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SKY TV AGM 2017 – Chairman's Address

For immediate release, 19 October 2017

The 2017 financial year has again proven challenging for the media industry with an increasingly competitive operating environment.

In addition, the SKY Board and management team had a huge focus on the eventually unsuccessful bid to merge with Vodafone New Zealand.

On February 23 this year, the Commerce Commission announced their final decision not to approve the proposed merger of SKY and Vodafone. I believe this was a flawed decision.

We kept our option open to appeal while we evaluated our next move, but ultimately announced the decision not to pursue a favourable ruling.

This is because even if the appeal was successful, due to the passage of time we would then need to undertake further due diligence and a likely renegotiation of terms with Vodafone…and then seek another shareholder approval of the deal.

This process would likely extend out over another year and we could have no certainty of a successful outcome.

Having heavily focused on the transaction for an extended period of time and the considerable investment in working toward a merger, there was a sense of disappointment at the outcome.

However, this was just one strategic option for SKY and we have now turned our focus to alternative means to attract and maintain customers of video entertainment.

The 2017 financial year saw SKY revenue decrease 3.7% to $893.5 million from $928.2 in the previous period. Operating expenses were flat at $601.2 million and net profit declined 20.9% to $116.3 million.

Operating expenses include costs relating to the acquisition of Vodafone NZ of $2.1 million. Earnings before interest, depreciation and amortisation (EBITDA) was $292.3 million. Within the operating expenses, programming costs increased by $18.3 million to 39.1% of revenue from 35.7% in 2017. The Rio Olympics, a full year of the new more expensive SANZAR rugby contract, return of US PGA golf, Lions Tour, America's Cup, On Demand content and new channel VICELAND all contributed to the increase.

Capital expenditure decreased by $49.1 million to $79.7 million primarily due to the investment in new internet enabled decoders in the prior year.

The subscriber story is a mixed one, total subscribers were down 27,897 to 824,782 but average monthly revenue per subscriber increased 19 cents to $78.82 and gross churn reduced 1.6% to 15.9%.

We announced a final dividend of 12.5 cents per share, and a total dividend of 27.5 cents per share for the year.

Your Board recognises the importance of dividends to shareholders, and was disappointed to reduce the final dividend, but while we continue to operate in a rapidly changing and uncertain media environment, we will be considering diverting funds from dividends further towards debt reduction. We will consider the trading performance and outlook for the business on a regular basis and make an assessment of how much of the free cash flow should be paid as dividends and the extent that debt should be retired.

I was delighted to recently announce the appointment of Mike Darcey as an independent director on the SKY Board.

Mr Darcey has a wealth of experience in the TV, telecommunications and media markets and will make a valuable contribution to the SKY Board as we continue to strive to deliver the best premium content in the best possible ways to our customers.

We are really fortunate to have a New Zealander with Mike's global experience and reputation join the Board. A little later on you will have the opportunity to hear from Mike and re-elect him to the SKY board alongside myself and Susan Paterson.

I want to thank John Fellet and all of SKY's staff and contractors for their dedication and hard work during this challenging 2017 financial year.

And, I thank all of you, SKY shareholders, for your continued support.

Ends.

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