



Environment, Social & Governance Report 2018

Growth | People | Community | Environment | Supplier | Governance | Risk

1 JULY 2017 - 30 JUNE 2018

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This Environment, Social and Governance Report which comprises Spark's Corporate Governance Statement, was approved by the Board of Spark New Zealand Limited on 22 August 2018 and is accurate as at that date. The Board does not undertake any obligation to revise this Report to reflect events or circumstances after 22 August 2018 (other than in accordance with the continuous disclosure requirements of the applicable Listing Rules).

Introduction

Spark's purpose is to help all of New Zealand win big in a digital world. To truly live this purpose, we must do the right thing by our shareholders, our people, our customers and ultimately by all New Zealanders.

We will do this by:

- Focusing on long-term growth and business sustainability;
- Cultivating an inclusive workplace of diverse and engaged people;
- Supporting Spark Foundation to encourage generosity and build a better future for New Zealanders;
- Using technological innovation to reduce our own environmental impact and that of our customers;
- Embedding our Supplier Code of Conduct into supply chain management; and
- Applying best practice governance and risk management procedures.



Welcome.

Tēnā koutou,

For Spark to succeed we know we must change faster on the inside than the world is changing on the outside. That's why we've embarked on a massive programme of business transformation that will help us bring better products to our customers even faster, empower our people to act and put a relentless focus on the customer experience and journey. But while our day-to-day rhythm is necessarily fast, we also never take our eye off Spark's long heritage over more than 100 years. We believe part of our job as the current leaders of this company is to set it up to serve New Zealanders for the next 100 years. If we are to do this, we must take a clear-eyed look at our performance across a range of measures, going beyond pure financials and looking at our long-term contribution to New Zealand.

That is what this Report sets out to do. In it we evaluate our performance rigorously and set out how we intend to improve over the next financial year and beyond. In doing so we have drawn on a range of external measures and benchmarks, including noting the relevant [United Nations Sustainable Development Goals \(SDGs\)](#) applicable to our sustainability programmes.

Our starting point is our higher purpose: to help all of New Zealand win big in a digital world. This means giving New Zealand businesses an edge; helping all our customers to achieve amazing things with technology and ensuring every New Zealander has the opportunity to participate in our country's digital future by bridging the digital divide. It means promoting the wellbeing of Spark people, giving them opportunities to use and grow their talents and giving every individual the confidence to bring their whole self to work. It means using our influence to ensure our partners are ethical, our environment is protected and our communities thrive. And, of course, it means using best practice governance and risk management processes, to protect our shareholders' investments for the long-term.

We know we still have work to do to improve our environmental, social and governance performance but we have a strong focus on this area and are prepared to ask the hard questions of ourselves.

We are looking forward to the next financial year, during which Spark will embed the huge changes of recent months, and continue building a stronger, more resilient and truly useful business for our customers, our people, our shareholders and New Zealand.

Ngā mihi,



Justine Smyth
Chair



Simon Moutter
Managing Director



Justine Smyth Chair



Simon Moutter Managing Director



Long-term growth

Committed to UN SDG goals:



Long-term growth

At Spark we are committed to delivering against our clear, long-term strategy to deliver consistent earnings growth, sustainable business performance and dividends that in the long-term are fully funded through earnings.

This strategy is reinforced by three, more recent, specific areas of focus:

- An increased emphasis on wireless services and investment;
- Better serving price-sensitive customers; and
- The company with the lowest operating costs in our industry in New Zealand.

Our commitment to being an environmentally aware, low-carbon business; to a culture of diverse and engaged talent and to maintaining a strong governance framework that strengthens Spark's market position and aims to enhance investor confidence in the long-term sustainability of our business strategy.

We have already made significant progress against our three focus areas – giving us the confidence to transition to an Agile operating model that will:

- Deeply embed customer centricity;
- Dramatically increase speed to market;
- Foster highly empowered, more productive and engaged people.

We operate in a tough and competitive industry and we know our aspirations are bold. Nonetheless we believe we have the capability and expertise needed for success, with a number of assets:

- Spark's Leadership Squad and people are energised and highly capable;
- A solid track record of execution;
- A clear view of market dynamics, opportunities and the risks ahead;
- A solid technology foundation that is adaptable and future ready;
- A strong suite of assets including market scale, strong balance sheet and cash-flow, portfolio of brands, strong channels and partnerships, digital service capabilities and a powerful organisational culture.

As a result we remain on track to deliver on our aspiration to, over time, increase EBITDA margin into the low 30% range (from high 20% range currently). This will be underpinned by sustained revenue growth and cost reductions in Spark's core business areas; complemented by selectively entering new high-growth markets to unlock additional revenue streams and business models.

We also retain our ambition to pay a sustainable dividend per share that in the long-term is fully funded through earnings of 25 cents per share or above. This is reflective of sustainable growth in Free Cash Flow (FCF) and a prudently managed capital structure, which in turn allows for consistent distributions to shareholders. This focus on long-term growth and business sustainability will deliver the Spark of the future, as we continue on our path to help all of New Zealand win big in a digital world.



FY18 adjusted EBITDA up

2.2%

FY18 adjusted earnings per share up

0.4%

Compound average total shareholder return

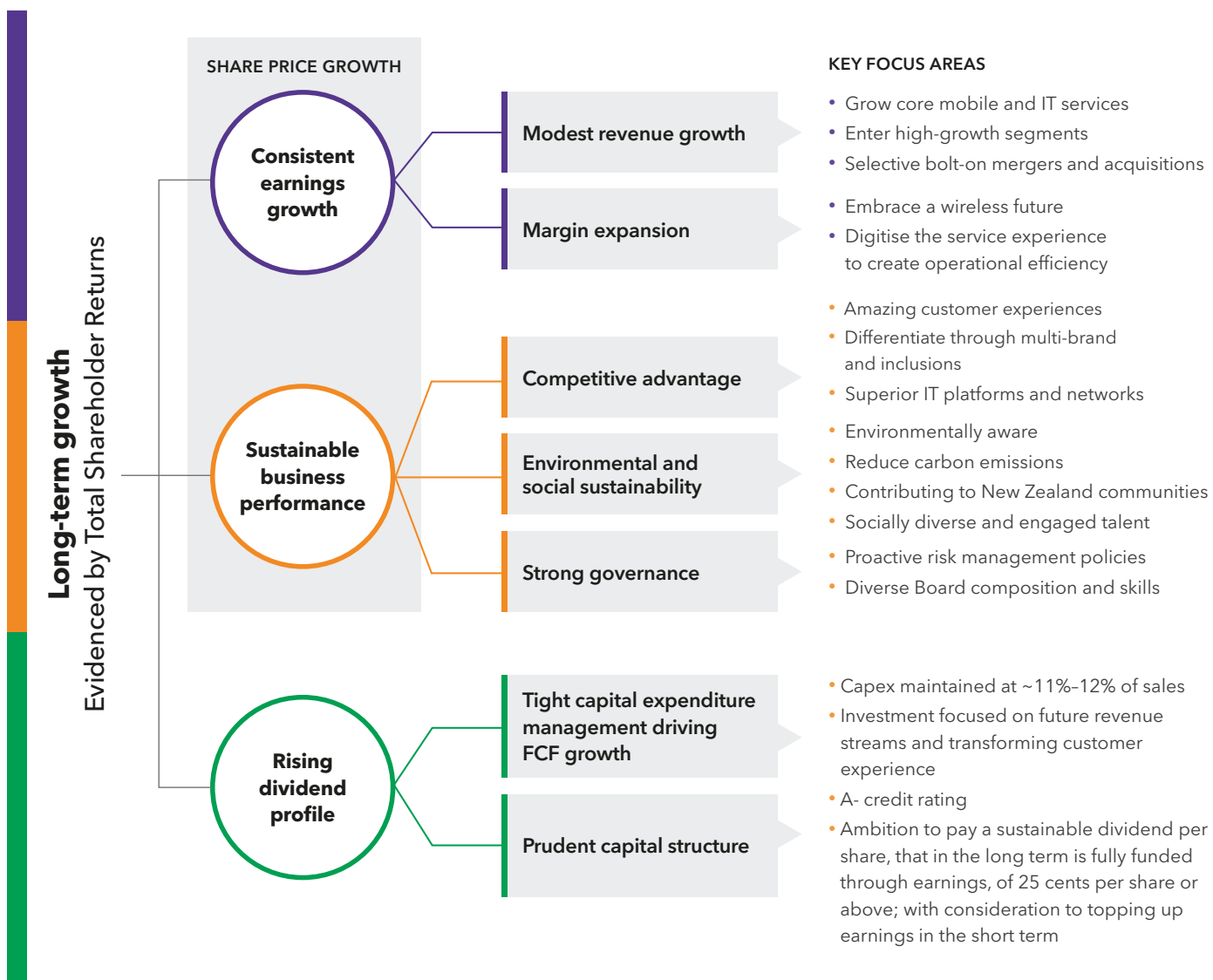
17% p.a.

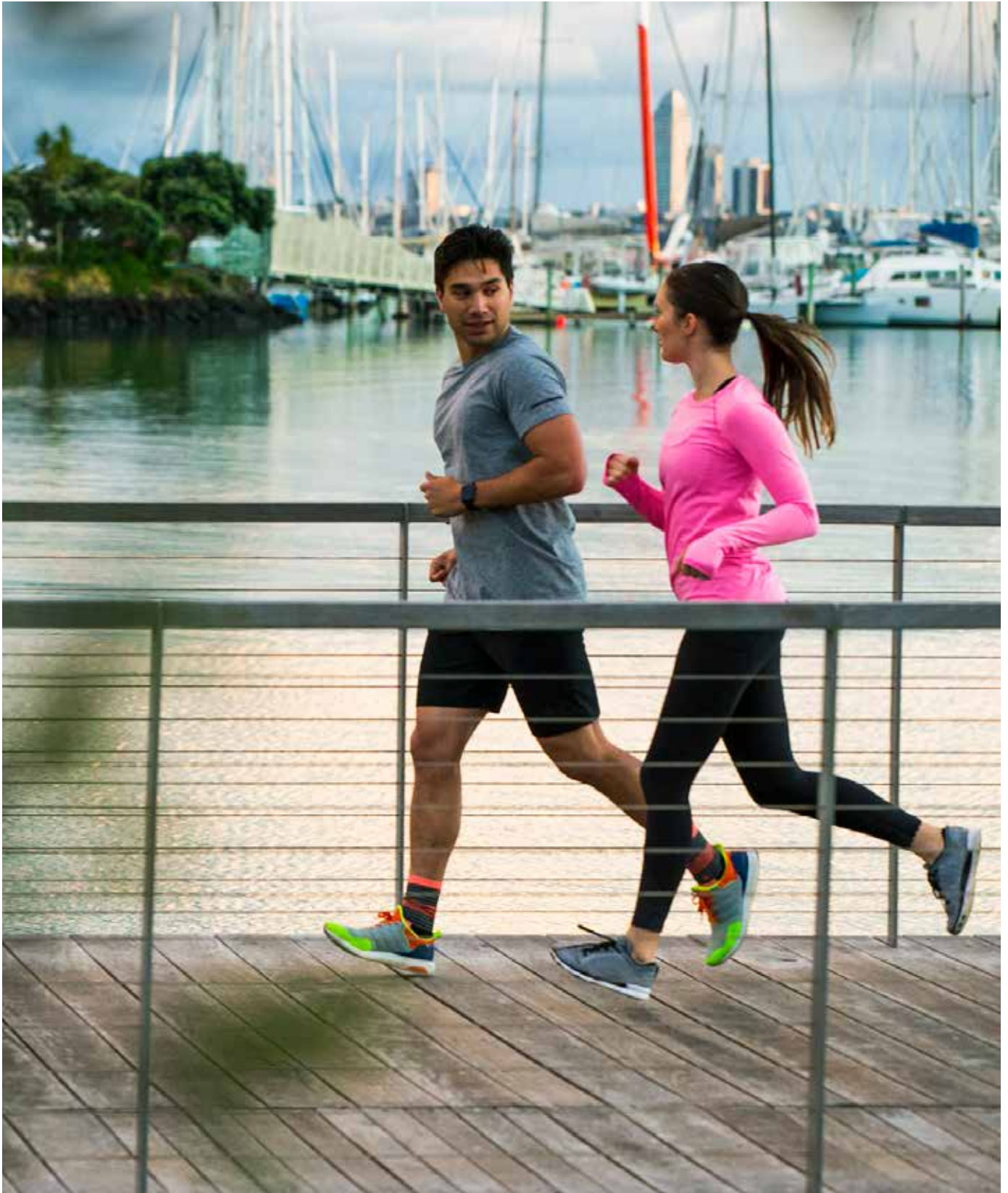
over the past three years





SPARK'S MODEL FOR LONG-TERM GROWTH





People & remuneration

Committed to UN SDG goals:



People & remuneration



Spark seeks to employ the best people and to empower them to do great things for our customers and for New Zealand. To achieve this we remunerate our people with competitive salaries, provide them with a wide range of benefits and incorporate customer satisfaction measures into our performance incentives. We also invest in our people - looking to bring top talent through into leadership roles sooner rather than later.

Our company values guide our decisions and the way our people behave. During FY18, a cross-section of Spark's people formed a working group to reconsider our company values and whether they truly fit with our focus on diversity and inclusion. The result was a new and improved set of values to take us into the future. We have also incorporated the Te Reo translations of these values, acknowledging and respecting our native tongue.

Our Values

TŪHONO

WE CONNECT.

- Connection is at the heart of everything we do.
- We listen and care about our customers, our communities and each other.
- We connect with Spark's purpose and act with intent.

MĀIA

WE ARE BOLD.

- We're not afraid to take ownership and get stuff done.
- We're straight up and we make an impact now.
- We have the courage and commitment to think big, be visionary and deliver today.

WHAKAMANA

WE EMPOWER.

- We've got each other's back.
- We empower our people to enable the communities we serve.
- We inspire everyone to reach their full potential and to speak up about what's important.

MATOMATO

WE SUCCEED TOGETHER.

- We work hard to shape a better future.
- We celebrate success with humility, learn from failure and grow.
- We embrace diversity, making our business and all of New Zealand successful.

Appointed Spark's first female Board Chair, Justine Smyth

33%

of Spark Leadership Squad is female





Spark's key People goals can be summarised as follows:

KEY GOALS	PERFORMANCE IN FY18	LONG-TERM GOALS AND ASPIRATIONS
<p>Create a diverse pipeline of leaders and employees, with a culture of inclusion</p>	<ul style="list-style-type: none"> • Increased female directors from 38% to 50% of the total Board, as at 30 June 2018 • Appointed Spark's first female Board Chair, Justine Smyth • Proportion of females on the Managing Director's Leadership Squad increased from 29% in FY17 to 33% in FY18 • Rolled out new technology-enabled Flexible Working Policy for all employees • Maintained 'Rainbow Tick' accreditation • Developed and delivered gender and cultural bias awareness training across Spark • Launched 'Tuia Te Ao' cultural intelligence app 	<ul style="list-style-type: none"> • >50% of directors and leaders to be either female or non-New Zealand European* • >50% of people leaders to be either female or non-New Zealand European • Diversity and inclusion programmes embedded in recruitment and promotion practices <p>* As measured by information provided by each employee in their staff profile and Diversity and Inclusion profiles. We also audit each business unit.</p>
<p>Ensure Spark people are fairly remunerated and incentivised in ways that lead to better customer outcomes</p>	<ul style="list-style-type: none"> • Measured and reported to the Board and Leadership Squad on our gender pay gap • Developing a new remuneration structure to better support pay parity • Reviewed and updated our parental leave policy: effective from FY19 Spark paid parental leave will increase from six weeks to up to 22 weeks • Incorporated Spark-wide performance objectives (including a 50% weighting on customer satisfaction measures) for all employees with Short-Term Incentives – ensuring a One Spark approach • As we transitioned to Agile, we set out to improve diversity by encouraging a wide range of candidates to apply for leadership roles; using diversity as a 'lens' when evaluating candidates; and ensuring a fair, merit-based selection process. This resulted in a group of people leaders with a diversity profile that is representative of the workforce in the areas of our company that have fully adopted Agile ways of working. 	<ul style="list-style-type: none"> • Alignment of remuneration frameworks to Agile principles • Achieve 100% pay parity • Ensuring our benefits suite promotes diversity and inclusion throughout all areas of Spark • Incentive schemes that promote a One Spark approach to behaviours and performance

KEY GOALS	PERFORMANCE IN FY18	LONG-TERM GOALS AND ASPIRATIONS
<p>Ensure Spark has the right skills on our Board and in leadership teams for the digital future</p>	<ul style="list-style-type: none"> • Throughout FY18 members of the Board and Leadership Squad met with counterparts from a number of global leading digital and technology companies from Asia, Europe and North America • As illustrated by the Board skills matrix, the Board continues to have an appropriate mix of skills, diversity and experience for the digital future 	<ul style="list-style-type: none"> • All people moving to work in an Agile part of the business to complete foundational Agile training • All leaders managing frontline employees to complete Leadership Mindset Programme
<p>Provide a healthy and safe work environment for Spark people and those who work with the company</p>	<ul style="list-style-type: none"> • Sought external advice from H&S consultancy IMPAC, who carried out a gap analysis for Spark's business • Developed and applied a 12-month strategy/roadmap, based on a set of standards that will see Spark establish: a clearly defined H&S framework; active hazard and risk management; development of an employee-driven safety culture and ensuring we have the right resources and processes to deliver on our framework • Empowered workers and suppliers to participate in and improve H&S through a business-wide workers' consultation framework • Developed a risk-based governance framework and policy and clear H&S accountabilities. Communicated these at all levels • Four critical hazards and associated risk standards developed and deployed • Implemented an H&S information management system with agreed modules • Reviewed ACC partnership program for future validation and relevance and retained ACC accreditation at a tertiary level • Applied a Suppliers' H&S prequalification process • New starter safety observations and leadership and culture training for Spark people leaders 	<ul style="list-style-type: none"> • To achieve the four pillars of Spark's H&S standards in everything we do, i.e. strategy and framework, hazard and risk management, leadership and culture, resourcing and supporting activities

We believe that 'inclusion' should be hardwired into what we do and something that everyone at Spark understands.

Diversity and inclusion

Spark continues to make good progress in delivering diversity and inclusion initiatives, with a focus on growing more balanced gender representation at senior levels and improving our cultural identity/awareness.

As one of New Zealand's leading employers we believe that 'inclusion' should be hardwired into what we do and something that everyone at Spark understands. The wide range of ethnicities and generations that make up our talented workforce helps to create an inclusive culture.

We support several employee-led networks including:

- EmpowerED - a platform to unleash the potential of aspirational women at Spark
- Te Āhika - building our people's capability in a Māori business environment
- Spark Pride - embracing the diversity of our LGBTQI+ community and our partnership with OutlineNZ
- Head First - creating a mentally healthy workplace
- Blue Heart Programme - leading diversity and inclusion from the heart

Recognition and celebration of significant cultural events was another primary focus for FY18 which included:

- Diwali
- Chinese (Lunar) New Year
- ANZAC Day
- Matariki and Te Wiki o Te Reo Māori
- Eid al-Fitr
- NZ Sign Language Week
- Chinese Language Week
- Samoan Language Week
- Cook Island Language Week

Leading from the heart

In 2017 we commissioned a gender diversity report to gain qualitative feedback on the impact of our diversity and inclusion programme. The results of this showed while we had undertaken a number of successful initiatives to change systems and processes, many of our people still didn't feel we were focused enough on the 'inclusion' side of the equation.

This issue was addressed in a speech by the Managing Director in September 2017 about facing up to our "uncomfortable truths" about inclusion within the company. We have since rolled out a programme specifically focused on ensuring all our people feel included and comfortable bringing their 'whole selves' to work. This means tackling behaviours, values and addressing gender diversity and other cultural biases.



Spark's Diwali celebrations.



More than 2,700 Spark people have signed the Blue Heart Pledge.

One major initiative involved inviting all Spark people to make the 'Blue Heart Pledge', which is an individual's personal commitment to supporting diversity and inclusion. We believe leading with hearts as well as minds is a critical part of encouraging an inclusive environment at Spark. We've chosen a blue heart as our visual icon because - for us - it is symbolic of the 'blue culture' we want to build where achievement, self-awareness, encouragement and collaboration are tools we use every day. And in the world of emojis (the language of mobile) a blue heart means trust, harmony, peace and loyalty. By the end of FY18, 2,704 people had signed a Blue Heart pledge, including all members of the Board and the Leadership Squad - and we expect this number to grow in the coming months.

Champions for Change

At Spark, diversity in leadership is encouraged at all levels of the organisation. The Board has led by example by achieving a 50:50 gender diversity split and continues to promote women in leadership at Spark. Both Managing Director Simon Moutter and Board Chair Justine Smyth are members of Champions for Change, a group of New Zealand leaders from across the public and private sectors who are committed to raising the value of diversity and inclusion within their organisations. By fully embracing the vision of Champions for Change, Spark will enjoy the benefits of unleashing the potential of all New Zealanders and creating:

- A united, diverse and inclusive workforce;
- 'Inclusion' firmly embedded into Spark culture;
- Visible leadership and sponsorship; and
- Partnerships with organisations who share the same values and commitment to inclusion.

Women in leadership

Spark once again celebrated International Women's Day by inviting inspirational New Zealand women to share their stories and insights at offices in Auckland, Hamilton, Wellington and Christchurch. Visibility of women in leadership is encouraged through initiatives like EmpowerRED, a platform to unleash the potential of aspirational women at Spark. The series is made up of TED-style talks and panel discussions where women and men at Spark can ask leaders the hard questions, as well as providing opportunities for mentorship and networking.

Pride

Spark's ongoing commitment to our Pride community was demonstrated by the #thankstoyou campaign, part of the Auckland Pride 2018 festival.

In 2017 Spark committed to our people that we would be an active and supportive member and ally of the Rainbow Community internally and externally. The 2018 #thankstoyou campaign was the opportunity to demonstrate that commitment, both to Spark employees and to the rest of New Zealand. It acknowledged the historic efforts of individuals and organisations within the Rainbow Community, which mean younger generations can now grow up in a country that is more accepting, loving and respectful. It included the creation of a video, which went viral across New Zealand, and the announcement of a three-year strategic partnership with OUTLine (a confidential telephone support and face-to-face counselling service available to the LGBTIQ+ community and their families and friends).

In 2018 Spark once again took part in the Auckland Pride Parade, with a large float and senior executive participation. This event and the #thankstoyou campaign were widely communicated internally as a way for Spark people to celebrate and get involved.

In 2017, Spark was the first company in New Zealand's telecommunications sector to achieve the Rainbow Tick certification and we have maintained this accreditation over the FY18 year.



Spark once again took part in the Auckland Pride Parade, with a large float and senior executive participation.

RAINBOW TICK 

Spark Māori Business Strategy

Spark's vision for our Māori business strategy is kanohi kitea - for our people to be seen, connected and empowered. Our mission is to become trusted advisors, enabling intergenerational digital solutions through amazing technology. Our purpose is awhinatia ngā tangata katoa o Aotearoa, kia matomato te tipu i tea o matihiko - To help all New Zealanders so that they may grow, stand strong and be successful in the digital world.

The strategy endeavours to build a relationship between Spark and the Māori community and economy to effect change and become a driver for cultural, economic and social growth through meaningful partnerships and digital platforms.

The overall strategy is underpinned by Spark-translated values as guides. They are whakamana (To empower), māia (Courage & Bravery), matomato (To flourish), tūhono (To connect).

A snapshot of progress to date includes:

- Spark is one of three corporate organisations identified as an 'exemplar' for use of Māori language (as traditionally non-speaking domains) and chosen to participate in a 12-month research project 'Subjective Motivation' conducted by Te Kotahi Research Institute via Te Taura Whiri;
- Sponsorship of the first Māori Business Accelerator Programme Kōkiri, in partnership with Te Wananga o Aotearoa;
- Winning the business of a major Māori tertiary institution and drawing up a strategic partnership;
- Hei Tauawhi Cultural Education Programme - educating a cross-functional pool of our people on the basics of tikanga Māori and te reo Māori;
- He nui anō te iti - Little can be huge advertising relaunch voiced in te reo Māori
- Translation of customer iNet Promote Score (iNPS) survey to te reo Māori;
- Internal Tuia te ao Māori Culture and Language mobile application launched for Spark people to incorporate Māori customs into work life;
- Māori Agribusiness Strategy underway;
- Spark waiata launch - Manaakitia ngā iwi katoa - written and composed by Spark's Te Arepa Morehu (Ngāti Whātua Ōrākei);
- Four pōwhiri performed with large FTE (~650) engagement across four of our main offices;
- Matariki video released in te reo Māori, most shared video ever posted on the Spark Facebook page with over 5000 shares.

Health and safety

We recognise that a safe and healthy workplace is one in which our people and suppliers are accountable and empowered to work together to protect and promote the health, safety and wellbeing of all workers. To achieve this, we focus on a framework of continuous improvement to achieve a set of clearly defined standards across the company. Our framework was informed by recommendations from external H&S consultancy IMPAC, which we contracted to do a H&S gap analysis.

We've established four pillars of health and safety: a clearly defined health and safety framework; active hazard and risk management; development of an employee-driven safety culture; and the right resources and processes to deliver on our framework.

Spark maintains a strong commitment to a safe working environment by:

- Actively seeking participation from our people and suppliers and empowering them in the development of our H&S systems and processes;
- Creating a high-performing H&S culture by promoting leadership, initiatives and ongoing support for our people and suppliers;

Spark has developed and committed to a 12-month H&S roadmap to ensure we reach our H&S standards, and continuously improve our H&S practices.

- Investing in the necessary resources, capability and processes to apply our H&S strategy across Spark;
- Taking a proactive 'owners' approach by engaging with our front line to understand the H&S issues within our business;
- Actively monitoring our workplaces through audits and incident investigations, so we can learn from outcomes and make H&S improvements;
- Working across the industry and partnering with other companies to move standards higher and leverage collective knowledge and tools;
- Establishing clear H&S objectives and reviewing them against specific and measurable targets;
- Supporting and promoting the wellbeing of our people and their safe and early return to work after a work injury or illness;
- Ensuring the principles of H&S risk management are embedded across Spark, so we can effectively control our critical hazards and risks; and
- Continually striving for H&S excellence through annual management and independent reviews.

The Spark Leadership Squad and Directors of Spark are also committed to health and safety and meet their due diligence obligations by:

- Being integrally involved in setting and promoting strategic direction through strategic planning, organisational alignment and implementation of H&S;
- Ensuring the established H&S standards are a working governance process that is reviewed and updated periodically to adjust for progress in achieving its objectives and goals;
- Keeping up to date with Spark H&S matters by continually monitoring agreed strategic objectives, specific targets and KPI performance;
- Understanding and monitoring Spark's risk profile, along with the most critical hazards and risks associated with Spark work operations;
- Attending and participating in frontline H&S worksite observations and offering relevant and meaningful intervention where applicable;
- Ensuring Spark has the resources, competency and a suitable process to eliminate and/or reduce H&S hazards and risks to the lowest practicable level;
- Ensuring the business collects and actions information on incidents, hazards and risks; and
- Reviewing and verifying that H&S resources and requirements for all the above are in place.

Spark has developed and committed to a 12-month H&S roadmap to ensure we reach our H&S standards, and continuously improve our H&S practices. Integral to this plan is the implementation of a new H&S and safety information system, which will help shape and monitor KPIs across the business, focusing on Spark's strategic objectives, targets and managing critical hazards and risks.

Spark has identified 11 critical hazards relating to our business operations and we are developing standards for the continual management and reporting of these risks across the business.

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Additional remuneration reporting (including Managing Director disclosures) is included in the Corporate governance and disclosures section of Spark's Annual Report.

Remuneration policy, strategy and governance

This section sets out Spark's remuneration policy and the principles that guide the way in which we design and set remuneration for all our people, including the Managing Director and Leadership Squad. These principles are:

- Rewards are market competitive to attract and retain talented people;
- Remuneration is linked to performance so that higher levels of performance attract higher rewards;
- The overall cost of remuneration is managed and linked to the ability of the company to pay; and
- Rewards to senior management are aligned to the long-term performance of the company.

The Human Resources Compensation Committee (HRCC) is responsible for reviewing Spark's remuneration policy and practices, as well as our overall human resources strategy, structure, policy and practices. Where appropriate, the HRCC engages independent professional advice to inform its decisions with respect to Spark's remuneration policy and the remuneration of senior executives. The HRCC is also ultimately responsible for the governance of Spark's remuneration policies and practices and for ensuring we meet our legislative and regulatory requirements as they relate to remuneration matters. Members of management may only attend HRCC meetings at the invitation of the Committee.

PERFORMANCE EVALUATION

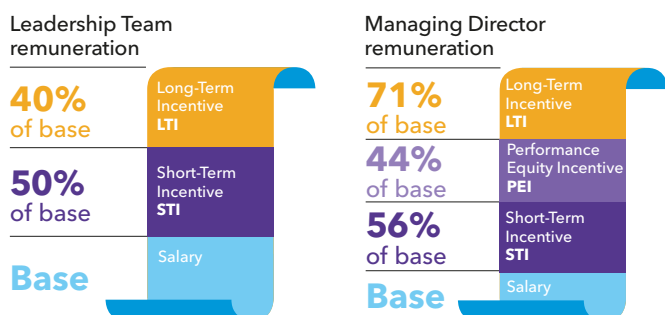
The HRCC annually reviews the performance of the Managing Director. The evaluation is undertaken using criteria set by the HRCC (and approved by the Board), including the performance of the business, the accomplishment of strategic and operational objectives and other non-quantitative objectives agreed at the beginning of each year. The Managing Director evaluation for FY18 was undertaken in July 2018.

The Managing Director annually reviews the performance of his direct reports. The evaluation is undertaken using criteria set by the Managing Director, including the performance of the business, the accomplishment of strategic and operational objectives and other non-quantitative objectives agreed with the HRCC at the beginning of each financial year. The last Leadership Squad evaluations were undertaken during February 2018 (in respect of the transition to an Agile way of working which was implemented in early July 2018).

Remuneration components

REMUNERATION MIX

The graph below shows the FY18 remuneration mix for the Leadership Squad (excluding the Group Human Resources Director role) expressed as a percentage of Fixed Remuneration. The Short-Term Incentive (STI) scheme and Managing Director's Performance Equity Incentive (PEI), a deferred STI, are expressed at target, which is 50% of the maximum opportunity, and the Long-Term Incentive scheme (LTI) values represent the maximum LTI cash bonus.



FIXED REMUNERATION

All Spark employee packages include a substantial fixed remuneration component that is set based on market relativities, performance, qualifications and experience. Fixed remuneration supports the attraction, motivation and retention of highly skilled executives.

Fixed remuneration generally consists of base salary. KiwiSaver generally sits outside fixed remuneration and as such, KiwiSavers receive employer contributions on top of base salary and cash incentives. A number of Spark-funded benefits - including medical and life insurances - are also available to eligible employees on top of fixed remuneration.

SHORT-TERM INCENTIVE SCHEMES

Spark operates a number of short-term incentive schemes, ranging from monthly and quarterly commission and sales incentive plans, to annual cash-based short-term incentives. Employees in specific sales positions may have a component of their remuneration subject to individual or divisional sales performance targets, such that their total remuneration potential is directly linked to the acquisition and retention of profitable business for Spark.

For senior leaders, including the Leadership Squad, a component of their remuneration packages are at risk in the form of annual cash-based short-term incentives. Spark's STI scheme rewards senior leaders for the achievement of annual performance objectives, with payments awarded from a fixed cash pool that is set based on overall Spark performance against financial and/or non-financial annual performance objectives. Eligibility to participate in the STI scheme is at the discretion of the company and is targeted at individuals in senior roles who play a significant role in driving the overall performance of Spark. The FY18 performance objectives are set out in the FY18 remuneration outcomes section.

The STI scheme rules contain a claw-back provision that allows Spark to claw back any payments made under the STI scheme, for a period of 12 months following the payment, in the event of a material financial misstatement or should it be found that the participant committed an act of fraud that affected the eligibility to, and amount of, the payment.

LONG-TERM INCENTIVE SCHEMES

Spark believes that senior leaders should have part of their remuneration linked to the long-term performance of the company, so for the Leadership Squad and a select group of senior leaders, a long-term incentive forms part of their remuneration package. The company currently operates one main scheme:

Spark Long-Term Incentive Scheme

In September 2017 members of the Leadership Squad and selected senior managers acquired shares under the Spark Long-Term Incentive Scheme - introduced in FY16. Under this scheme an interest-free employee share loan is provided by the company for the sole purpose of enabling the employee to acquire restricted shares in Spark - these shares being held in trust for a period of three years, after which, if the employee remains employed by Spark New Zealand Trading Limited, the company makes payment of a cash bonus to the employee that is used to pay off the remaining loan balance. The shares are then unrestricted. Unvested shares are purchased from the employee and the proceeds are used to repay the employee share loan. A performance hurdle applies to all issues of restricted shares under the scheme, creating stronger shareholder alignment for all participants, and requiring a minimum level of performance for any value to be delivered to employees. Restricted shares carry full dividend entitlements but dividends are applied to repay the interest-free loan during the restrictive period. Participants are able to exercise any voting rights attached to the shares. The next issue of shares under this scheme is intended to be made in September 2018.

FY18 Long-term incentive performance measure

Vesting of the FY18 LTI grant (September 2017 grant) is contingent on: participants' continued employment with Spark through to September 2020; and the company achieving a Total Shareholder Return (TSR) performance hurdle. TSR is a measure of share price appreciation and dividends paid over the three-year period of the grant. The target for this hurdle is Spark's cost of equity plus 1% compounding annually.

SPARK SHARE

Spark continues to operate Spark Share, an employee share purchase scheme for all eligible employees of Spark to buy and hold shares in Spark at a discount to the listing price. Spark Share has been approved by the Inland Revenue Department in accordance with sections DC 12 - 15 of the Income Tax Act 2007. Spark Share has a three-year vesting period on the shares purchased. Spark Share was open to eligible employees for its fourth year in FY18.

Managing Director's remuneration

Remuneration policy, strategy and governance

The Managing Director's remuneration package reflects the scope and complexity of his role and is set by the Board with reference to the remuneration of managing directors of similarly sized organisations. For FY18 the Managing Director's remuneration package comprised of a fixed cash component, an at-risk short-term incentive (to be awarded under the terms of the Managing Director Annual Performance Incentive Scheme), an at-risk equity incentive (to be awarded under the Managing Director Performance Equity Scheme) and an at-risk long-term incentive (to be awarded under the Managing Director's Long-Term Incentive Scheme). The construct of the Managing Director's remuneration package is such that 63% of his remuneration package is at risk.

The Annual Report details the remuneration paid to the Managing Director, Mr Simon Moutter, for FY18, including short and long-term incentive outcomes.

Remuneration components

MANAGING DIRECTOR ANNUAL PERFORMANCE INCENTIVE SCHEME

The Managing Director is eligible for an annual cash-based short-term incentive, subject to the achievement of specific performance objectives set by the Board based on Spark's strategy and business plan for the respective financial year. These objectives will be a combination of financial and non-financial measures, including corporate governance, reputation and effective leadership and management of the company. The Board will assess the Managing Director's performance at the end of the financial year to determine the actual payment value of his short-term incentive, which will be in the range of 0% to 175% of his target value. For FY18 the Managing Director's performance objectives related to earnings before interest, income tax, depreciation and amortisation (EBITDA) and our measure of customer satisfaction - market Net Promoter Score (mNPS).

MANAGING DIRECTOR PERFORMANCE EQUITY SCHEME

In addition to the cash-based short-term incentive scheme, the Managing Director is also eligible for an award of redeemable shares under the Managing Director Performance Equity Scheme. This scheme essentially acts as a deferred incentive scheme - the value of the award is linked to the same performance objectives as apply to the Managing Director's annual cash-based short-term incentive scheme but the award is deferred for a two-year period. At the Board's determination, based on the Managing Director's performance against the performance objectives described above (that apply to the Managing Director Annual Performance Incentive Scheme), the value of the award will be in the range of 0% to 175% of the Managing Director's target equity incentive value. This value will be used to determine the number of redeemable ordinary shares granted to the Managing Director. The Managing Director is prohibited from disposing of these redeemable ordinary shares for a specified period - usually two years - at the end of which the shares will reclassify into ordinary shares.

Grants of redeemable ordinary shares will be made at the discretion of the Board within the context of the approval granted by shareholders and may be made in September of each year but in no case later than 5 November 2018 (being three years after the date of the 2015 Annual Meeting) unless further shareholder approval is obtained. The Board may, at its discretion, elect to deliver the award in cash - deferred for two years, with the amount payable being based on Spark's share price at the end of the two-year period. The award of redeemable shares, or deferred cash linked to share price, further enhances the link between the Managing Director's remuneration and the interests of shareholders.

MANAGING DIRECTOR PERFORMANCE RIGHTS SCHEME

The Managing Director's Performance Rights Scheme preceded the Managing Director's current restricted share scheme. It operated as a share rights scheme subject to performance hurdles. Each share right was granted for no cash consideration and provided the right to acquire one ordinary share in Spark for no cash consideration (that is, each share right had a nil exercise price). At grant, the Board set the period after which the share rights were eligible to vest. Each share right, upon exercise by the Managing Director, converted to one ordinary share. The Managing Director exercised his final tranche of rights in FY18. The value of the benefit received on exercise of these rights is detailed on page 91 of Spark's FY18 Annual report.

MANAGING DIRECTOR'S LONG-TERM INCENTIVE SCHEME

For FY18 the Managing Director's annual long-term incentive was granted as restricted shares under the Managing Director's Long-Term Incentive Scheme - the scheme was established and first granted in FY16.

The long-term incentive component of the Managing Director's remuneration package is designed to link part of his remuneration to the long-term performance of Spark, and align his interests with those of shareholders, through the grant of restricted shares with a post-allocation performance hurdle.

Performance hurdle

A performance hurdle applies to all grants under the Managing Director's Long-Term Incentive Scheme.

This hurdle is agreed by the Board and sets a minimum level of performance that is required to be achieved over the period of each grant, for the long-term incentive to be eligible to vest. For the restricted shares granted in FY16, FY17 and FY18, a performance hurdle of Spark's TSR applies. The target for this hurdle is Spark's cost of equity plus 1% compounding annually.

Spark's TSR must meet or exceed this target over the period of the grant (from the date the restricted shares were granted each year to the date three years after that date) for the restricted shares to vest. If Spark's TSR does not meet this target, all of the restricted shares will lapse. Testing to determine whether the TSR performance hurdle has been met will occur at the end of the vesting period of the grant. The Board will receive independent advice to the effect that the performance hurdle has been met, or not met, in determining whether the restricted shares will vest or lapse.

Managing Director's termination

Spark may terminate the Managing Director's employment with three months' notice. A payment of nine months' base remuneration will be made, plus pro-rata Annual Performance Incentive in the case of termination by Spark, other than for termination for cause.

If there is a change of control that results in the Managing Director no longer being the Managing Director of a publicly listed company then he will be able to terminate his employment with three months' notice and receive payment as if Spark had terminated his employment.

Spark may also terminate the Managing Director's employment without notice for defined causes, in which case he will receive no further entitlement to any remuneration.

TREATMENT OF MANAGING DIRECTOR EQUITY INCENTIVES IN THE EVENT OF TERMINATION

There are a number of different treatments available to the Board in the event the Managing Director's employment is terminated. These treatments are detailed below.

Performance Equity Incentive Scheme

If the Managing Director's employment ceases owing to termination by Spark on three months' notice, the restrictions on disposal will cease to apply to all the redeemable ordinary shares that are at least halfway through the vesting period and these shares will reclassify into ordinary shares.

If the Managing Director's employment ceases owing to termination by the Managing Director following a 'Fundamental Change' in the Managing Director's employment, then:

- The restrictions on disposal of the redeemable ordinary shares will cease to apply and all of those shares will reclassify into ordinary shares; and
- The Managing Director will receive a bonus issue of ordinary shares (for performance over the partially complete financial year).

The number of ordinary shares to be issued will be a pro-rata proportion of the target value for the then current financial year (based on the proportion of that year that has passed) divided by the volume weighted average market price for ordinary shares reported on the NZSX over the 20 trading days before the date of issue.

A 'Fundamental Change' is where the Managing Director is no longer the Managing Director of a company listed on either the NZSX or the Australian Securities Exchange.

Managing Director Long-Term Incentive Scheme

Except as outlined below, the Managing Director's non-vested shares lapse immediately upon termination of his employment:

- If the Managing Director's employment ceases owing to termination by the Managing Director following a Fundamental Change in the Managing Director's employment, then those issues of shares that have not reached the vesting date, but that are more than halfway through the period from the issue/grant date to the vesting date, will vest. Where such shares are subject to a performance hurdle, Spark may determine that they shall not vest but shall remain in place until testing of the performance hurdle, at which time they will either vest or lapse based on the outcome of that testing; and
- If the Managing Director's employment ceases for any other reason, then any entitlement to vesting of the shares shall be solely at the Board's discretion.

Leadership certainty - good leaver provisions

Spark has put in place certain 'good leaver provisions' for the Managing Director's Performance Equity Incentive Scheme and Long-Term Incentive Scheme to extend past FY19 and to incentivise the Managing Director to remain in the role until at least the conclusion of FY19.

PERFORMANCE EQUITY SCHEME AND LONG-TERM INCENTIVE SCHEME

If either the Managing Director or Spark decide that employment is to end on or after 30 June 2019 (and provided the Managing Director is not leaving to join a competitor), the Performance Equity Incentive Scheme and Long-Term Incentive Scheme awards will be treated under 'good leaver' circumstances and will remain until the original vesting date as set out in the original Performance Equity Incentive Scheme and Long-Term Incentive Scheme offer letters. In this instance the Board will also commit to leaving the Managing Director with whatever Performance Equity Incentive and Long-Term Incentive awards that are earned in the year ending 30 June 2019 but these will not be granted until September 2019; the Board may settle these 2019 grants as it sees fit - including holding the awards on their planned vesting schedules. If Spark decides that the Managing Director's employment is to end after 30 June 2018 (but prior to 30 June 2019), then the Performance Equity Incentive Scheme and Long-Term Incentive Scheme awards will be treated under 'good leaver' circumstances and will remain until the original vesting date as set out in the Performance Equity Incentive Scheme and Long-Term Incentive Scheme offer letters. The Performance Equity Incentive and Long-Term Incentive awards for 2019 would not, however, be granted.

FY18 remuneration outcomes

FY18 Short-term incentive scheme outcomes

For FY18 substantively all STI participants shared the same Spark Group targets comprising EBITDA and market Net Promoter Score (our measure of customer satisfaction).

The FY18 group performance outcome, as approved by the Board is summarised as follows:

Performance metric	Weighting %	Result
Group EBITDA	50%	57%
Market Net Promoter Score (mNPS)	50%	42%
Board discretion		0%
Total		99%

Based on the above result the total available funding pool for all eligible STI participants across Spark for FY18 was \$9.4 million. The pool is allocated based on individuals' STI targets and may be differentiated based on individual performance. Total payments cannot exceed \$9.4 million.

Additional disclosure in relation to the Managing Director's FY18 STI scheme outcome and FY18 LTI vesting outcomes is included in the company's Annual Report.

Looking forward to FY19

Remuneration mix

- No changes are proposed to the Managing Director's package - it will be held at the FY18 target value and reward mix. The reward mix for the Leadership Squad will also be retained.

FY19 STI scheme

- The mechanics of the FY19 STI will be similar to FY18 - Group results will be the main determinate of the STI pool and individual target STI values and performance will determine the allocation of the pool across STI participants. The FY19 Group measures will be a combination of EBITDA and Customer Experience measures as in FY18 and an additional measure - Group gross labour cost.

FY19 equity-based incentive scheme

- No changes are proposed to the LTI scheme - in September 2018 the company will offer eligible employees restricted shares and vesting will be conditional on service and TSR hurdles.

Non-executive director remuneration

Remuneration

As detailed in our Annual Report the fees payable to non-executive directors during FY18 were:

Board/Committee ¹	Chair	Member ²
Board of Directors	\$357,099	\$140,675
Audit and Risk Management Committee (ARMC)	\$37,874	\$18,396
Human Resources and Compensation Committee (HRCC)	\$32,463	\$16,232
Nominations and Corporate Governance Committee (NOMs)	-	-

¹ Committee chair and member fees were not payable to the Chair of the Board. Committee member fees were not payable to committee chairs.

² Member fees were payable for each committee.

From 1 July 2018 the non-executive directors fees increased by 1.5% (rounded to the nearest \$100), to be paid out of the current shareholder-approved remuneration limit of \$1,630,000.

Remuneration and strategy

The remuneration of directors is reviewed by the HRCC - taking account of the company's size and complexity and the responsibilities, skills, performance and experience of the directors - with recommendations made to the Board for approval. Specialist independent consultants may be engaged from time to time to provide advice and ensure that the remuneration of Spark's directors is appropriate and comparable to that of similar companies in New Zealand and, as relevant, Australia.

Apart from the Managing Director, no director of Spark receives compensation in the form of share options or restricted shares nor do they participate in any bonus or profit-sharing plan. That said, non-executive directors are expected to maintain a holding of Spark shares - such holdings and the shareholding policy are detailed in the Annual Report. As is the case for employees, directors are required to comply with the Insider Trading Policy when buying or selling Spark shares and any such transactions are disclosed to the market.

Remuneration components

Excluding the Managing Director, no superannuation or retirement allowance was paid to any Spark director during FY18. Spark does not have service contracts with any director (apart from the Managing Director) that provide for any benefits or remuneration in the event that a director's service with Spark is terminated. From FY18 New Zealand-based non-executive directors are eligible for Spark-funded medical insurance. From FY19 non-executive directors will also be eligible for Spark-funded life insurance.



Committed to UN SDG goals:



Community

Community



We have a big part to play in creating a better New Zealand. Spark’s community initiatives are targeted around education, as we seek to ensure all New Zealanders, especially the young, have the opportunity to win big in the digital world. Spark also uses digital technology to power a more generous society through Givealittle, New Zealand’s premier crowdfunding platform for social good. Spark’s activities combine the talent and passion of our people, together with corporate programmes and the work of Spark Foundation, a registered charity funded by Spark and governed by a board of trustees.

Helping New Zealanders win big in a digital world through learning

Spark’s education-focused community initiatives bridge the digital divide in low-income communities and help school leavers prepare to transition into the 21st century workforce.

Spark Jump

Education is increasingly digital centric for both teachers and students. As classroom learning goes digital, students without broadband at home are at risk of being left behind.

After a successful pilot in FY16, this year Spark launched an expanded Spark Jump - which offers heavily subsidised broadband to families with school-aged children who cannot afford commercial broadband. Administered by Spark Foundation Spark Jump enables more school-aged children to go online outside of classroom hours and get on the right side of the digital divide.

At the end of FY18, Spark Jump had 1,049 families connected and is continuing to expand the programme around the country with the support of our 65 community partners in 82 locations. As these partners know their respective communities, they are well placed to determine which families have the most need and are therefore eligible for Spark Jump.

New investments in digital learning

Late in FY18 Spark Foundation trustees committed to invest \$550,000 in three new social ventures focused on creating step-change in digital skills and capability amongst kids.

Spark Jump

1,049
families connected

65
community partners

82
locations





Manaiakalani Education Trust

Spark Foundation has been a major funding partner of the Manaiakalani Education Trust to bring digital learning to low-income communities.

After a five-year partnership, the Foundation’s investment in the Manaiakalani Education Trust has come to a close.

The Foundation set out to help create the step-change required to scale up the education programme. With the success of Manaiakalani’s growth, we are proud to have been an anchor partner. Our involvement started when the Manaiakalani was a programme operating in a single site in Tamaki, Auckland. With the help of Spark’s resources, Manaiakalani has grown into a fully-formed methodology available to more than 50 schools across New Zealand.

The programme has helped to transform teaching and learning methods, significantly improving educational achievement for the students of participating schools.

During this time Spark people contributed strongly to the friendship with the Manaiakalani schools through activities such as mentoring teachers, becoming buddies to students and providing feedback on their blogs and volunteering at Manaiakalani schools. Over the five years the Spark Foundation’s contribution totalled almost \$2.8 million. The Foundation remains proud of its involvement and continues to have a positive relationship with the Trust.

OMG Tech!

Spark people want to share their passion for technology with New Zealand children to help shape thinking about the jobs of tomorrow. In FY18 Spark continued to be a sponsor of OMG Tech!, a not-for-profit education initiative to open up the world of technology to young students and get them excited about studying STEM subjects (science, technology, engineering and mathematics).

Other education initiatives

In FY18 Spark supported a range of other education-focused initiatives by partnering with national not-for-profit organisations. These include:

- First Foundation, with Spark funding the university education of five talented students from disadvantaged backgrounds, along with paid work experience during holidays and mentoring;
- NZTech, with women at Spark in Wellington hosting high school students during a ShadowTech Day to encourage the next generation of women to pursue careers in technology;
- The Lion Foundation Young Enterprise Scheme, with Spark people being business mentors to high school students during the ‘Entrepreneurs in Action’ business competition weekends; and
- Springboard Trust, with Spark people providing mentoring to school principals.

The programme has helped to transform teaching and learning methods, significantly improving educational achievement for the students of participating schools.

Givealittle

Performance in FY18

\$18m

in annual donations

Also achieved in FY18

\$88.4m

in cumulative donations

In FY18 donations made up of employee giving and matched donations from Spark totalled \$840,000, compared to the previous year's \$832,250.

Unleashing potential through generosity

Givealittle

The internet and the 'power of the crowd' can be strong enablers of generosity and Spark Foundation is proud to own and operate Givealittle, New Zealand's crowdfunding platform for social good. Givealittle has grown to become a household name and is a popular and trusted platform for the generosity of New Zealanders. Hundreds of thousands of New Zealanders use the site to give financial support to the causes they feel passionate about. In FY18 Givealittle causes raised a total of \$18 million in donations and reached \$88.4 million in donations since the platform launched in 2008.

Spark Volunteer and Spark Give

Spark people continued to participate in volunteering and payroll giving programmes, which allow them to generously donate time or funds to causes of their choice. Spark Foundation has a network of more than 100 ambassadors who support staff engagement in these programmes across Spark. In FY18 participation in the volunteering programme reached 22.2% (from 24% in the previous year) and 1,125 days of employee time were gifted. Spark Give, the payroll giving programme, enables Spark people to donate to New Zealand schools and registered charities of their choice, directly from their pay, and Spark Foundation will match the first \$500 of their giving each year. In FY18 donations made up of employee giving and matched donations from Spark totalled \$840,000, compared to the previous year's \$832,250 and was distributed to 590 organisations. Since Spark Give launched in 2011, almost \$5 million in cumulative donations has been gifted to 1,010 New Zealand schools and registered charities.



Spark Volunteer

Target for FY18

30%

of fixed-term Spark people

Performance in FY18

22.2%

Spark Give

Target for FY18

20%

of Spark people

Performance in FY18

18.1%

Total given in FY18

\$840,000



In FY18, Spark Lab had 10 events with local and international speakers, including Hector Ouilhet from Google, Ana Arriola from Facebook and Erik Klimcza from Uber.

Unleashing potential through stronger communities

Spark sponsors Lifeline's new text service HELP

Spark has made a contribution to Lifeline to help launch its new text support service, supporting New Zealanders who have been brave enough to ask for help. Lifeline's new text service HELP (4357) meets a growing demand and is part of a wider suicide prevention strategy to increase access to support for people in distress. Spark is proud to have played a part by making a one-time donation to kickstart the new channel. Lifeline formally launched the new service at an event at Spark City, hosted by Spark Foundation.

Superhero Daughter Day

Spark City in Auckland hosted more than 100 future women in tech for Superhero Daughter Day.

The initiative encourages primary school-aged girls to get excited about STEM (science, technology, engineering and mathematics) in the spirit of International Women's Day celebrations. Spark's partner OMG Tech! played a crucial role in organising the event in Auckland alongside Australia-based DCC Jobs and Tech Girls Movement.

Girls aged 5-12 years old, joined by their parents or guardians, brushed up on their tech savvy by building robots, exploring virtual and augmented reality and developing apps. The girls also had an opportunity to meet inspiring female role models, like OMG Tech! founder Zoe Timbrell.

Spark Lab

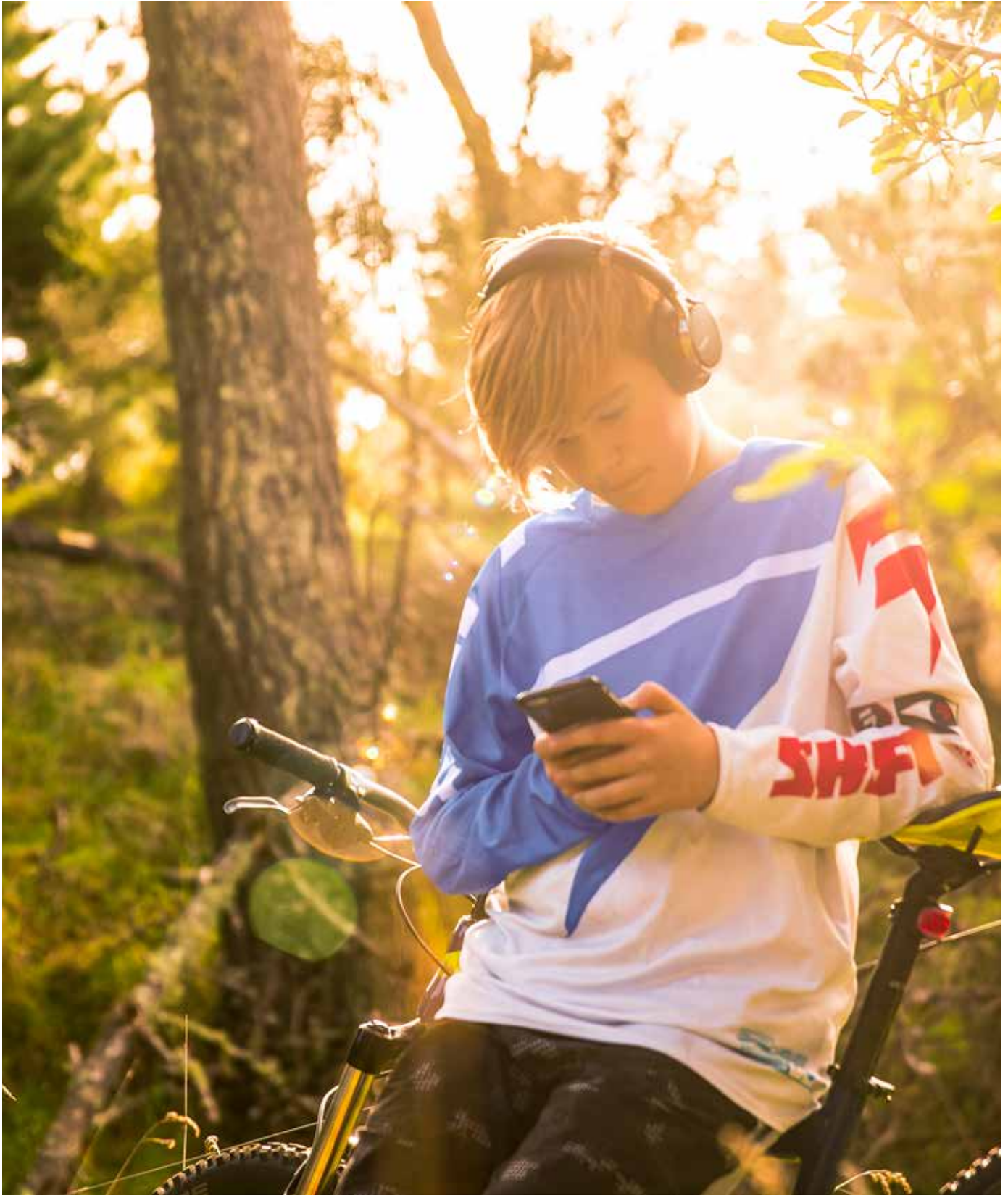
Spark's purpose is to help all of New Zealand win big in a digital world. One of the ways we do this is through Spark Lab, a multiplatform thought leadership programme designed to give New Zealand businesses the support and resources to achieve their goals. The programme provides customers and non-customers alike with videos, articles, events and digital business tools through sparklab.co.nz delivered by key leaders. New Zealand's leading business thinkers and technologists also speak at Spark Lab events, which are often livestreamed to reach an even wider audience. In FY18 Spark Lab had 10 events with local and international speakers, including Hector Ouilhet from Google, Ana Arriola from Facebook and Erik Klimcza from Uber. We also produced and distributed 30 videos featuring business leaders including Frances Valentine, Wendy Thompson and James Kemp. We also launched Start Social for Spark customers and facilitate a growing Facebook community group where over 3,500K business owners share ideas and advice.



Spark's Superhero Daughter Day.



One of Spark Lab's thought leadership events.



Committed to UN SDG goals:



Environment

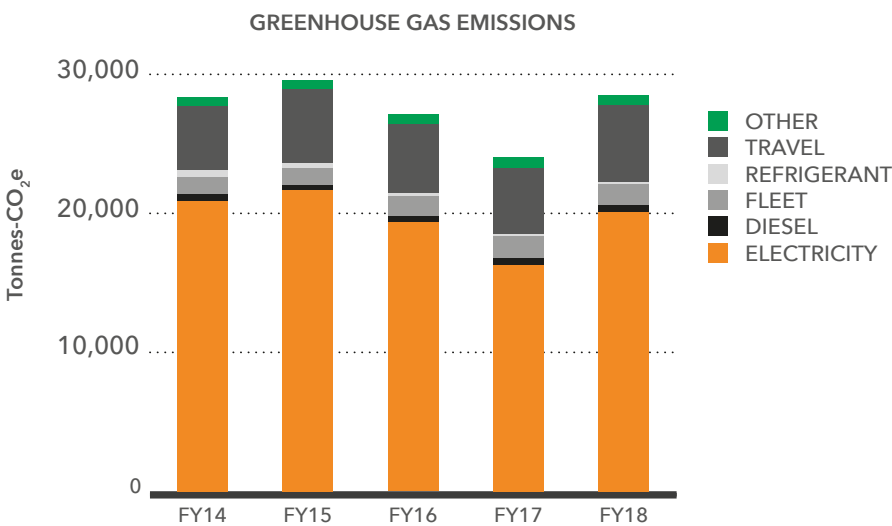
Environment

Spark is committed to long-term sustainability by being an environmentally aware, low-carbon business and is managing climate-related risks and opportunities. As a founding member of the Climate Leaders Coalition, a group of 60 New Zealand businesses representing almost half of the country’s emissions, Spark aims to help mitigate climate risk according to the Paris Agreement, and is committed to a greener economy with net zero emissions by 2050.

Leading sustainable operations

Carbon target for 2025

As a technology business, Spark has a relatively low emissions base. We began measuring our carbon emissions in FY06 and, overall, since then we have reduced annual emissions by 46%. In the medium term, our annual greenhouse gas emissions (measured in tonnes of CO₂ equivalent) are on a downward trend, but we are focused on continuing to challenge ourselves to go further and reduce both direct and indirect emissions. That’s why in 2016 we set an ambition to reduce carbon emissions by 25% from FY16 levels by 2025. We are also looking at how we may need to adapt to the risks presented by climate change.



Over the past financial year, we have seen our total emissions increase on FY17, and (slightly) on the base year of FY16.



Spark has an ambition to reduce emissions by

25%

by 2025 from FY16 levels

25,422

mobile phones recycled in FY18 through the RE:MOBILE programme benefiting charity partner Sustainable Coastlines





The table below shows FY18 emissions compared with the base year and FY17.

Kilotonnes-CO ₂ -equivalents	FY18	FY17	FY16 BASE	FY17/FY16 INCREASE/(DECREASE)
Direct & Electricity Emissions (Scope 1 & 2)	18	15	18	-%
Value Chain Emissions (Scope 3)	10	9	9	16%
Total Emissions	28	24	27	5%

There are two main drivers behind these increases:

- The increase from the base year of FY16 was primarily due to an increase in value chain emissions – air travel and customer’s electricity consumption in Spark’s data centres (reflecting significant growth in our data centre business).
- Spark’s largest emission source is electricity and - as we source our electricity from the national grid - our emissions profile is impacted year to year by the extent to which New Zealand can rely on hydro generation rather than thermal generation (which depends in turn on rainfall into hydro catchment areas). FY18 was a dry year, and so consequently Spark’s electricity supply relied more on thermal sources (as did the rest of New Zealand), compared with FY16.

We are taking steps to address these separate drivers of higher emissions, to ensure we are still on track to reach our 2025 target.

We continue focus on alternatives to air travel where possible, such as video conferencing.

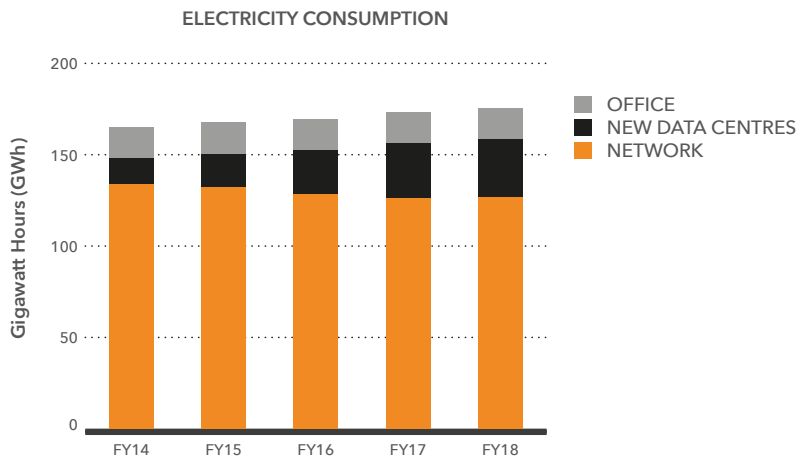
While we can’t control how much of New Zealand’s electricity is from renewable sources in any given year, we can ensure we are as efficient as possible in our use of electricity – therefore protecting ourselves in those years when thermal generation is higher.

Significant growth in Spark’s data centre business has driven a 5% increase in electricity consumption over the past two years. However, core network electricity consumption is down 1.5% since the base year despite a significant increase in traffic across our networks (including a greater than five times increase on our mobile network alone), due to increasing efficiencies as we adopt new technology. A good example of this is the ongoing transition from the ageing PSTN network to our new IP-based converged communication network (CCN), which is a much more efficient technology.

Spark’s largest emission source is electricity, and this combined with direct emissions (including the vehicle fleet, diesel for backup generators, natural gas, and refrigerant) was unchanged overall from the base year.

Spark continually invests in energy efficiency improvements which reduce electricity consumption. These investments are critical to the achievement of our 2025 carbon reduction target.

The graph below shows how Spark has managed to constrain the overall growth in electricity consumption through various energy efficiency initiatives.



We have a range of initiatives planned and underway to reduce electricity and related emissions. These include: smart metering, new network cooling technologies, free cooling for mobile towers, roll out of Single Radio Access Network (SRAN) tower upgrades, installing more efficient batteries operable at higher temperatures, removing redundant equipment from network exchange buildings and rationalising office space.

We are also taking small but important steps when it comes to use of electricity in our own offices – such as ensuring any new office spaces are designed to be sustainable and efficient in their use of electricity (see section on “Building Design” on page 30).

These increasing efficiencies give us confidence we can manage down our carbon footprint despite our customers’ insatiable thirst for our services.

Adaptation to Climate Risk

Service outages as a result of extreme weather events impact our customers and damage our reputation (potentially reducing Spark’s ability to attract new and retain existing customers). Managing high-availability connectivity services for customers is core business and while we are already seeing impacts to our service continuity due to more extreme and frequent weather-related events, to date these have been manageable under business as usual processes. Spark expects these physical risks to continue to be manageable under business as usual processes over the medium term.

In the long term Spark recognises there may be an impact from climate change on our core business due to rising sea levels. We are closely monitoring this risk, but as much of our mobile network infrastructure is located on elevated sites, we expect to face fewer risks than many other large, infrastructure businesses.

Network recycling

Spark's waste management strategy proactively manages and coordinates removal and recycling in an efficient and cost-effective manner. The programme utilises a concept of four 'R' priorities: recovering, reusing, reselling and recycling. The waste management strategy ensures standardised waste stream processes, transparency in waste recovery activities, adoption of best practice sourcing and compliance with New Zealand's current and future waste legislation. Waste is allocated into different waste streams, including mobile phones, printed circuit boards, copper cables, lead batteries and all types of metals. After sorting they are processed appropriately with some components exported overseas for reselling, recycling or reusing. About three to four containers of equipment are sold offshore each year.

In FY18 Spark recovered a total of 497 tonnes of recycling made up of 41 tonnes of Network e-waste material and 455 tonnes of Network metals, cables and batteries. Batteries made up 254 tonnes of the e-waste.

Building design

Spark announced that we will lease a new high-profile 5,000 sqm office in Christchurch overlooking Cathedral Square. Due for completion in 2019, the building will co-locate the approximately 450 people who have been spread across four locations since the 2011 earthquake. The purpose-built facility features a base isolation system designed to keep our team safe in the event of an earthquake, as well as a range of key sustainability technologies:

- Advanced chilled beam units (an air distribution device that provides sensible cooling and heating);
- Solar control glazing system;
- Integrated light-sensor system;
- Rain water tank to provide water to toilets;
- Low-energy lighting;
- Bike parking and end-of-trip facilities, such as showers; and
- Strategic position close to key public transport hubs.

Green Star, an internationally recognised rating system, has awarded the property 5 stars, acknowledging New Zealand excellence in building design. NABERS NZ, a system for rating energy efficiency of office buildings, has given the building a minimum of 4.5 stars recognising excellent performance.

Once this building is complete, our three main offices, housing around 2,600 of our people, will be designed to these 5-Star standards.

RE: MOBILE

Spark aims to reduce the impact of unwanted mobile phones by encouraging customers and employees to recycle handsets. As a member of the Telecommunications Forum's RE:MOBILE product stewardship scheme, Spark supplies recycling bins in all retail stores and in many office buildings around the country. In FY18, 25,442 mobile phones were recycled through the RE:MOBILE programme. Spark's recycling stations accept mobile phones, chargers, home phones, modems and tablets.

RE:MOBILE recycles mobiles through appropriate channels, resulting in tonnes of potentially harmful substances being diverted from landfills. Once collected, working devices are on-sold to emerging markets, with a percentage of the profits going to the environmental charity Sustainable Coastlines.

Continuing to grow the awareness of RE:MOBILE through internal and external promotion will be a focus for FY19.

Network recycling revenues

Target for FY18

\$360k

Performance in FY18

\$396K

Target for FY19

\$360K

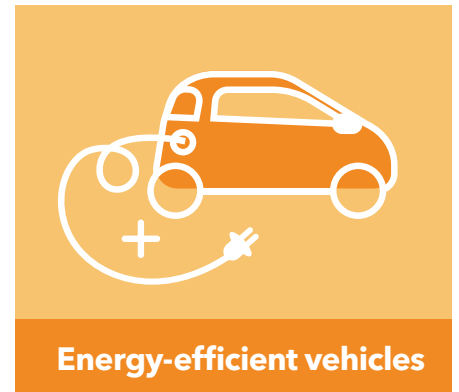
Energy-efficient vehicles

Smart transport plays a key role in sustainability and Spark has been focused on this area for a number of years. From 2015, when there were far fewer options for fully electric vehicles (EVs) and infrastructure in market, Spark deployed 47 hybrid vehicles into our fleet. These vehicles have significantly lower emissions than our Internal Combustion Engine (ICE) fleet vehicles.

In 2016, Spark joined 30 of New Zealand’s largest companies in committing to at least 30% of their corporate fleets being electric by 2019. In addition to Spark’s core corporate fleet, we also include our business hub and subsidiary fleets in this number. We exclude Connect 8’s fleet, because it is a joint venture rather than a fully-owned subsidiary, and a significant portion of its fleet is comprised of commercial vehicles (such as trucks or diggers) for which there is not currently a suitable electric alternative.

Spark is working hard to meet this target, starting with our corporate pool cars and then shifting to EVs across the rest of our fleet. We are taking the following actions to ensure we hit the 30% target by October 2019:

- All our pool cars are under lease and as they come off lease we are replacing them with either a battery electric vehicle (BEV) or a plugin hybrid electric vehicle (PHEV). To date, 10 pool cars have been converted to BEV.
- Spark has approximately 133 other vehicles either coming off lease or at the end of their economic lives over the next 12-18 months, and the majority of these vehicles will be replaced by EVs.
- We are working with landlords to ensure we have access to the charging infrastructure required to support an EV fleet. A key component to this is ensuring our charging infrastructure seamlessly supports both Type 1 and Type 2 across the fleet.



Current fleet includes:

10

fully electric vehicles

47

hybrid (non plug-in) vehicles

Ambition:

30%

comprised of plug in hybrid or fully electric vehicles by October 2019



Supplier code of conduct

Committed to UN SDG goals:



Supplier code of conduct



Spark is committed to being socially, environmentally and ethically responsible through our supply chain.

In 2016, we launched our Supplier Code of Conduct (the Code) to ensure we are sourcing products and services from suppliers who provide safe working conditions, treat workers with respect and dignity, and conduct business in an ethically, environmentally and socially responsible manner.

A copy of the code is available at: <https://www.sparknz.co.nz/about/suppliers/>

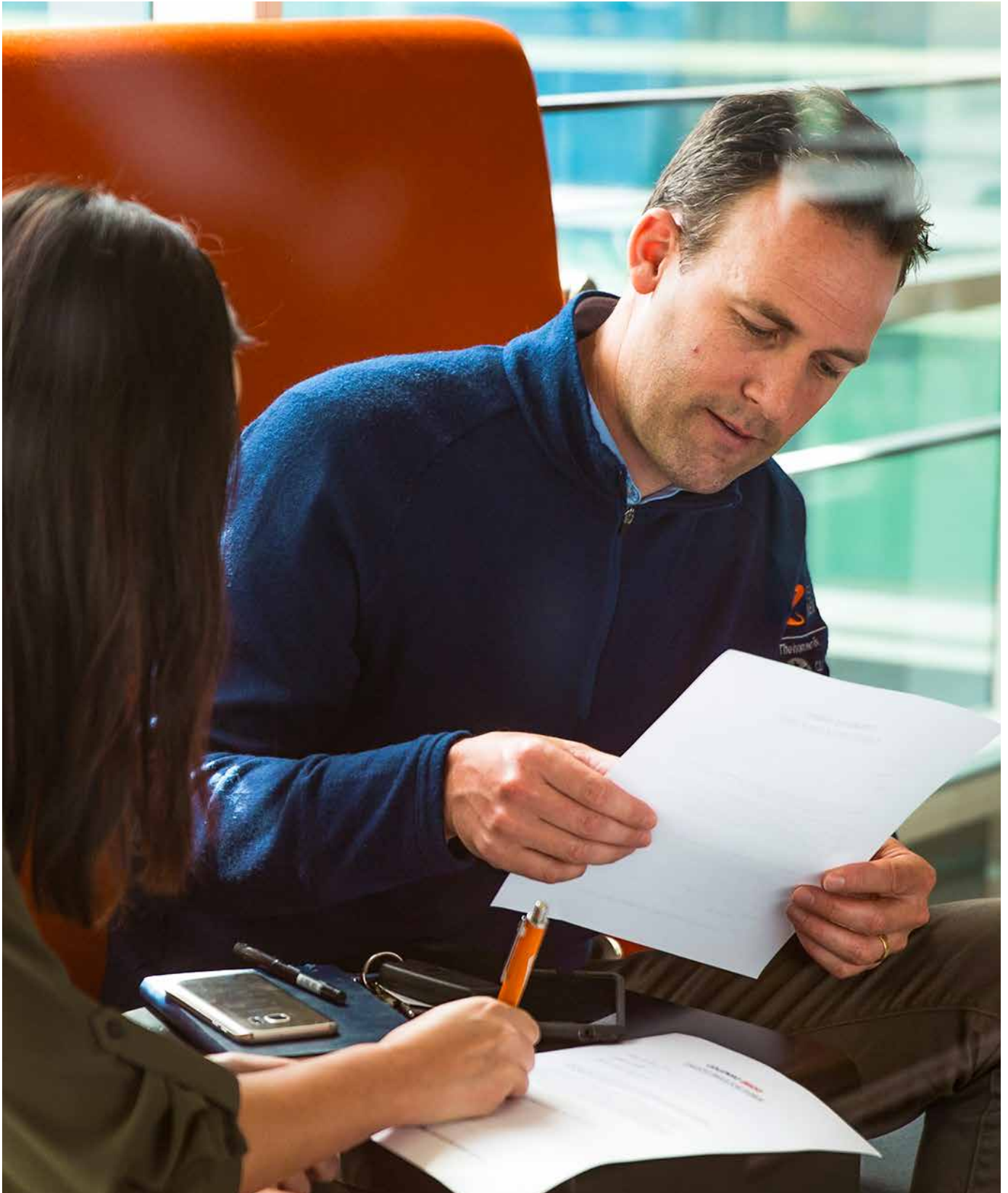
Since launching the Code we have focused on developing a system where our internal procurement practices and our suppliers understand the purpose and outcomes from having the Code.

This system includes:

- Running a process to explain the Code to our suppliers, including seeking positive confirmation that they are committed to adhering to it.
- Embedding the requirements of the Code into our supplier selection and supplier relationship management processes.
- Contracting or varying contracts to include the Code as part of the contractual process with vendors.
- Launching processes to monitor effectiveness of internal processes and supplier performance, for example, an assessment of suppliers who indicated they had an existing Code equivalent to Spark's Code.
- Establishing defined criteria for non-conformities and typical follow-up actions (e.g. remediation plans and timeframes) so that expected consequences are clear.
- Developing an audit approach that will allow us to confirm and observe that suppliers are operating in accordance with the Code.

In FY19 we plan to further develop and embed our system. Activities will include continuous improvement of controls and our first round of supplier audits using the newly created audit approach. The first audit visits are scheduled with some of our strategic suppliers in high risk countries (e.g. China, India) according to the FTSE4Good governance guidance.





Committed to UN SDG goals:



Governance

Governance



The Board plays a pivotal role in overseeing the strategic direction of Spark and ensuring the right strategic programmes are put in place and then implemented. The Board recognises that building diversity across Spark is critical for delivering enhanced business performance, including building diversity of thought within the Board and its various sub-committees. As illustrated by the Board skills matrix later in this section, the Board has an appropriate mix of skills, diversity and experience to be ambitious and deliver on those ambitions, enabling Spark to tackle the challenges and opportunities of the digital era. Biographies for each director on the Board can be found at: www.sparknz.co.nz/about.

The Board - committees, Directors and skills

Role of the Board

A key factor in Spark's long-term growth framework is strong governance, with focus areas including proactive risk management policies and having a diverse Board.

The Board of Directors is elected by shareholders to protect and enhance the value of the assets of Spark in the interests of Spark and our shareholders. The Board has statutory responsibility for the affairs and activities of Spark, which in practice is achieved through delegation to the Managing Director and others who are charged with the day-to-day leadership and management of the company. The Managing Director has, in some cases, formally delegated certain authorities to his direct reports and has established a formal delegated authority framework that sub-delegates certain authorities within set limits.

More information regarding the respective roles and responsibilities of the Board and management is set out in the Board Charter, which can be found at: www.sparknz.co.nz/about/governance.

The Board regularly reviews and assesses Spark's governance structures and processes to ensure that they are consistent with international best practice in both form and substance.

HIGH STANDARDS OF CORPORATE GOVERNANCE

The Board and management are committed to ensuring that Spark maintains a high standard of corporate governance and adheres to high ethical standards as illustrated by:

- Spark continuing to follow all Principles and Recommendations of the ASX Corporate Governance Council notwithstanding that this is no longer mandatory due to our Foreign Exempt Listing;
- Spark's adoption of all Recommendations of the NZX Corporate Governance Code;
- Spark continuing to be a constituent of the FTSE4Good Index Series following independent assessment according to the FTSE4Good criteria; and
- Voluntary reporting on Environment, Social and Governance matters by Spark generally.

Diverse Board with strategic focus

50%

of Board is female



Justine Smyth Chair



The Board also plays a pivotal role in overseeing the strategic direction of Spark and ensuring the right strategic programmes are put in place and then implemented.

The Board is responsible for the approval of appropriate corporate strategies with particular regard to portfolio composition and return expectations. It is also engaged actively and continuously in the assessment of business opportunities and risks and Spark's strategic planning, including our transformation from a Telco to a digital services provider.

Board Meetings

The Board expects to have eight meetings a year. In addition to scheduled meetings, the Board meets whenever necessary to discuss key strategic issues or urgent business. The Chair and the Managing Director establish meeting agendas to ensure adequate coverage of key issues during the year. Directors generally receive materials for Board meetings seven days in advance of the meeting, except in the case of special meetings for which the time period may be shorter due to the urgency of the matter to be considered.

Leadership Squad members and other senior employees are regularly invited to attend Board meetings and are also available to be contacted by directors between meetings.

The Board and its committees also meet regularly in non-executive sessions, presided over by the Chair, without the Managing Director or other management present. Such sessions, in particular, deal with management performance and remuneration issues, Board performance evaluation issues and discussions with the internal and external auditors to promote a robust independent audit process.

Board committees

Three Board committees assist in the execution of the Board's responsibilities, the:

- Human Resources and Compensation Committee (HRCC);
- Nominations and Corporate Governance Committee (NOMs); and
- Audit and Risk Management Committee (ARMC).

Each Board committee has a charter summarising the role, rights, responsibilities and membership requirements for that committee. Committee charters may be found at: www.sparknz.co.nz/about/governance. The Board annually reviews the charters of the Board committees and their performance against those charters. Other committees may be established from time to time to consider matters of special importance or to exercise the delegated authority of the Board.

Membership and attendance requirements for each committee is shown in the table below. The Board is responsible for appointing committee members according to the skills, experience and other qualities they bring to the committee. Specific committee memberships and attendance information can be found in Spark's Annual Report.

Pip Greenwood Non-executive Director



COMMITTEE CHARTERS:
www.sparknz.co.nz/about/governance

COMMITTEE	NOMS	HRCC	ARMC
Minimum Members	3	3	3
Independence	A majority of members and the Chair must be independent.	A majority of members and the Chair must be independent.	A majority of members and the Chair must be independent.
Role Restrictions	-	-	Chair of the ARMC must not be chair of the Board.
Non-Executive	-	-	All members must be non-executive directors.
Special Requirements	-	-	At least one member must have an accounting or financial background and all other members must be financially literate. Some members should have an understanding of the industry in which Spark operates.
Attendance Restrictions	Chair may request that the committee proceed without a particular member.	Chair may request that the committee proceed without a particular member. Members of management should only attend at the invitation of the committee.	Employees should only attend at the invitation of the committee. Chair may invite such persons to attend as deemed necessary.

The committees have a number of scheduled meetings each year to coincide with the timing of the various responsibilities of that committee.

After each committee meeting the Board is provided with minutes of the committee meeting at the next meeting of the Board. Where appropriate, the Board is also given a verbal report by the Chair of the committee on the outcomes of the meeting.

Chair

The Chair is elected by the Board from the non-executive directors. The Board supports the separation of the roles of Chair and Managing Director. The Chair's role is to manage and provide leadership to the Board and to facilitate the Board's interface with the Managing Director. The current Chair, Justine Smyth, is a non-executive and independent director as required by the Board Charter. The Board does not have a Deputy Chair.

Company Secretary

The Company Secretary is responsible for supporting the effectiveness of the Board by ensuring that its policies and procedures are followed and for coordinating the completion and dispatch of the Board agendas and papers. The Company Secretary is accountable to the Board, via the Chair, on all governance matters, as further described in the Board Charter.

Alison Barrass Non-executive Director



BOARD PROFILES:

www.sparknz.co.nz/about

The Board is committed to having a majority of directors who are judged by the Board to be independent of judgement and character and free of material relationships with Spark and other entities and people who might influence, or could be perceived by others to influence, such judgement.

Board access to advice

All directors have access to senior management, including the Company Secretary, to discuss issues or obtain information on specific areas or items to be considered at the Board meeting or other areas they consider appropriate. The Board, Board committees and each director have the right, subject to the approval of the Chair, to seek independent professional advice at Spark's expense to assist them in carrying out their responsibilities. Further, the Board and Board committees have the authority to secure the attendance of outsiders with relevant experience and expertise at Board meetings.

Director independence

The Board is committed to having a majority of directors who are judged by the Board to be independent of judgement and character and free of material relationships with Spark and other entities and people who might influence, or could be perceived by others to influence, such judgement. In setting the criteria for determining independence, the Board considered the requirements under the NZSX Listing Rules and the guidance provided in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition). Independence standards consistent with the requirements of these jurisdictions have been adopted by Spark and are contained in the Board Charter. Spark's Board Charter requires a majority of directors to be independent. While the Board has not set financial materiality thresholds for determining independence, it considers all relationships on a case-by-case basis and, as a general policy, considers a threshold of 5% to be relevant in determining materiality. When determining independence, relationships are considered from the perspective of both Spark and the customer or supplier. The Board also considers tenure when considering independence and succession planning.

In August 2018, the Board resolved, based on information provided by Directors regarding their interests, that each non-executive director on the Board at 30 June 2018, was independent.

The position in respect of Pip Greenwood changed as a result of her appointment as the interim CEO of Russell McVeagh on 16 August 2018. Ms Greenwood joined the Board of Spark on 1 April 2018 and at 30 June 2018, was a Partner and board member of Russell McVeagh, a law firm that continues to provide professional services to Spark. At those dates the Board determined Ms Greenwood to be independent, based on a number of factors including that the relationship with Russell McVeagh is handled at management level and that upon confirmation of her appointment, she immediately ceased providing services to Spark in her capacity as a Partner of Russell McVeagh. Certain protocols were also put into place to further mitigate any risk of influence arising, which apply in addition to the Board's usual conflict of interest procedures.

Following Ms Greenwood's appointment as interim CEO of Russell McVeagh, the Board determined that she was not independent, due to the increased risk that, while serving as interim CEO, Ms Greenwood could be perceived to be materially influenced when making decisions as a director of Spark. The protocols, put in place to mitigate the risk of influence arising, were expanded to cater for this role.

The Board resolved that the Executive Director, Simon Moutter, was not independent by virtue of the fact that he is the Managing Director and therefore part of the management team.

The Board will review any determination it makes on a director's independence on becoming aware of any information that indicates the director may have a relevant material relationship. For this purpose, directors are required to ensure that they immediately advise of any new or changed relationships so the Board can consider and determine the materiality of the relationship. Further detail regarding director independence, including length of service, and directors' interests can be found in the Annual Report.

The Board has continued to have an appropriate mix of skills, diversity and experience since it was established on 1 December 2011.

Paul Berriman Non-executive Director



BOARD PROFILES:
www.sparknz.co.nz/about

Board diversity and skillset

The Board has continued to have an appropriate mix of skills, diversity and experience since it was established on 1 December 2011 (following the demerger of Chorus with Telecom), through the change from Telecom to Spark and as Spark's strategies have developed. This allows the Board to be ambitious and to deliver on those ambitions and to enable Spark to tackle the challenges and opportunities of the digital era.

The Board skills matrix on the following page outlines the qualifications, geographical location, tenure and gender of each member of the Board. For further details of individual directors see www.sparknz.co.nz/about

Board skills matrix

	Justine Smyth	Alison Barrass	Paul Berriman	Alison Gerry	Pip Greenwood	Ido Leffler	Simon Moutter	Charles Sitch
Qualifications	BCom, FCA, CFINSND	BSc, Political Science, Dip Bus, Marketing	MBA, BSc, CEng	BMS (HONS), MAppFin	LLB	BBS	ME, BE (HONS), BSc	MBA, LLB, BCom
Spark-specific Skills								
Telco Experience			●				●	●
Retailing and Marketing	●	●				●	●	●
Digital/Technology/Innovation			●			●	●	
Operations	●	●	●	●		●	●	●
Generic Skills								
Executive Leadership and Strategy	●	●	●		●	●	●	●
Governance	●	●		●	●			●
Financial	●			●				●
Risk and Compliance	●		●	●	●			
Legal and Regulation			●		●		●	●
People	●	●	●	●	●	●	●	
Capital Markets	●			●	●		●	
Geographical location	NZ	NZ	Hong Kong	NZ	NZ	Australia/USA	NZ	USA
Tenure years	6.7	1.9	6.7	2	<1	4	6	6.7
Gender	F	F	M	F	F	M	M	M

NOMs, Director nomination and appointment

Spark directors have no fixed term of office but are subject to the retirement provisions contained in the constitution, company policies and relevant stock exchange listing rules. Under the NZSX Listing Rules at least one third (or the number nearest to one third) of the directors are required to retire from office at the annual meeting each year but shall be eligible for re-election at that meeting. The Executive Director (the Managing Director, in Spark's case) is exempt from the requirement to stand for re-election but the Executive Director is counted in determining the number of directors that must retire.

The retiring directors at any annual meeting will be those who have been longest in office since they were last elected. Spark's notice of meeting details those Directors standing for re-election at Spark's next annual meeting.

The procedures for the appointment and removal of directors are ultimately governed by Spark's constitution. The Board may appoint directors to fill casual vacancies that occur or to add persons to the Board up to the maximum number (currently 12) prescribed by the constitution.

Recommendations for nominations of new directors are generally made by the NOMs and considered by the Board as a whole. External consultants are used to access a wide base of potential candidates and to review the suitability of candidates for appointment. The NOMs:

- Makes recommendations to the Board as to its size;
- Regularly reviews the criteria for the selection of directors and recommends to the Board any necessary alterations;
- Recommends appropriate candidates to the Board based on the criteria set out in the Board Charter; and
- Ensures that potential candidates understand the role of the Board and the time commitment involved when acting as a member of the Board.

When recommending a candidate to act as director, the NOMs takes into account such factors as it deems appropriate, including their independence, experience, professional skills, qualifications and personal qualities of the candidate, whether their skills and experience will augment the existing Board and their availability to commit themselves to the role.

If the Board appoints a new director during the year that person will stand for election by shareholders at the next annual meeting. Shareholders are provided with relevant information on the candidates standing for election in the notice of meeting.

Terms of appointment

Each director and Leadership Squad member has a signed letter of appointment or employment agreement setting out the terms of their appointment, including their duties, terms, conditions and term of appointment, expectations of the role and remuneration.

Director induction and education

The Board introduces new directors to management and the business through specifically tailored induction programmes, depending on their needs. The programme may include one-on-one meetings with management and visits to key company sites. All directors are regularly updated on relevant industry and company issues. This may include visits to Spark operations and briefings from key Leadership Squad members and industry experts. From time to time the Board may also undertake educational trips to receive briefings from companies in relevant industries. There is an ongoing programme of presentations to the Board by all business units. The Board expects all directors to undertake continuous education so that they may appropriately and effectively perform their duties.

Ido Leffler Non-executive Director



Succession

The NOMs is also responsible for reviewing Board succession planning. There is an ongoing Board succession programme, which is focused on finding new directors with relevant skills and experience that complement the diverse perspectives already represented around the table.

Illustrating the strength of that succession planning the Board were able to make the following changes upon Mark Verbiest's retirement as Chair and director of the Board after Spark's Annual Meeting in November 2017:

- Justine Smyth, an existing director with extensive governance experience, including time as the Chair of the ARMC and HRCC, was appointed as Spark's Chair of the Board and the NOMs effective immediately following Mark Verbiest's retirement;
- Alison Gerry succeeded Justine Smyth as the Chair of the ARMC; and
- Alison Barrass succeeded Justine Smyth as the Chair of the HRCC.

The succession programme also identified Pip Greenwood as a suitable director and she subsequently joined the Spark Board from 1 April 2018. Ms Greenwood is widely regarded as one of New Zealand's top commercial lawyers and has significant experience in governance, risk and compliance, legal and regulation, as well as capital markets.

Future director

The NOMs also instigated a search for Spark's first 'future director' under the Future Directors programme run by the New Zealand Institute of Directors. The programme aims to give young talented people with an interest in corporate governance the opportunity to observe and participate in Boardroom discussions. The aspiring directors attend all Board meetings but they have no voting rights and are not involved in decision-making.

Nagaja Sanatkumar was selected as Spark's preferred candidate and appointed as its future director from 4 December 2017. Ms Sanatkumar has a background in technology and marketing, with a focus on digital and ecommerce customer experiences.

Board, committee and director performance

The Board regularly discusses governance and performance issues and annually reviews its own performance as a whole against the Board Charter and each committee's performance against its charter and the Chair meets with directors to discuss individual performance of the directors. Further, Board evaluations are undertaken annually to seek director and Leadership Squad feedback on a range of matters relating to Board performance, including its role and composition and engagement with management, shareholders and stakeholders. The collective results of the evaluation are then reported to the Board by the Chair and discussed individually with directors. The last Board evaluation survey was undertaken in August 2017.

Simon Moutter Managing Director



The Board regularly discusses governance and performance issues and annually reviews its own performance as a whole against the Board Charter and each committee's performance against its charter.

ARMC and external auditor independence

The ARMC is responsible for the appointment of Spark's external auditor and their terms of engagement. KPMG was automatically re-appointed as Spark's external auditor for the upcoming year at Spark's annual meeting in November 2017. Shareholders also approved the Board setting the remuneration of the external auditor at the annual meeting in November 2017. The committee regularly meets with the external auditor without management being present and meets with management without the external auditor being present. ARMC members may contact the external auditor directly at any time.

Spark is committed to auditor independence. The ARMC reviews the independence and objectivity of the external auditor. For this reason the work of the external auditor is carefully controlled and must either be: (i) consistent with the principles applied in assessing assurance services; or (ii) of a nature described for approval by the ARMC, each as set out below.

Under Spark's External Auditor Independence Policy:

- The ARMC must pre-approve all statutory and regulatory audit and related assurance services provided by the external auditor;
- The nature of the services provided by the external auditor and the level of fees incurred should be reported to the ARMC on a quarterly basis;
- Practice with regard to related assurance services will be monitored on an ongoing basis to ensure that Spark's policies remain compliant with best practice;
- Rotation of the lead audit partner must occur every five years; and
- Restrictions are placed on an audit partner or audit manager being employed by Spark in another role.

The general principles to be applied in assessing related assurance services are as follows:

- The external auditor should not have any involvement in the production of financial information or preparation of financial statements such that they might be perceived as auditing their own work. This includes the provision of valuation services where such valuation forms an input into audited financial information;
- The external auditor should not perform any function of management or be responsible for making management decisions;
- The external auditor should not be responsible for the design or implementation of financial information systems; and
- Separation between internal and external audit should be maintained.

Aside from core audit services Spark's auditor may provide the following services with prior approval from the ARMC:

- Other assurance services (eg. trust deed reporting, tax assurance);
- Accounting policy advice (including opinions on compliance with New Zealand and International Financial Reporting Standards);
- Listing advice;
- Accounting/technical training; and
- Tax compliance.

Alison Gerry Non-executive Director



READ POLICY:

www.sparknz.co.nz/about/governance

Any other ad hoc engagement (above a de minimus amount) must be approved by the Chair of the ARMC.

However, it is not considered appropriate for Spark's auditor to provide:

- Bookkeeping/other services related to accounting records or financial statements;
- The design of financial information systems;
- Appraisal/valuation services/opinions as to fairness;
- Internal audit services;
- Structured finance advice;
- Due diligence services;
- Legal services (being services that could be provided only by a person who is qualified in law);
- Tax planning and strategy services;
- Management functions;
- Broker/dealer/investment adviser/investment banking services;
- Services of an expert as an advocate;
- Actuarial services;
- Temporary staff for appropriate assignments;
- Assistance in the recruitment of senior management; or
- Tax services to employees of Spark who act in a financial reporting oversight role.

The External Auditor Independence Policy can be found at: www.sparknz.co.nz/about/governance. It is a requirement of the ARMC charter that the committee annually assesses and confirms to the Board the independence of the external auditor after consideration of the External Audit Independence Policy criteria. This includes assessing whether the independence of the external audit process has been maintained in light of the performance of any other assurance services. The ARMC undertook this assessment at its meeting in August 2018 and confirmed to the Board that it had complied in all respects with the External Audit Independence Policy and that the committee was satisfied as to the external auditor's (KPMG's) independence. As part of this assessment KPMG confirmed in writing that it has complied with all aspects of the External Auditor Independence Policy.

Representatives of Spark's external auditor will be available at Spark's annual meeting to answer shareholder questions about the conduct of the audit and the content of the external auditor's reports

ARMC and risk management

The ARMC is also responsible for ensuring that management has established a risk management framework, including policies and procedures that effectively identify, treat and monitor principal business risks. Spark's Risk Team is accountable for designing and managing this framework and provides the ARMC with regular updates about its performance and evolution.

The ARMC reviews management's principal risk profile quarterly. It also receives reports on the effectiveness of the implementation and operation of the policies and systems designed to manage risk. The ARMC receive quarterly reporting from the Risk and Audit Officer that discusses progress against the approved Internal Audit Plan and other relevant information. Information reported includes the priorities, updates about the evolution of the Managing Risk Framework (MRF) findings from its Internal Audit reviews, status of previously raised items and fraud management reporting (e.g. risks and results from monitoring activities).

Spark conducts an annual assessment to confirm the MRF is designed and operating effectively. The findings from this assessment is reported to the Managing Director and the Finance Director. The review for the year ending 30 June 2018 found that Spark's risk management system operated effectively and efficiently in all material respects. The 2018 assertion was prepared using the COSO ERM framework's five process domains as an architecture to structure the

Spark's risk management framework ensures that risks affecting its business are systematically identified, assessed, managed and reported.

Charles Sitch Non-executive Director



review. These are: governance and culture; strategy and objective setting; performance; review and revision; and reporting and communication.

Every three years, Spark also completes an external review of its MRF to ensure it continues to be sound and is operating effectively.

Internal audit

Spark has an Internal Audit Team. The internal audit charter defines the group's objectives, scope, independence, responsibilities and authority. Its primary objective is to assist the Board and Managing Director to exercise good governance by providing independent assurance on Spark's control and risk management processes. The ARMC approves the appointment and oversees the performance of Spark's Risk and Audit Officer. The Risk and Audit Officer is accountable for leading the Risk, Internal Audit and Fraud Teams, and reports directly to the Chair of the ARMC. Internal Audit is independent from the activities and operations it audits and has unrestricted access to Spark's records and employees.

Internal Audit regularly performs audits across Spark. It works to an internal audit plan that outlines the risk themes and engagements it intends to complete over the plan year. It dynamically adjusts and validates its priorities with the ARMC at each meeting. The ARMC approves this plan and ensures that the internal audit group is appropriately staffed and that its scope of work is appropriate for the key risks facing Spark.

External reporting assurance

In the interests of best practice corporate governance Spark requires that, prior to the approval of our financial statements by the Board, its Managing Director and Finance Director make an annual declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control, which is operating effectively.

Policies and procedures

Spark policies

As at 30 June 2018 Spark's core internal policies and procedures included the following:

- Code of Ethics;
- Managing Risk Policy;
- Insider Trading Policy;
- Disclosure Policy and related procedures;
- Diversity and Inclusion Policy;
- Health and Safety Policy and related protocols;
- Human Resources Policies, including employment, remuneration and benefits, equal opportunity, anti-harassment and discrimination;
- Legal and Compliance Policy;
- Information Management Policy;
- Technology Policy;
- Delegation of Authority Framework; and
- Takeover Response Guidelines.

Spark has an integrated Spark-wide compliance framework. Implementation is monitored by the ARMC. Any Spark employee (or contractor) who becomes aware of a legal, regulatory, policy or other compliance issue has a responsibility to report it using Spark's breach reporting/whistle-blowing frameworks. Spark also has a procedure whereby accounting, auditing or internal control breaches or concerns may be reported confidentially to the ARMC.



READ POLICY:

www.sparknz.co.nz/about/governance

Code of Ethics

The Spark Code of Ethics sets out the standards by which Spark employees are expected to conduct themselves in all aspects of their work, facilitating behaviour and decision-making that meets Spark's business goals and is consistent with Spark's values, policies and legal obligations.

Only the NOMs may grant a waiver from compliance with the Code of Ethics. Spark has compliance escalation procedures that are designed to be used to report breaches of the Code of Ethics and a confidential whistle-blowing hot line. Non-compliance with the Code of Ethics is treated very seriously. Any concerns are investigated with action taken as appropriate.

The Code of Ethics covers:

- Values;
- Behaviours and expectations of employees (including to act honestly, with integrity and in the best interests of Spark having regard to the interests of Spark, its shareholders and stakeholders);
- Decision-making;
- Conflicts of interest;
- Anti-bribery and corruption;
- Acceptance of gifts;
- Corporate opportunities;
- Confidentiality;
- Proper use of Spark's assets and information;
- Compliance with laws and Spark policies; and
- Reporting issues regarding breaches of the Code of Ethics, legal obligations or other Spark policies.

All Spark employees are responsible for ensuring that Spark carries out its business objectives in a way that enables it to achieve its objectives ethically and in full compliance with all applicable laws and regulations. People leaders are responsible for making sure that Spark people are given appropriate information and training to assist them in complying with legal, regulatory and policy compliance obligations. The Spark Digital Trust Team supports employees and people leaders in these roles by providing comprehensive compliance frameworks, tools, training and advice, which includes provision of online, interactive training modules. Online training, emails and intranet articles are used to teach all employees about the Code of Ethics.

Spark also has a Directors' Code of Ethics, which addresses similar topics and establishes the behaviour expected of directors. Regular training on the directors' Code of Ethics is coordinated by the Company Secretary. The Board is conscious of its obligations to ensure that directors avoid conflicts of interest (both real and perceived) between their duty to Spark and their own interests. The Board charter outlines the Board's policy on conflicts of interest. Where conflicts of interest do exist then the director must disclose their interest and excuse themselves from any relevant Board discussions and may not exercise his or her right to vote in respect of such matters.

Copies of the Code of Ethics and Directors' Code of Ethics can be found at: www.sparknz.co.nz/about/governance.

Any Spark employee (or contractor) who becomes aware of a legal, regulatory, policy or other compliance issue has a responsibility to report it using Spark's breach reporting/ whistle-blowing frameworks.



CODE OF ETHICS:

www.sparknz.co.nz/about/governance

Market disclosure

Spark's Disclosure Policy governs communications with shareholders and other stakeholders. Spark is committed to providing comprehensive continuous disclosure to shareholders and other stakeholders and complying with the applicable Listing Rules.

Spark's Board is responsible for overseeing and approving Sparks' continuous disclosure framework and periodically considering continuous disclosure and stress testing management's view of what information is considered material.

Spark has an appointed Disclosure Officer to authorise all financial market communications and where possible, to be present during meetings with investors/analysts. Together with the Company Secretary the Disclosure Officer is responsible for overseeing Spark's disclosure practices and ensuring that all material information is lodged promptly and without delay with the NZX and ASX. In determining whether any particular information is material information, the Disclosure Officer may liaise with the Chair, Managing Director, CFO and/or the Company Secretary.

Authorised spokespersons are restricted to reduce the risk of inconsistent communications and to ensure that public comments are within the bounds of information already in the public domain and/or that the information is not materially price sensitive. Management is responsible for ensuring compliance with the Disclosure Policy and its related procedures for implementation. A copy of the Disclosure Policy can be found at: www.sparknz.co.nz/about/governance.

Trading in Spark securities

Directors and employees are subject to restrictions under the law relating to trading in Spark securities and other related Spark derivatives if they are in possession of inside information. Inside information is information in respect of which a person is an information insider of Spark. An information insider is a very broad term that captures any person that has material information that is not generally available to the market; and knows or ought to reasonably know the information is material information and not generally available to the market. Information is material information if it is information a reasonable person would expect, if it were generally available to the market, to have a material effect on the price of Spark securities; and relates to a particular financial product or particular listed issuer, rather than to financial products or listed issuers generally.

To help ensure compliance with these legal requirements the Insider Trading Policy specifies that no director or Spark employee may buy or sell Spark shares while in possession of inside information. The policy also states that directors and Spark employees in possession of inside information cannot directly or indirectly advise or encourage any person to trade in Spark shares. The policy sets out additional rules for 'Restricted Persons', being directors, Leadership Squad members and certain other Spark employees. Restricted Persons are required to seek company consent before trading, are prohibited from trading during designated black-out periods (unless an exemption is granted under exceptional circumstances) and from entering into transactions that will limit that person's economic risk in relation to any unvested Spark shares, options or rights that they hold. Compliance with the Insider Trading Policy is monitored through the consent process and by education and notification by Spark's share registrar when any director or senior manager engages in trading activities. Any breach of the Insider Trading Policy would be regarded very seriously. In addition, as required by the Financial Markets Conduct Act 2013, all trading by directors and senior managers is reported to NZX.

Spark has an appointed Disclosure Officer to authorise all financial market communications and where possible, to be present during meetings with investors/analysts.

Investor relations

Spark's investor relations programme includes:

- Semi-annual earnings announcements;
- Semi-annual post-results briefings with investors in Auckland, Wellington and Australia;
- Regular ad hoc one-on-one and group investor and analyst meetings;
- An annual meeting (that offers virtual participation);
- Interim and annual reports;
- Semi-annual shareholder newsletters;
- Investor briefing days (where appropriate); and
- Regular investor road shows to Australia, Asia, the United States and the United Kingdom.

Spark maintains a dedicated investor website (investors.sparknz.co.nz). This website contains media releases, periodic financial information, current and past annual reports, dividend histories, notices of meeting, frequently asked questions and other information about Spark.

Spark delivers earnings announcements via audio conference. Shareholders are encouraged to participate in the annual meeting either in person or virtually via an online annual meeting platform, where shareholders can vote, ask questions and watch the meeting via webcast. Shareholders can also electronically appoint and direct a proxy to vote on their behalf at the annual meeting by lodging their proxy form online at: investorcentre.linkmarketservices.co.nz/voting/SPK (for New Zealand holders) or investorcentre.linkmarketservices.com.au/voting/SPK (for Australian holders). The annual meeting webcast will be archived on the Spark investor website (investors.sparknz.co.nz) after the meeting.

Further information for investors is also available at investors.sparknz.co.nz or by contacting the Investor Relations Team at investor-info@spark.co.nz.

HRCC and Diversity Policy

Spark's Diversity and Inclusion Policy sets out the requirement for the Board to set and review measurable objectives for achieving diversity each year. The HRCC recommends objectives to the Board. More information on the HRCC and Spark's approach to Diversity and Inclusion can be found in the People section of this report and in Spark's Annual Report. A copy of Spark's Diversity and Inclusion policy can be found at: www.sparknz.co.nz/about/governance.

Takeover Response Guidelines

Spark's Board has put in place Takeover Response Guidelines that set out the procedure to be followed if there is a takeover offer for Spark, including with regards to communication between insiders and the bidder, the preparation of an independent advisors' report and establishment of a bid response sub-committee.

Shareholder rights

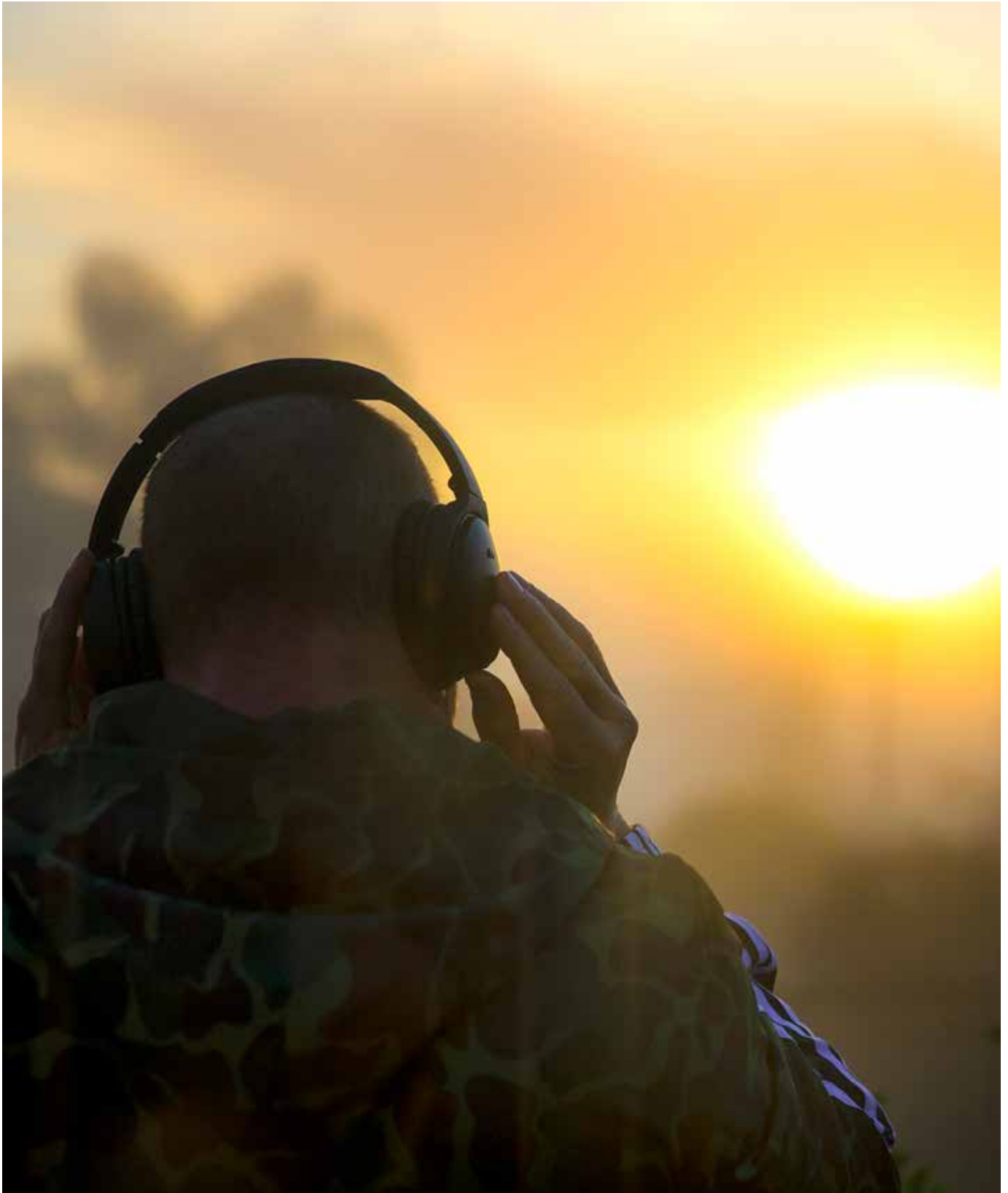
Spark is committed to ensuring that each shareholder that invests in Spark has the right to vote on major decisions that may change the nature of the company. All of Spark's shareholders have the right to one vote per share.

The Board is also committed to ensuring that the annual shareholders' notice of meeting is posted on Spark's website as soon as possible and at least 28 days prior to the meeting.

Spark webcasts its earnings announcements and annual meeting over its website, where appropriate, and full participation of shareholders at the annual meeting is encouraged.



DEDICATED INVESTOR SITE:
investors.sparknz.co.nz



Committed to UN SDG goals:



Risk

Risk



Why does Spark manage risk?

Spark's purpose statement is to help all New Zealanders win big in a digital world. To achieve this we must successfully execute our business strategy and plan, while maintaining high standards of operational performance. Strong corporate governance, including a highly effective and integrated risk management framework, helps Spark people to make good business decisions that create stakeholder value.

Spark's Managing Risk Policy

The Managing Risk Policy balances the pursuit of value creating opportunities with awareness of the challenges to achieving these. It comprises an integrated set of functions and responsibilities that span the organisation. Please refer to table one on page 52 for more detail on these.

AN OVERVIEW OF SPARK'S MANAGING RISK FRAMEWORK (MRF)

In early 2018 Spark assessed the future needs and alignment of the Managing Risk Framework (MRF) as part of its Agile transformation. Through consultation with the Board and Leadership it was decided that benchmarking the framework to COSO ERM: 2017 would provide a leading practice aligned and 'fit for purpose' MRF.

COSO's ERM framework is structured into five risk management process domains. Each one is supported by explanatory principles. Each domain plays an important and evolving part in the management of Spark's risks. The domains are:

- **Governance and Culture** - reinforcing the importance of risk management and influencing how people apply the MRF;
- **Strategy and Objective Setting** - integrating risk management into strategy setting and business planning and review;
- **Performance** - maintaining a portfolio view of risks under active management during the pursuit of business objectives;
- **Review and Revision** - identifying and implementing opportunities to continuously improve ERM's capability to improve business performance; and
- **Information, Reporting and Communication** - obtaining and sharing the necessary internal and external information across Spark.

Further risk management guidance is provided by Spark's Essential policies that help Spark's people manage specific risks. Two examples include:

- Governance policies and charters, for example, the Code of Ethics, which has been refreshed to reflect the expected behaviours and culture for an Agile Spark; and
- Cyber and Physical Security Policies that describe the arrangements that keep Spark and its customers safe from these threats.

In early 2018, Spark updated its risk management framework by adopting the leading practice approach advocated in COSO ERM: 2017





Spark's current principal business risks and their mitigations (Principal Risks)

CUSTOMER EXPERIENCE

Improving customer experience is essential to grow and retain customers and achieve our planned financial performance. To put customers at the centre of our business Spark has undertaken an Agile transformation. Key features include adopting an Agile organisational design and way of working so we make customers the focus of the design and delivery of Spark's products, services and solutions. Customer experience targets have also been embedded as incentive measures.

MOBILE

Intense competition in a mature market keeps retail prices low and necessitates including significant added value in market offers to enable competitive differentiation. This pressures Spark's mobile business margins. Spark has adopted new Agile ways of working that improve our business and operating cost efficiency. Our new Agile Mobile product and segment tribes are fully leveraging multibrand capabilities and new strategic growth initiatives to help us compete more effectively in today's price-sensitive markets.

BROADBAND

The New Zealand broadband market is largely commoditised and intensely competitive. This places Spark's customer scale and product margins under pressure. Spark is responding by continuing to migrate our copper broadband customers onto fibre and wireless access technologies to improve customer experience and product economics. Our new Agile product and segment tribes are focusing on leveraging the product and service mix across Spark's brands to succeed in price-sensitive markets.

IT SERVICES

Spark must continuously improve the efficiency of its IT service delivery and margin performance to achieve sustainable earnings from this business portfolio. A competitive market creates a high level of price pressure that squeezes margins.

TECHNOLOGY PERFORMANCE (NETWORK AND IT)

Service-impacting events may occur affecting the performance of Spark's networks and IT platforms and the customer products and services they support. This can damage our reputation and reduce our ability to attract and retain customers. These events can occur when introducing new or operating existing technology or when technology assets reach the end of their economic or engineering lives. Spark continues to heavily invest in our mobile, data and fixed and IT technology platforms to improve service resilience, customer experience, capacity and economic efficiency.

LOWEST OPERATING COSTS

Spark must manage its operating costs to offset falling prices associated with the commoditisation of our key markets if it is to avoid impairing its margins and earnings. To prevent this Spark must continually improve our business efficiency. Spark's Quantum programme is designed to deliver continued business efficiency benefits over time. Key focus areas of this programme include product costs of sale, labour cost and other material costs, like financing mix and interest costs.

MONETISING DATA GROWTH

Decreasing technology asset lifecycles and rapid growth in customer data consumption necessitates increased levels of technology platform and network capacity investment. When combined with an environment of intense price-led competition, it may become difficult for Spark to monetise our network and IT asset investment at economically sustainable levels. To avoid this Spark continues to invest in technology that lowers the per unit cost of data carriage. These investments include augmentation of Optical Transport and Carrier Ethernet fibre networks, and the core and edge mobile networks. New builds such as Spark's Converged Communications Network, integrate the processing of voice, data and media traffic from all access platforms at lower costs than the legacy platforms they replace. We have also undertaken planning and trials around 5G technology which will enable further monetisation of data growth with lower costs of data.

IT AND DATA SECURITY BREACH

A major cyber or data security breach would impact customer confidence causing churn, increasing IT security costs or resulting in fines. Spark relies on a best practice-aligned security operating model and uses its privacy compliance framework to keep networks and customer information secure. Examples include regular maturity assessments of the model to inform calculated and continuing investment in security threat and monitoring response capability.

REGULATORY

Regulatory changes have potential to affect the level of earnings Spark achieves for its shareholders. The Government's Telecommunications (New Regulatory Framework) Amendment Bill introduces an entirely new regulatory framework from 2020 for fixed-line services provided to Spark by Chorus and other local fibre companies. The Bill grants the Commerce Commission new powers to monitor and enforce retail service-level quality levels. How this regulatory framework is implemented may have important consequences for the retail and wholesale telecommunications markets Spark operates in. Similarly, the Commerce Commission is presently undertaking a mobile market study considering all aspects of mobile market structure and performance, to identify whether any aspect of the mobile market warrants closer regulatory attention. Spark mitigates regulatory risks through proactive engagement with government, the regulator and industry stakeholders and we develop strategies to mitigate these risks as they emerge.

COMPLIANCE OBLIGATIONS

Spark must comply with all relevant legislation and regulations, telecommunications service obligations (TSO), NZX Listing Rules, applicable ASX Listing Rules and the corporate governance requirements of the NZX and Financial Markets Authority (FMA). We continue to voluntarily comply with the ASX Corporate Governance Principles and Recommendations (despite being granted foreign exempt listing status by the ASX in 2015). Spark's Compliance and Privacy Team regularly engage with the business to provide legal and other compliance supports including tools, training and advice.

United Nations Sustainable Development Goals

The Sustainable Development Goals (SDGs) are a set of global initiatives set by the United Nations for everyone to contribute to. For Spark the SDGs are a way to see which areas of sustainability we are directly contributing to and how our community initiatives relate to a larger vision for positive change.



Spark's focus on UN Sustainable Development Goals



Spark Sustainability Wheel

