



## **Market Announcement**

6 November 2015

### **Chairman's Address delivered at the 2015 Annual Meeting, Spark City, Auckland at 10:00 am on 6 November 2015**

Kia ora and good morning.

On behalf of the Board, management and staff of Spark New Zealand, thank you for attending the 2015 Annual Meeting. My name is Mark Verbiest and I am Spark New Zealand's Chairman.

Spark New Zealand is now visibly different from the Telecom of old. Exemplifying the difference, you will be aware that we have provided an opportunity for shareholders to participate virtually in this annual meeting, a first for a listed company in Australasia.

We've gone from a traditional infrastructure based Telco to a competitive digital services retailer. Our reliance on legacy voice and plain old telephone products is shrinking while we are increasing focus on data, mobile and ICT platform services. This is reflected in our financial performance, and shareholders will note that revenues from the basic copper telephone rental and toll services are becoming a much less significant portion.

We've continued to simplify our business and significantly reduce costs. From serving many markets we are focused solely on New Zealand. We have a fast rising Spark brand with much wider market appeal. And to support our main brand, we have specialty service brands such as Revera, Skinny, Bigpipe and Lightbox, which are all top rated brands in their field.

We believe we are making the right investments. We've invested in fibre and 4G mobile, supported by a huge core Optical Transport Network and best-in-class data centre and Cloud

computing capability. We've rebuilt our IT stack to put customers at the centre of our systems and enable much more digital-based customer services. And we've invested in new products like Lightbox TV, Putti apps, Qrious big data analytics and Morepork home security.

Spark New Zealand's ability to deliver on its strategic intent is now proven. Over the last two years, we have set ambitious goals and worked relentlessly to achieve them. As a consequence, improved financial results are following and, importantly, more New Zealanders are choosing Spark.

In August this year we reported a return to modest profit growth from continuing operations after many years of financial decline.

Particularly pleasing is the significant underlying improvement in free cash flow. This provided the Board with the confidence to increase the dividend payment to shareholders from 17 cents per share in FY14 to 20 cents per share in FY15. For FY16, the Board's intention is to pay annual dividends of 22 cents per share and special dividends of 3 cents per share (subject to there being no material changes in operating outlook). Combined with the share buyback programme we commenced in June this year, these special dividends will also assist to return gearing to more appropriate levels.

It's been a good start to the FY16 year. The first quarter results are on-plan, and we remain pleased with the progress we are making as a business. Simon will touch on this later in his own comments to the annual meeting, however I will take this opportunity to reaffirm our guidance for the full-year.

While the forward indicators are positive, we can't stand still. The next growth phase of the strategy won't be easy. Whilst demand for data and for mobile is booming and we see significant opportunities, monetising this growth in demand will require relentless execution, and investments in new digital services will take time to realise potential revenue growth. Our competitors will not be standing still either. And we are acutely aware that a challenging fibre order process within our industry is putting pressure on customer service. This has meant a disappointing service experience for too many of our customers, something we are determined to fix over FY16 as we work with all involved parties to find solutions.

Yet we have advantages that give us confidence. We have a clear long-term strategy. We have a proven ability to execute. We have invested judiciously in network leadership, in digital capability and in growth opportunities.

We have outstanding leadership and a talented team of people who are committed to serving our customers. We have a wide range of talent and leadership development programmes now in place, and we have a greater focus on ensuring our people better reflect the diversity of New Zealand and the digital future that is coming.

We also work hard to put the right incentives in place to ensure that first and foremost we create value for customers and shareholders. Two of the resolutions before you today relate to this. Approval is sought for the issuance of shares and for the provision of financial assistance to the Managing Director, via two performance and incentive schemes. His remuneration package has been independently benchmarked. The fixed remuneration remains the same as at his appointment in 2012. Almost two thirds of his total potential remuneration is 'at-risk' and linked to annual financial performance or long term shareholder value. We believe this firmly aligns the Managing Director's remuneration with the interests of shareholders and ensures any grant reflects actual performance.

We have a Board with diverse and relevant skills that actively engages with investors, and an ongoing board succession programme. This saw the arrival of Silicon Valley based digital entrepreneur Ido Leffler in 2014, and we are actively recruiting for a replacement for Maury Leyland, taking the time to ensure we get the right set of skills to add to the Board.

I'd like to thank the management and staff of Spark New Zealand for their ongoing commitment to Spark New Zealand. I'd also like to thank you, our shareholders, for your continued support. It's a privilege to serve as your Chairman. As shareholders, I encourage you to be our champions. This really matters. Our success depends on how well we deliver for customers in just one market - New Zealand. And New Zealand's success is our success.

Thank you.

-ENDS-

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