Chairman's Address
Sky Network Television Limited Annual Shareholder Meeting - 2 November 2022

Fellow shareholders, welcome to this hybrid Annual Shareholder Meeting of Sky Network Television Limited. I'm Philip Bowman, your Chairman. It is good to see a number of you here today in person after the disruption of covid over the past several years.

I would like to start by outlining the progress made in FY22. As I mentioned in my letter which accompanied the Annual Results, Sky ended the 2022 fiscal year in a much-improved position, having made good progress against its strategic plan, and having delivered a 41% increase in reported Net Profit after Tax of $62.2 million, and significantly improved Free Cash Flow. Importantly, results were significantly above the expectations we set out in our original guidance for the year, with a substantial upgrade announced in December 2021 following a detailed review of costs. In particular, I would highlight three areas that contributed to this successful outcome.

- First, we saw continued growth in the number of customer relationships, as Sky's strengthened content continues to attract new and returning customers to Sky platforms.
- Second, the 2022 year saw the return to revenue growth - the first increase in six years and pleasingly driven by growth in core subscription revenue. The increase in customer relationships was a contributing factor, as was the improved retention of high value Sky Box customers. It is important to also recognise that we benefitted from a price increase on Neon, taken in the previous fiscal year, and late in the fiscal year we raised the price of Sky's Sport package. Both increases were delivered without impacting customer numbers – a testament to the quality and value Sky's content offering represents.
- Third, the strong focus on cost control continued, as evidenced by the successful delivery of $39 million in operating cost reductions enabling reinvestment for growth, including new content. These savings were identified through an initial cost review and include $29 million in ongoing permanent reductions that will carry through to future years.

The successful sale of Sky's Mount Wellington properties for $56 million was an additional highlight, releasing capital, delivering an immediate $14.0 million gain on sale, and also ensuring an overall reduction in Sky's ongoing property costs.

This performance, combined with greater confidence in the future, despite a worsening economic backdrop, allowed the Board to declare a fully imputed final dividend of 7.3 cents per share, delivering on the promise made at the interim results of a return to paying dividends.

Underpinning these results, for customers and shareholders, is the very significant effort and commitment of the wider Sky crew. This is a credit to Sophie's leadership and the support of her strengthened executive leadership team which came together during the year.

Moving now to 2023, whilst the Board and Management recognise there has been significant progress, we are clear there is much more to be done. Sky remains a business in transition, and we do not underestimate the need to continue this progress and to capture the growth opportunities available to us as the media industry continues to evolve.

FY 2023 year will be a crucial year for the business, and one in which excellence in execution will be key. Priorities include:

- New Technology. An immediate focus is the successful delivery of the new Sky Box and Sky Pod that will provide customers with a significantly enhanced experience. We rightly see this as a crucial, transformational moment that will unlock new opportunities for Sky, and the team is determined to deliver on this promise.
- Advertising. We have signalled our intention to strengthen capability in advertising to capture a larger share of this significant revenue pool. The opportunity to deliver additional value from Sky's unrivalled content offering and significant reach including via free to air is real, but will require investment to secure.
- Cost base. While we are rightly investing for the future, our focus on continued reduction of the cost base remains firm. The rights we have secured are not generally subject to inflation linked increases, and Sky's hedging policy will provide protection from some near-term exchange rate fluctuations. However, the expected step-up in programming costs for 2023 and inflationary pressures in some areas of our business, such as people and production costs, require a sharpening of our focus on all cost lines. Like all businesses impacted by input cost inflation, we will maintain an ongoing review of the prices we charge.

You will hear more from Sophie on the very real cost out initiatives we have in our sights, as well as the investment opportunities that I have touched on.

Turning to Capital management strategy, I would like to explain the path that has led us to the capital return resolution on which you will be voting later.

The turnaround in Sky's position over the past 2 years has been dramatic, and whilst there are still challenges to be navigated, Sky has a strong balance sheet, and had a $139 million cash balance at last year end, including proceeds from the property sale. Sky also has strong and sustainable free cash flows, and an undrawn banking facility of $150 million. During FY22, your Board initiated a review of Sky's capital management strategy, taking into consideration likely capital needs, opportunities to invest to drive future growth, as well as future performance projections.

As part of this consideration, Sophie and her team took the time to review investment opportunities. These included assessing the merits of a potential acquisition of MediaWorks as a means to achieving scale and additional capability in advertising. With the benefit of hindsight, the timing proved less than optimal with a significant market correction taking place during discussions and due diligence. Whilst the ultimate decision was not to proceed with a transaction, the strategic rationale for a combination was broadly validated and the learnings for Sky have been very valuable.

Returning to capital management strategy, our investor base is a broad church and discussions revealed a wide range of views on how much cash should be retained, and the method by which returning surplus cash might be achieved. Ultimately, the Board's confidence in the Company's position and outlook were behind the decision to return the sum of approximately $70 million which proved to be comfortably above expectations.

Sky's capital allocation strategy strikes a careful balance between returning surplus capital, providing an income stream to shareholders through dividends, and retaining the flexibility to invest for future growth, including the potential to accelerate the rollout of the new Sky Box. A further consideration is future on-market buy-backs utilising surplus capital to cancel shares if the Board believes that these are trading below their intrinsic value.

The full range of methods available to return cash was considered with key considerations being equal treatment of all shareholders and the ability to execute with certainty and on a timely basis. While we understood the appeal to some shareholders of a share buy-back, this was ruled out given the quantum of funds to be returned relative to the Company's market capitalisation, and the lack of liquidity in Sky stock. By comparison, a special dividend would have been relatively easy to execute but would have used a substantial quantum of imputation credits, while triggering adverse tax consequences for many shareholders.

The decision we arrived at, to return capital by way of a Court Approved Scheme of Arrangement will be voted on later in the meeting and I would make three points on the rationale for this as the chosen method:

- It offers a fair and equitable outcome – treating all shareholders equally.

- This method also allowed us to seek a ruling from the IRD to deliver the most efficient tax outcome to maximise the value to New Zealand based shareholders. I am pleased to be able to advise today that Sky has now received this ruling.

- And finally, the Scheme provides certainty of execution - if supported by shareholders today, cash of approximately 40 cents per existing share should be in the hands of shareholders by late November.

Your Board unanimously supports the proposed capital return and recommends that you vote in favour of the resolution, as will all directors, when the time comes.

As a further demonstration of the Board's confidence, and with reference to our view on cash generation and appropriate levels of leverage, we have today announced an amendment to Sky's dividend policy. Going forward, the previously advised pay-out range of 50% to 80% of Free Cash Flow (excluding one-off items) has been increased to 60% to 90% on the same basis. We are also confirming the definition of Free Cash Flow is after capex spend which includes both replacement and growth assets. In addition we clarified the definition of one-off items as including a material acquisition or disposal of assets.

As a result of the change, Sky's dividend guidance for FY23 has been increased to between $18m and $24m. This change is a positive demonstration of our ongoing commitment to return surplus cash to shareholders and one that I trust shareholders will appreciate.

Assuming shareholders approve the return of capital, the number of outstanding shares will reduce by 16.7% from approximately 174.7 million to 145.6 million. Completion of the capital return and share cancellation would deliver a theoretical share price of $2.18 based on the NZX share price at yesterday's market close of $2.22. At the midpoint of the FY23 guidance given to the Market on 25th August, but amended for the dividend policy announced today, key metrics for FY23, assuming the lower number of shares had been in issue throughout the financial year, would be a Return on Issued Capital of 16.4%, a valuation of 0.4 times revenue or 1.8 times EBITDA, and a dividend yield of 9.2%.

While Sky's shares listed on the NZX provided a heathy 18% increase in the year to 31 October compared to the NZX50's fall of 13% and the ASX300's fall of 2%, we are yet to see the share price reflect the improved results and outlook for the Company. The Board believes that Sky's shares are significantly under-priced.

With this in mind - and consistent with the Board's stated capital allocation strategy and focus on value creation, the Board is currently minded to initiate an on-market buy-back programme following the announcement of the interim results, noting that the size of any programme would be determined by reference at that time to the prevailing share price, the cash position of the company, the economic outlook, and the liquidity of our shares in the market. By way of an example, based on the reduced number of shares following the proposed return of capital and given Sky's net cash position, a $15 million buy-back programme would be expected to deliver a 5% uplift in both EBITDA and Earnings Per Share.

In conclusion, I would like to firstly thank my fellow board members for their diligence and commitment on behalf of shareholders. We met frequently during the year as a board, but Directors were also co-opted to a number of ad hoc committees, some of which met many times.

This year we have welcomed Mark Buckman who joined us in March and whose skills and excellent contribution have swiftly made a positive impact. Geraldine McBride will stand down from the Board at the conclusion of the meeting. She leaves with our sincere thanks and appreciation for nine years of service to Sky. A search has been underway for several months for a further new director as part of the process of refreshing the board, with an announcement to follow once this process is complete.

I should also like again to reiterate the Board's thanks to Sophie, her leadership team and the wider Sky crew for the positive progress and strong results achieved for shareholders.

And finally I would like to thank you, our shareholders, many of whom have supported Sky through difficult times. Thank you for your belief in Sky and continued support for the company. The Board and Management are committed to build on the progress made over the past two years and will continue to drive the transition that is reshaping Sky. I look forward to updating you on further progress as the financial year unfolds.