MARKET RELEASE – FRIDAY, 1 NOVEMBER 2024

Chair's Address and Chief Executive Officer's Review delivered at Spark New Zealand Limited's 2024 Annual meeting, held at 10 am on 1 November 2024

Chair's Address (Justine Smyth)

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

Ko Justine tōku ingoa.

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

Good morning, my name is Justine Smyth, and I am Chair of Spark New Zealand.

On behalf of the Board, I'd like to welcome you to Spark's 2024 Annual Meeting of Shareholders.

For those of you joining us virtually, you'll 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. In the unlikely event of an emergency, please leave the venue using the nearest exit and follow the instructions of Spark employees.

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

Based on the information conveyed to me I confirm 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 stage with me today.

Gordon MacLeod;

Sheridan Broadbent;

Warwick Bray;

Lisa Nelson;

Jolie Hodson, Director and CEO;

David Havercroft;

Alison Barrass;

and

Stefan Knight, Chief Financial Officer

Also present today is our General Counsel, our Company Secretary, auditors from Deloitte, lawyers from Russell McVeagh, and our share Registrar.

Turning now to our financial performance.

FY24 was a challenging year for Spark, and while some green shoots are emerging, these challenges have persisted into FY25.

This is why we announced to the market on Wednesday that we would be reducing FY25 EBITDAI, capex, and dividend guidance.

I want to acknowledge that this falls short of expectations, and we understand the disappointment our shareholders will be feeling. You will rightly want to understand the drivers of the change, and our plans to get performance back to where it needs to be.

So I will start with a summary of FY24, then outline the drivers of our updated FY25 guidance, and finally overview the actions we are taking to reset performance, before moving on to the broader AGM programme.

During FY24 we saw the economic environment in New Zealand significantly deteriorate, and while our business is resilient to economic shocks, it is not immune.

Our country entered a recession, which we are still yet to fully emerge from. We saw significant spending cuts across the public and private sectors, and high inflation resulted in lower consumer spending and weak business investment.

The material reduction in demand across the public and private sectors had a significant impact on IT revenues; lower household spending saw a decline in sales of mobile devices and accessories; and we saw more price-driven competition in both the mobile and broadband markets.

To mitigate the impact of these challenging market conditions, we introduced the SPK-26 Operate Programme and delivered labour and opex efficiencies across the business.

Despite the headwinds we experienced, we did see strong growth in many areas of the business. In mobile we saw service revenues exceed $1 billion for the first time, and data centres and IoT continued to grow.

This was not enough however, to offset reduced demand in other areas.

As you will remember, Spark's FY24 results are cycling the significant net profit declared in FY23, primarily due to the TowerCo transaction. As such, both reported and adjusted year-on-year comparisons are provided in our Annual Report and on screen now. I will speak to the adjusted numbers, which strip out the impact of the one-off gain so as to provide a like-for-like performance comparison.

On an adjusted basis, FY24 revenue declined 1.2% to $3.8 billion, EBITDAI declined 2.5% to $1.1 billion, and net profit after tax declined 21% to $342 million. The reduction in NPAT includes a one-off $26 million adjustment due to recent policy changes the Government made to no longer allow depreciation on buildings.

The impact to topline performance put pressure on our free cash flow, which reduced to $330 million, and our net debt to EBITDAI ratio increased to 2.1x. We remain committed to reducing net debt back to targeted levels of 1.7x.

We declared a total FY24 dividend of 27.5 cents per share.

Let me turn now to our updated FY25 guidance.

Since the conclusion of FY24, we have seen inflation reduce and multiple OCR movements, which is a welcome change that will put more money in the pockets of kiwis and improve confidence over time.

But the key words are over time. The rationale for the most recent 50-basis point OCR drop was telling – pointing to subdued economic activity, weak business investment, weak consumer spending, and low productivity growth.

That is the economic environment we are experiencing, and these challenging conditions have impacted our markets of mobile and IT.

Mobile service revenue is now expected to be largely flat year-on-year compared to our original FY25 ambition of around 3% growth, driven by lower anticipated growth in overall mobile connections and pressure on ARPU.

In IT, our original FY25 guidance assumed stabilisation in the rate of decline of IT services in the second half, and based on the first quarter of trading this remains on track. However, in IT products the mix shift between private and public cloud has accelerated, impacting margins.

Finally, our original FY25 guidance assumed we would deliver an $80 million net cost reduction across labour and opex. We are on track to deliver our net labour cost reduction target in-year. Work continues towards the net opex target, and to support this we intend to expand the SPK-26 Operate Programme to deliver materially higher cost reductions overall, but these will now be realised over FY25 and FY26 collectively.

As a result of these changes, we reduced our EBITDAI guidance range by $45 million or 4% to $1.12-$1.18 billion, to reflect the softer trading conditions we have experienced. In accordance with our standard practice, this updated EBITDAI guidance excludes any gains on sale and transformation costs that are greater than $25 million.

In line with this change, we right sized our capex guidance to our new earnings profile, with a reduction to around $415m-$435 million. As a result, our free cash flow aspiration remains unchanged at $400-$440 million.

The Board then made the difficult but necessary decision to reduce FY25 dividend guidance to 25 cents per share, 75% imputed. In making this decision we considered updated EBITDAI guidance and our current performance context, balanced against a focus on shareholder returns.

Looking forward, we are focussed on resetting performance in four key ways. I will summarise the actions we plan to take now, and Jolie will talk to them in more detail shortly.

Firstly, we are focussed on building momentum in our telco core. This includes a substantial pipeline of activity in our consumer business to stimulate demand over our key sales period and beyond, as well as an ongoing focus on our priority markets and portfolio simplification in Enterprise & Government.

Secondly, we intend to expand the SPK-26 Operate Programme to further transform our cost base across the business.

Thirdly, to support the focus on our telco core, we are undertaking a strategic review of all our non-core assets.

We will consider if Spark retains ownership of these assets, or whether more value could be created for shareholders through divestment or by bringing on new partners.

As part of this review, we have made the decision to divest our remaining shareholding in mobile towers business Connexa. While a transaction is not yet certain, we believe the strong levels of interest we have received is reflective of the high quality of the Connexa business.

We will provide a further update on the review at our interim results in February, or earlier in the case of any material developments.

Finally, is our data centre growth strategy.

As your Board, we are focussed not only on resetting performance and returning Spark to its strong track record of consistent, stable returns in the short term, but on ensuring we are also growing value over the longer term. And we have a significant opportunity to do this in data centres.

To illustrate the value opportunity, a telecommunications focussed business like Spark is generally valued at around 8x EBITDAI. A data centre business can achieve valuations as high as 20-25x EBITDAI at maturity.

This demonstrates the future value to shareholders of building on Spark's existing market share and capability in this market.

To do that we need the capital to fund our development pipeline, which we anticipate will be $1 billion over the next 5-7 years. We are currently exploring capital partnerships to achieve this.

Turning now to our non-financial performance.

We recognise the importance of maintaining our licence to operate and the strength of our brand with our customers and communities, for the long-term benefit of our shareholders.

In FY24 we continued to support economic transformation across the economy, with $350 million of our capital investment supporting improved network performance, resilience, and digital infrastructure. We were pleased to claim the top spot in Opensignal's research report as the country's most reliable mobile network, with the widest coverage experience.

We are proud to see our not-for-profit broadband service, Skinny Jump, now supporting nearly 32,000 households in need across the country.

Looking at our own sustainability performance, in FY24 we saw our scope 1 and 2 emissions increase 26.7%, largely due to a one-off event, when an alarm triggered the release of a fire suppressant at an exchange. This means we were above our Science Based emissions reduction target for FY24.

We did, however, make strong progress on future emissions reductions when we signed a renewable energy deal with Genesis. This will meet around 60% of our current annual electricity requirements make a significant contribution towards our scope 1 and 2 emissions reduction target in the years ahead.

Overall, we were pleased to maintain inclusion in the Dow Jones Sustainability Australia Index.

Before I hand over to Jolie, I want to acknowledge that our share price is not where any of us want it to be.

Our clear priority is resetting performance in our telco core. We will simplify our portfolio to enable this focus and significantly reduce our cost base to offset market headwinds, while investing prudently for long-term growth.

Our underlying drivers of growth are enduring, as the demand for data and compute power and storage continues to grow with every year.

We deliver a return on invested capital of around 15% for our shareholders, ranking ahead of our industry peers globally.

While we are transitioning through a challenging period, Spark has market leading positions in core segments and strong fundamentals that we have every intention of retaining.

We believe in this business, in the role it plays in Aotearoa, and in the long-term value it will deliver to our shareholders.

I will now invite Jolie to provide the CEO Review.

Tēnā koutou katoa, ngā mihi nui kia koutou.

Chief Executive Officer's Review (Jolie Hodson)

Thank you, Justine, and good morning everyone.

I would like to echo Justine's comments and personally acknowledge that we have work to do to win back the confidence of our shareholders, and we are committed to that work.

This was a challenging year not only for Spark but for businesses across the country, and these economic challenges persist today.

Justine has outlined a comprehensive performance reset, and I will now provide more detail in key areas.

Our absolute focus is building momentum in our telco core.

The heart of Spark's business is mobile. We are the #1 network operator by both connections and mobile service revenue. Our network is the most reliable, with the widest coverage. While the market has been tough in recent times, our long-term value drivers remain.

Demand for data continues to grow year-on-year, our brand health across both Spark and Skinny is strong and growing, and we are focussed on stimulating growth into the second half through pricing, new campaigns, and an Endless plan line-up that will deliver our customers higher data allowances than ever before. When combined with easing monetary policy, we are confident these tailwinds will continue to support a strong and growing mobile business into the future.

In Enterprise and Government, our number one focus is also connectivity – which includes mobile, managed networks, and Internet of Things. Cloud also remains an important part of our business, but over time we anticipate an ongoing structural shift from private to public cloud. Our focus is on ensuring our cost base aligns to that changing market, and that we continue to deliver our customers the best hybrid cloud solutions available.

With clarity on our priority markets, we are undertaking a significant product portfolio rationalisation across Enterprise and Government, to simplify and further focus the business.

Turning now to our cost programme. At our FY24 results we outlined three key focus areas of this programme – a $50 million net labour cost reduction through changes to our operating model; a $30 million net opex reduction; and implementing scale AI across the business.

We are on track to deliver our net labour cost reduction target in-year, which will be delivered primarily through the transformation of our Enterprise and Government division.

We are undertaking extensive remodelling of this part of the business – integrating our subsidiaries into Spark to remove duplication and improve efficiency.

Our introduction of new Generative AI use cases across the business is progressing to plan, and we continue to work towards our net opex target. To support this, we intend to expand the scope of our Operate Programme to include a broader transformation of our technology delivery model. To ensure considered execution, this transformation would be phased over FY25 and FY26.

Our technology delivery model refers to how we manage and deliver our network and IT infrastructure, and includes the costs associated with this – such as labour, support and maintenance, licensing, and infrastructure.

Our objective is to accelerate our current strategic focus on automation, simplification, and resilience, while delivering a significantly reduced cost base.

We will provide more details on the benefits and associated transformation costs at our interim results in February 2025.

I will now provide some more detail on our data centre strategy.

As Justine touched on earlier, this presents a significant growth opportunity for our shareholders, and we will be exploring capital partnerships to secure our long-term funding outside the free cash flow of our core business.

This is not a market that is new to Spark. We have been operating a data centre business for over a decade.

Our own usage of data centres is significant, we have complementary digital infrastructure, existing relationships with hyperscalers, and we provide products and services such as cloud. As a result, we have the optimal mix of specialist skills and a deep understanding of New Zealand customers to compete effectively.

What *is* new is the size of the prize in this market.

The New Zealand data centre market is predicted to grow from around 90MW today to around 500MW by 2030 as AI accelerates and as businesses continue to migrate to the cloud. We already have around 25% of the market, which is a strong position to build from.

To succeed in this market, you need the specialist skills as well as the land, power, and fibre in the right places to appeal to potential customers.

Auckland is New Zealand's primary market for data centres, evidenced by the fact the hyperscalers have established cloud regions here. In Auckland we have three high quality sites primed for development – including our existing sites in the CBD and Takanini, and a new site on the north shore. Across these three sites we have a significant pipeline of 118MW available to develop.

Data centres, much like any type of property development, scale over time as builds commence and complete and tenants occupy the buildings.

The capital investments we make today are building long-term, stable, annuity revenues for our shareholders, and as we invest in this growth opportunity, we are targeting returns of around 10-15%.

I would also like to touch briefly on our people at Spark. We know investment in our people and our culture is key to business success and this remains a priority.

Over the last year we have had to make tough but necessary decisions to transform our cost base, which has impacted some of our people. We never make these decisions lightly, and we have done as much as possible to support our people who have been impacted during this transition.

We have also continued to invest in the skills our people need to adapt to new ways of working and new technologies, to support our future growth.

Our people's wellbeing continues to be a focus, particularly in the context of what has been a challenging year for many New Zealanders. We enhanced our Mahi Tahi wellbeing programme with access to new support services. In our last culture survey of FY24, 88% of our people said they believe their wellbeing is supported by their leaders at Spark.

Finally, I will end by focussing on the people who underpin the success of our business – our customers.

While it has been a challenging year, we have not wavered from our enduring focus on improving the experiences of our customers, by making their interactions with us simple and effective. This work is showing up in customer feedback, with our measure of customer satisfaction, our interaction net promoter score (iNPS), increasing a significant 7 points to +38 in FY24.

As we look to the year ahead and continue to transform our business to compete effectively in our markets, our customers will remain at the heart of what we do.

In closing, I want to acknowledge the support of our shareholders and reaffirm my commitment, and the commitment of my team, to resetting performance and ensuring that Spark continues to deliver long-term, sustainable value.

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

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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