with below-average prices. This is despite all the challenges of providing mobile services to a small population base, spread thinly across a country with terrain that makes the economics of network delivery very challenging.

To ensure we can continue to deliver world-class performance for our customers, we need to maximise all the opportunities we can leverage from a world of rapid technological change. Any government decisions that restrict the ability of Spark and the other mobile network operators to make the technology choices that work best for each operator and their respective customers, risks limiting our ability to deliver and ultimately delaying the delivery of 5G technology to New Zealanders.

Just as 5G will transform the services and products we can offer our customers in the future, our work in digitisation, automation and artificial intelligence will allow us to transform the experience we offer customers using those products and services. This work is already well underway.



Over the past 18 months, we've had an intense programme of work to analyse customer journeys and redesign each journey for digital channels first. Part of this means offering customers far more and far better self-service options.

Already we're seeing the results. The number of calls coming into our call centre reduced by a quarter in FY18 compared to the previous year; the number of customers using our self-service channels increased by 15% to 840,000; and Net Promotor Scores – which as Justine discussed are our primary measure of satisfaction – have increased.

We have also started using virtual assistants or chatbots to assist our customer service teams. This technology does a great job answering the more basic enquiries, freeing up our people to deal with complex customer problems.

Since we launched our virtual assistants in August 2017 they have had more than 750,000 customer interactions. One of the key things we measure with chatbots is the percentage of customer queries they resolve themselves, rather than referring the customer to one of our human agents. Over the course of October this year, our Spark Virtual Assistant, who we call Ivy, resolved around 40% of the customer questions that came her way – which means Ivy did the work of approximately 43 full time staff members in that month. Because she is intelligent and is constantly being taught by our front line teams how to do things better, we can expect that resolution rate to keep improving.

We've also had a big programme of work looking at where automation and artificial intelligence can improve things for customers and make our processes more efficient in parts of the business outside of customer service. Again, this frees up our people for work where having a human involved can add real value.

To date we have built 52 of these 'bots' or artificial intelligence applications, which automate business tasks and processes across a diverse range of areas from security to fibre provisioning to IT operations.

I thought it would be appropriate to introduce you to a few of these new colleagues of ours.

Fibre Bot, logs managed customer orders with fibre companies. In his online profile Fibre Bot describes his role as 'speeding up customer new, change or remove internet requests by taking details out of the Spark order systems and logging them directly with fibre companies. He says "I'm an insomniac so perform this around the clock, 7 days a week." Fibre Bot has been decorated for his work, taking out 'best robotic process automation bot for customer experience' at the Intelligent Automation Awards in Sydney back in March.

Pluto: loves the internet and is wildly passionate about keeping our customers connected via digital devices on our Public and Corporate Wifi network. At any time of the day you can find him zooming around collecting Wifi connectivity data across different platforms, testing access points, resetting devices and running line tests with Chorus.



Verity: ensures that our bi-monthly server security patching goes smoothly. She performs activities before, during and after patching across 700 servers to ensure they all are updated, restart safely and are in a healthy state for the next business day. If anything goes wrong and she can't fix it herself, she sends an alarm to one of her human colleagues so they get on to it.

I won't go through all 52 of them but suffice to say each is doing an important task for customers and for our business.

Fundamental to us being able to deliver our programme of digitisation, automation and artificial intelligence – and deliver it so quickly - was the four-year programme of reengineering that saw us completely rebuild our IT stack.

As you know, we completed this in 2016, and we now work with a world-class technology platform. This, combined with our transition to Agile ways of working, has enabled us to work at speed to bring new forms of digitisation and automation to our customers.

Even I have been blown away by how quickly we've been able to move in this space. To have 52 bots from a standing start in November 2017 is pretty phenomenal. Especially when you consider we expect to have 100 bots working for Spark by the end of the financial year.

Spark is now a New Zealand leader in artificial intelligence, or AI. We have 16 people dedicated to automation software development. These people work with data and analytics specialists to make intelligent automation and data driven decisions within the business. In total around 160 people are working in this space.

Their work is driving a number of different initiatives, from simple automations to cognitive and conversational AI. We are using machine learning and “natural language processing” – which is essentially programming computers to understand, learn and process language in the way a human does. Spark is also working across multiple working groups in New Zealand's AI forum – a not-for-profit, non-governmental group which developing processes and principles to enable adoption of AI in New Zealand.

What has also struck me is to extent to which our people have embraced this change – and are pushing for us to go faster.

Just as Spark people have seen the value in Agile ways of working, they are also enthusiastic about the opportunity to improve and speed up processes for our customers. They are also very focused on giving the repetitive, low-value work to bots so they can instead focus on more complex and challenging problems.

We are very aware that the rise of artificial intelligence does mean some jobs will disappear. We're not shying away from this issue or the responsibility Spark and other New Zealand organisations have to ensure our people have the opportunity to upskill and continue doing meaningful work – and we will continue to engage with both government and with other large businesses to think about how we manage this change so no one is left behind.



However, I see daily examples of Spark employees thinking creatively about how their work could be made more efficient through the use of technology, and how they can add more value to Spark and our customers – both consumers and businesses. Equally we are seeing increasing numbers of people coming into our business who have retrained in software and app development after starting out in other careers.

Behind me you will see photos of two of our people who have done exactly that:

Mark Annas started out working for Spark in Customer Service. He took the opportunity to join the fibre team when it launched and he became a fibre expert. He was constantly looking for better ways to process customer orders, and this led him to work on the development of Fibre Bot, who I introduced to you earlier.

The other picture you see here is Julia Niall, who works in our Lightbox team. Julia was previously a Spanish teacher but decided she wanted to move into app development, so she signed up to a programming bootcamp and learned to code. We hired her straight after this retraining to be one of our stars in app development for Lightbox.

We are in an industry where if you stand still you are going backwards, and so after a big year of internal change we are looking at how we can use the competitive advantage we have from our Agile model and world-class technology to continue Spark's growth trajectory, and build the technology New Zealand needs to truly embrace the digital world and all it can offer. Moving forward at pace on our 5G pathway will be crucial to this. So will using the benefits of digitisation, automation and artificial intelligence to offer our customers a faster, easier, better experience.

- ENDS -

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