



MARKET RELEASE – 4 November 2022

**Chair's Address and Chief Executive Officer's
Review delivered at Spark New Zealand Limited's
2022 Annual meeting, held at 10 am on 4
November 2022**

Chair's Address (Justine Smyth)

Tihei mauri ora.

E ngā whare, e ngā papa, tēnā koutou.

E ngā mate, haere atu rā,

Rātou ki a rātou.

Tātou ki a tātou.

Te mana whenua, o ngā takiwā katoa, tēnā koutou.

E te whānau o Kora Aotearoa,

Nau mai, haere mai ki tēnei hui ā-tau.

Ko Justine Smyth tōku ingoa.

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

Good morning and welcome to Spark's 2022 Annual Meeting of Shareholders.

My name is Justine Smyth, and I am the Chair of Spark New Zealand.

On behalf of the Board, it is my pleasure to update our shareholders on Spark's progress over the last year.

The Board and I are very excited to be here in person, after two-years of virtual only meetings as a result of Covid restrictions.

This year, we're holding our meeting in a hybrid manner – with some of you joining us online.

For those of you joining us virtually, you'll still be able to vote and submit questions during the meeting. We will respond to questions on the resolutions when we get to that part of the proceedings, and we will also have time to respond to general questions after the resolutions.

Before we get started, some housekeeping matters.

Bathrooms are located in the atrium behind Subway. In the unlikely event of an emergency, please leave the venue using the nearest exit and follow the instructions

of Spark employees who will be on hand to direct you to assemble outside on Halsey Street.

With that taken care of, I would now like to declare the meeting open.

Based on the information conveyed to me I confirm that there is a quorum of shareholders, and the meeting is duly convened.

Today you will hear from me as Chair of the Board and from our CEO Jolie Hodson. We will then put forward the resolutions as described in the Notice of Meeting and respond to general questions put to us by shareholders.

I would like to introduce my fellow Directors and Management who are on the stage with me today.

- Alison Barrass;
- Paul Berriman;
- Warwick Bray;
- Sheridan Broadbent;
- Jolie Hodson, Director and CEO;
- Charles Sitch;
- David Havercroft; and
- Stefan Knight, Finance Director

Also present is our General Counsel, our Company Secretary, auditors from Deloitte, lawyers from Russell McVeagh, and share registrar – Link Market Services.

Unfortunately, our Director, Gordon MacLeod is unable to join us today as he has just undergone emergency surgery for a ruptured appendix.

Now let me turn to Spark's progress over the past year.

In Aotearoa, a large part of 2022 was still defined by Covid. For Spark, we faced ongoing disruptions in the first half of the year from lockdowns, with Auckland in particular spending 107 days locked down.

The second half, saw economic volatility emerge as a result of the war in Ukraine, rising inflation, labour shortages, and supply chain constraints.

The most material impact for Spark continued to be our lower levels of mobile roaming revenue, given travel was restricted for much of the year. The good news is we've now started to see this revenue return, as border restrictions have eased and we're once again welcoming international tourists to our shores.

Like all businesses, we're operating in an incredibly tight labour market, and skills shortages in the technology sector are an ongoing challenge. We're working collaboratively across the sector to build a talent pipeline over the longer term, while increasing our focus on internal talent mobility in the short term.

Our teams are also working to tightly manage our supply chain, holding more stock on shore and working to longer lead times to mitigate the impact of delays and price volatility.

But we're optimistic about the future, and we are well positioned for future growth.

Turning to our FY22 results, Spark pleasingly returned to growth, with revenue increasing 3.5% to \$3.72 billion driven mainly by our mobile service revenue growth at 5.5% and outpacing the market.

Our cloud, security, and service management revenue grew modestly to \$446 million, with performance impacted by the extended lockdowns in the first half, supply chain disruption, and some execution challenges.

Spark IoT and Spark Health made a strong contribution to revenue growth during the year, with Spark IoT revenue increasing 22% and Spark Health 46%.

When overall revenue growth was combined with our long-term focus on disciplined cost reduction, we delivered EBITDAI growth to \$1.15 billion, towards the top end of our guidance range.

Net profit after tax increased by 7.6% to \$410 million, largely driven by EBITDAI growth, with net financing, depreciation and amortisation, and tax remaining stable.

Capital investment of \$410 million was in line with guidance and our target envelope of approximately 10%-11% of revenue.

Our free cash flow of \$296 million was lower than our aspiration, impacted by advanced purchasing of inventory and capital expenditure items to mitigate supply chain disruption risks and the related impact on working capital.

As a result of our overall strong performance the Board declared a total FY22 dividend of 25 cents per share, 100% imputed.

In these uncertain times, we know our shareholders are looking for consistent returns and want to make sure that capital is used effectively.

The Board reviewed Spark's Capital Management Policy and released a new Capital Management Framework, which is designed to grow long term shareholder value through disciplined investment, while returning excess capital to shareholders and maintaining financial strength and flexibility.

During FY22 we established TowerCo as a subsidiary company to improve the performance, utilisation, and efficiency of our passive mobile infrastructure assets and to explore the introduction of third-party capital.

This culminated in the agreement to sell a 70% stake in TowerCo to the Ontario Teachers' Pension Plan just after the close of the financial year. Ontario is a high-calibre investor with a long-term partnering focus and significant experience managing a portfolio of infrastructure investments globally.

As we confirmed to the market in October, the sale has now completed, delivering net proceeds of \$911 million and valuing the TowerCo business at \$1.175 billion.

We have allocated up to \$350 million which we intend to return to shareholders via an on-market share buyback. The buyback will be subject to market conditions at the time, and we may investigate alternative return opportunities. We will update the market in due course.

A further \$350 million will be invested in future growth opportunities like digital infrastructure, scaling Spark Health and Spark IoT, and accelerating the commercialisation of emerging technology, such as digital identity and verifiable data through our subsidiary MATTR.

The remaining funds will be used to offset debt headroom requirements due to the increased lease liability of our long-term agreement with TowerCo to secure access to existing and new towers.

As we look to FY23, our ambition is to grow free cash flow to between \$460 and \$500 million. This growth reflects the changes we have made to evolve from a traditional telecommunications business to a more diversified and higher growth digital services provider.

As a result, we are guiding to a total FY23 dividend of 27 cents, 100% imputed, funded through earnings and free cash flow growth. This is the first time the total dividend has increased since 2016 and reflects the confidence we have in Spark's strategy and future growth potential.

Our strategic focus on sustainability has continued during the year.

From an environmental perspective, there is no greater economy-wide priority than climate change.

As we look to the future, we know the window to take meaningful action to prevent the worst impacts of climate change is closing fast and every business must act.

During the year we established an emissions reduction and energy efficiency programme to drive action against our science-based target of reducing scope 1 and 2 emissions 56% by 2030, from a FY20 baseline.

Over the past year we saw a 15% emissions reduction, through a combination of grid decarbonisation and energy efficiency improvements within Spark.

We have also linked our financing to our sustainability performance – with Spark Finance establishing three Sustainability-Linked Loans totaling \$425 million and issuing New Zealand's first Sustainability-Linked Bond of \$100 million.

From a broader governance perspective, we recognise that we operate within a global supply chain, with suppliers in some geographies at a higher risk of issues like modern slavery. Over the last year we have matured our approach to managing and mitigating these risks including a new Human Rights Policy, making an explicit commitment to respect all internationally recognised human rights, and setting clear expectations on how we will address issues across our value chain.

We have transitioned to a new supplier risk management system, which improves our visibility of supply chain risk and compliance, and we joined the Joint Audit Co-operation of telecommunications companies.

We also continue to invest in community-led solutions to bridge the digital divide through Spark Foundation, and in the last year, we have grown our not-for-profit broadband service, Skinny Jump, by 33% – supporting over 23,000 households that would otherwise be excluded from the digital world.

Finally, we have maintained our focus on investing in our people and culture, which is undoubtedly the backbone of our business.

We are pleased to have achieved our 40:40:20 gender diversity target at the Board, Leadership Squad, and senior leadership levels. During FY22 female representation increased from 42% to 47% in our senior leadership roles.

We were also pleased to appoint two new Non-Executive Directors during the year.

In August, we announced the appointment of Gordon MacLeod and Sheridan Broadbent. In accordance with the NZX Listing Rules, Gordon and Sheridan offer themselves for re-election.

Shareholders will also be voting on the re-election of Warwick Bray and Jolie Hodson.

As my last re-election was at the 2019 AGM, I will also retire and offer myself for re-election today.

And finally, as we announced recently, Paul Berriman will be stepping down at the close of this Annual Meeting.

I wish to thank Paul for the significant contribution he has made to Spark during his tenure of over a decade on the Board. Paul has provided invaluable guidance during pivotal moments in Spark's history and has played an instrumental role in supporting Spark's transformation from a legacy telco to New Zealand's largest telecommunications and digital services provider.

On behalf of the Board, we thank you Paul and wish you every success in the future.

As I noted, I will offer myself for re-election this year, and in doing so I wanted to say what an honour and a privilege it has been to serve you our shareholders as a non-executive director for the past eleven years and as Chair for the last four.

For me, the primary role of our Board is to develop a clear strategy for how we deliver value to our shareholders, our customers, and Aotearoa. I am proud of the strong performance Spark has delivered over many years, and that we closed out FY22 ranked #2 against our international peers for total shareholder returns, with a compound annual growth rate of 12% for the last three years.

We are well underway in forming our business strategy for the three years ahead, with a focus on leveraging the competitive advantage we have built, while looking at new sources of future growth.

And finally, I am enormously proud of *how* Spark delivers value. I have seen the culture grow stronger each year, fuelled by a more diverse and empowered workforce, who are committed to improving the experience we deliver our customers, and on living up to our purpose – to help all of New Zealand win big in a digital world

On behalf of the Board, I would like to thank all Spark people for their hard work and dedication and acknowledge and thank my fellow directors – and you, our shareholders – for your support over the last year.

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

I now invite Jolie to the address the meeting.

Chief Executive Officer's Review (Jolie Hodson)

Tēnā koutou katoa, ngā mihi nui kia koutou.

Thank you Justine, and good morning everyone. I echo Justine's earlier comments that it is fantastic to be here in person with many of you today, and to those joining us remotely, a virtual tēnā koutou katoa.

As Justine has shared, Spark delivered another strong financial result in FY22.

This was the second year of our 3-year strategy, and as we continued to deliver what we said we would, we have also been laying the foundations for future growth.

We continued to grow our established markets of wireless and cloud.

- The market-leading result Justine outlined in mobile was driven by our maturing data-driven marketing capabilities, which has seen a 13% increase in customers on Endless mobile plans and supported a 4.9% increase in total ARPU.
- We redesigned and launched simpler broadband plans during the year, which stabilised our broadband base, and we now have 28% of that base on wireless – meaning we are on track to meet our FY23 target of ~30%.

- In cloud, security, and service management we are focused on lifting performance through refreshed products and pricing and further growing our cloud specialist skills.

As Justine noted, we also continued to see strong momentum in our future markets, with revenue growth across Spark Health and IoT.

- Spark Health won new national contracts through the newly established Te Whatu Ora, or Health New Zealand, and launched its new cloud-based digital health platform, Kete Waioira.
- Spark IoT grew connections by 75% to 832,000 and we took a significant stake in our partner Adroit, to accelerate future growth in sustainable monitoring solutions.
- In Sport we delivered a successful season of cricket and we remain focused on strategic partnerships to improve returns.

This growth across our established and future markets was supported by our focus on four core capabilities that are differentiating Spark in the market as they further embed across the business.

We are a simpler business than we were a year ago.

- We retired 102 legacy mobile and broadband plans, while increasing digital journeys for sales and service by 23%.
- This has made it easier for our customers to interact with Spark, evidenced by a 17.5% reduction in calls to our call centre and an 18% growth in online revenue.

We continued to hone our data capability to better understand our customers' needs.

- Our data and AI-driven marketing capability can now better predict the needs of ~90% of our customers' households and make recommendations for more than half of our small-medium business customers.
- This has increased our marketing campaign conversion by 19% year on year.

As we deliver these simpler, more digital, and data-driven customer experiences, we are improving engagement – with our customer interaction net promoter score (iNPS) up 9 points from FY21.

Building a smart, automated network that underpins Aotearoa's digital economy remained a focus.

Despite the challenges of Covid lockdowns, our 5G roll-out continued at pace.

- We made solid progress towards our goal of 90% population coverage by the end of calendar year 2023, with 5G live in 21 locations across the country by the end of FY22. Today we are now live in 53 locations.
- We were pleased to announce a couple of weeks ago that we have reached an agreement with the Crown in principle, for a direct allocation of C-band spectrum that will provide Spark with long-term management rights to 80 MHz of 3.5 GHz spectrum.
- In return for that allocation, we will commit an additional \$24 million in funding to the Rural Connectivity Group between 2023 and 2025, which will enable RCG to expand mobile coverage further into rural New Zealand and to address more mobile black spots on state highways. We have also agreed to deploy more extensive 5G services in provincial towns in the same time period.
- We encourage the Government to proceed with pace on the finalization of this agreement, and on the future allocation of 600MHz, which will be particularly important for rural 5G coverage.

Looking beyond 5G, we have also continued to boost capacity and resilience in our network.

- Our Takanini Data Centre expansion is on track for delivery, our Mayoral Drive Exchange upgrade is complete, and the build of our Optical Transport Network 2.0 – which is the fibre backbone of our network – is 87% complete.
- We were also pleased to welcome customers onto the new Southern Cross NEXT cable, which has almost doubled international capacity for New Zealand.

Finally, we have made significant progress building a growth mindset across Spark and we have continued to make significant investments in the capability and wellbeing of our people.

- We launched a new and more holistic wellbeing strategy, Mahi Tahī, to support our people's mental health and wellbeing during ongoing Covid-19 disruptions.
- We recently completed a culture survey across our business, and were pleased to have 89% of our people participate, sharing their thoughts and feedback on Spark's culture with us.
- This resulted in an employee NPS of +77, with 79% of our people feeling like they belong at Spark which we are extremely proud of.
- The survey has also provided us with important insights on where we can do better, and how we can continue to build a high-performance culture, where all our people feel like they belong.

As I look to the future, and consider the challenges we face as a nation, it's clear that technology will continue to play a critical role in how we adapt and transition to a more sustainable future.

This year I stepped into the role of Convenor of the Climate Leaders Coalition, to work alongside my fellow signatories and collectively raise the bar on what business leadership on climate action looks like.

As a digital services company, Spark has an important role to play on this journey, enabling Kiwi businesses across a range of sectors to decarbonise and improve environmental performance. We are already seeing this come to life in some parts of our business, with over half of our Spark IoT revenue in FY22 linked to environmental solutions – from more efficient use of water on farms to enabling the deployment of electric car charging stations to more areas across the country.

Earlier this week, we were joined by Prime Minister Jacinda Ardern, and Minister of Climate Change James Shaw at our innovation studio to officially launch a new piece of research. This research quantifies the emissions reductions that can be enabled by digital technology and identifies what these opportunities look like across different sectors.

We are seeing an acceleration in technology convergence, as 5G, multi access edge compute, data and AI, IoT, and cloud computing combine to deliver powerful solutions to business problems. This is opening up new opportunities to help businesses transform, and new commercialisation opportunities for Spark.

For example, our investment in our subsidiary MATTR, which specialises in digital identity and verifiable data, reached the stage of commercialisation during the year.

MATTR is focussed on solutions that enable trusted digital interactions for individuals. It supported the creation of the Government's Covid-19 vaccination certificates and has secured additional contracts in offshore markets like the Colleges of Canada around education credentials.

As businesses harness the power of technology to become more sustainable, we expect to see digitisation continue to accelerate, and this brings the issue of digital equity firmly into the spotlight.

With 1 in 5 New Zealanders digitally excluded in some way, we will not achieve a just transition unless we lift digital equity across our communities, and this remains a strategic focus for Spark.

And finally, as I offer myself for re-election as an executive director this year, I wanted to finish by saying that it has been my absolute privilege to lead our team of incredible people here at Spark and to serve on the Board.

During a time of significant disruption in New Zealand we have been able to maintain our focus on delivering the results we committed to you, our shareholders, and we are on track to deliver our FY23 strategy ambitions.

We are maximising shareholder value as we grow earnings and free cash flow, and as we better realise the value of our passive mobile assets through the TowerCo transaction.

As I look ahead, I am excited about the opportunity we now have to harness the power of technology to help our customers transform, to help Aotearoa transition to a low-carbon economy, and to keep delivering great experiences for our customers and great returns for our shareholders.

I want to finish by recognising the pivotal role our people have played in delivering these results, while supporting our customers through what have been unprecedented times.

Spark has an important role to play as New Zealand transforms in the years ahead and we are only able to fulfil our purpose as a business with the support of our shareholders, our customers, our people, and our communities. And I thank you for your ongoing support.

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

-ENDS-

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About Spark

As New Zealand's largest telecommunications and digital services company, Spark's purpose is to help all of New Zealand win big in a digital world. Spark provides mobile, broadband, and digital services to millions of New Zealanders and thousands of New Zealand businesses.

www.sparknz.co.nz