Helping New Zealand win big.

ANNUAL REPORT 2018

Contents

Key Dates

Annual Meeting
2 November 2018

FY19 half-year results announcement
20 February 2019

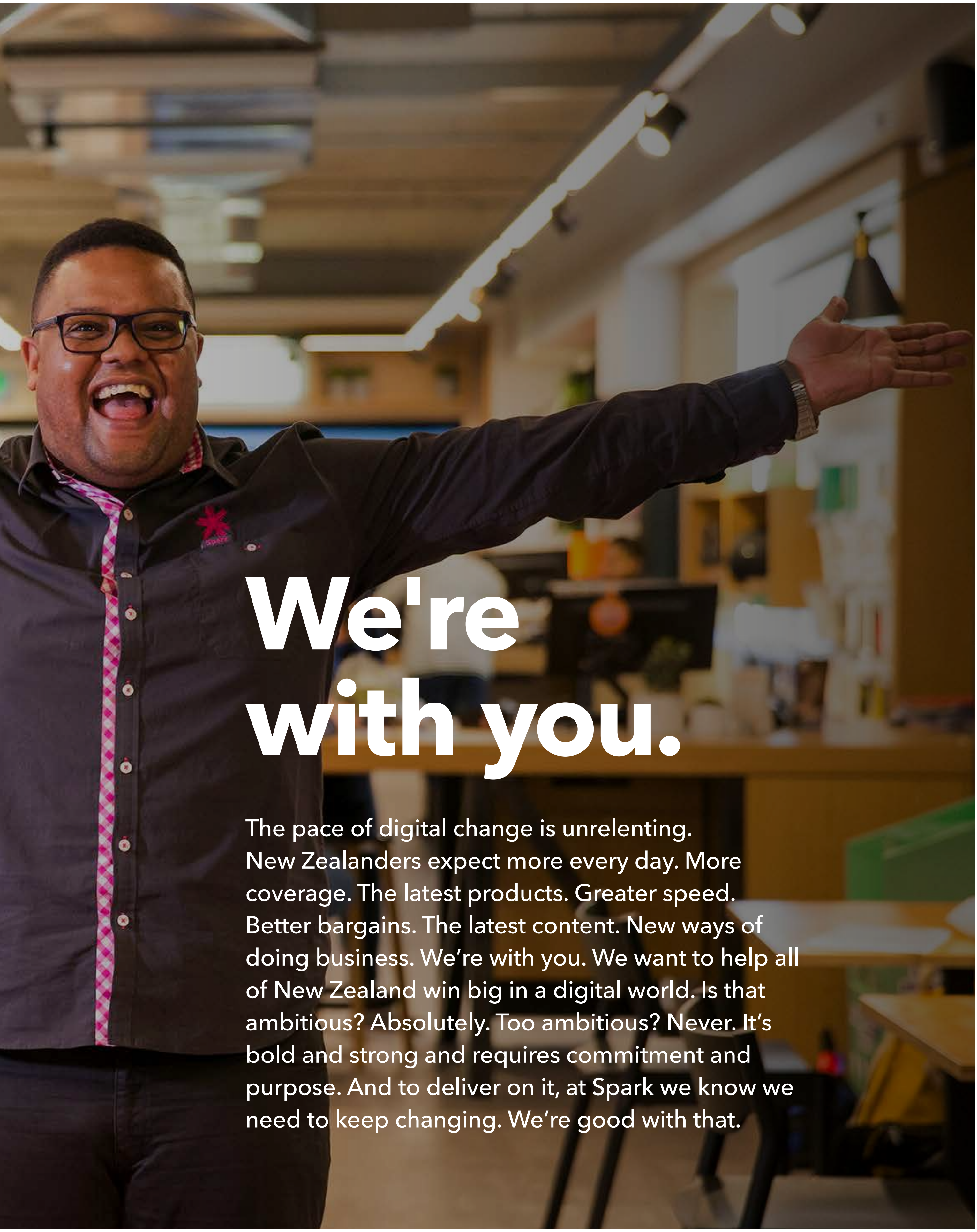
FY19 financial year-end
30 June 2019

FY19 year-end results announcement
21 August 2019

This report is dated 22 August 2018 and is signed on behalf of the Board of Spark New Zealand Limited by Justine Smyth, Chair and Simon Moutter, Managing Director.

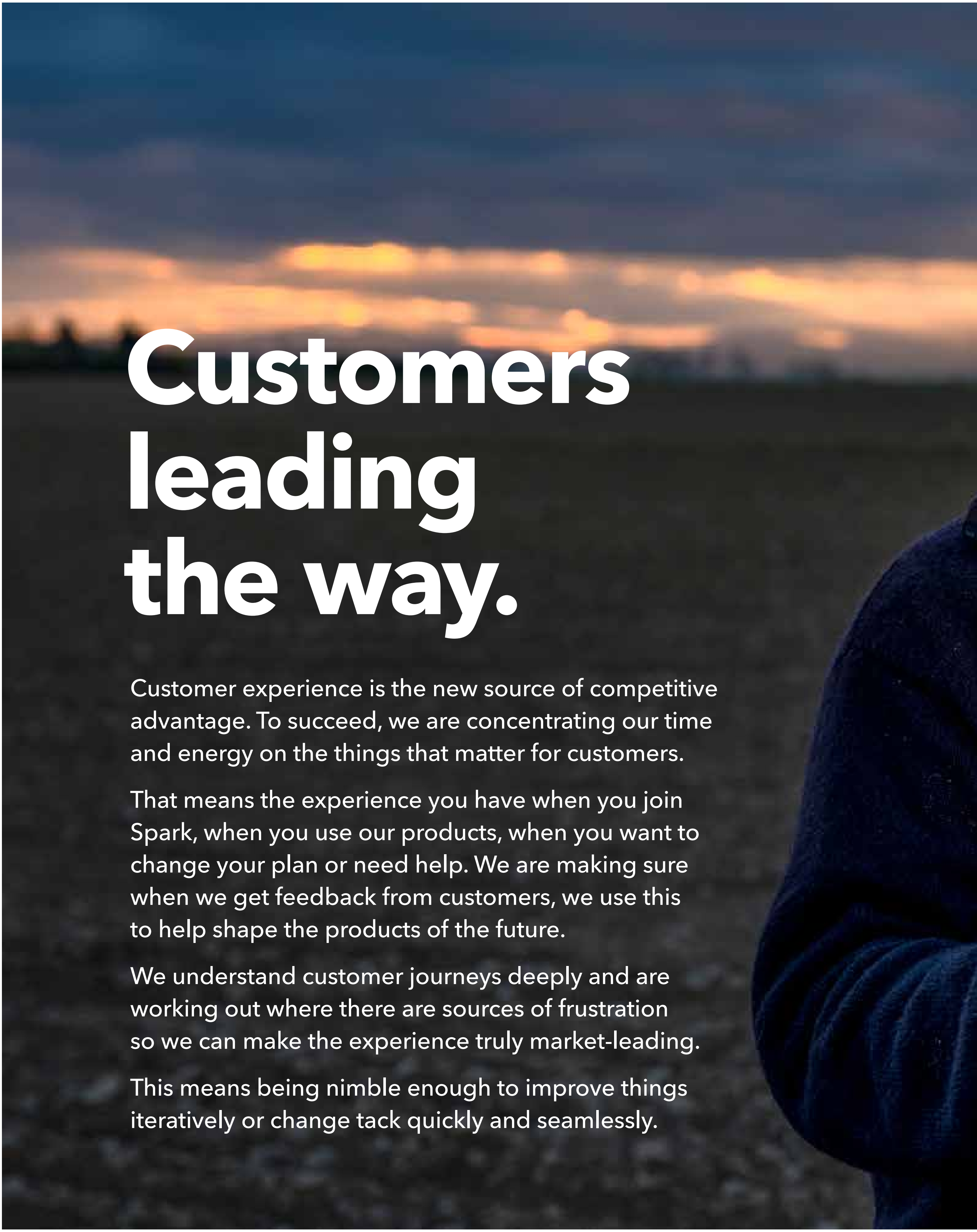
Justine Smyth
Chair

Simon Moutter
Managing Director



We're with you.

The pace of digital change is unrelenting. New Zealanders expect more every day. More coverage. The latest products. Greater speed. Better bargains. The latest content. New ways of doing business. We're with you. We want to help all of New Zealand win big in a digital world. Is that ambitious? Absolutely. Too ambitious? Never. It's bold and strong and requires commitment and purpose. And to deliver on it, at Spark we know we need to keep changing. We're good with that.



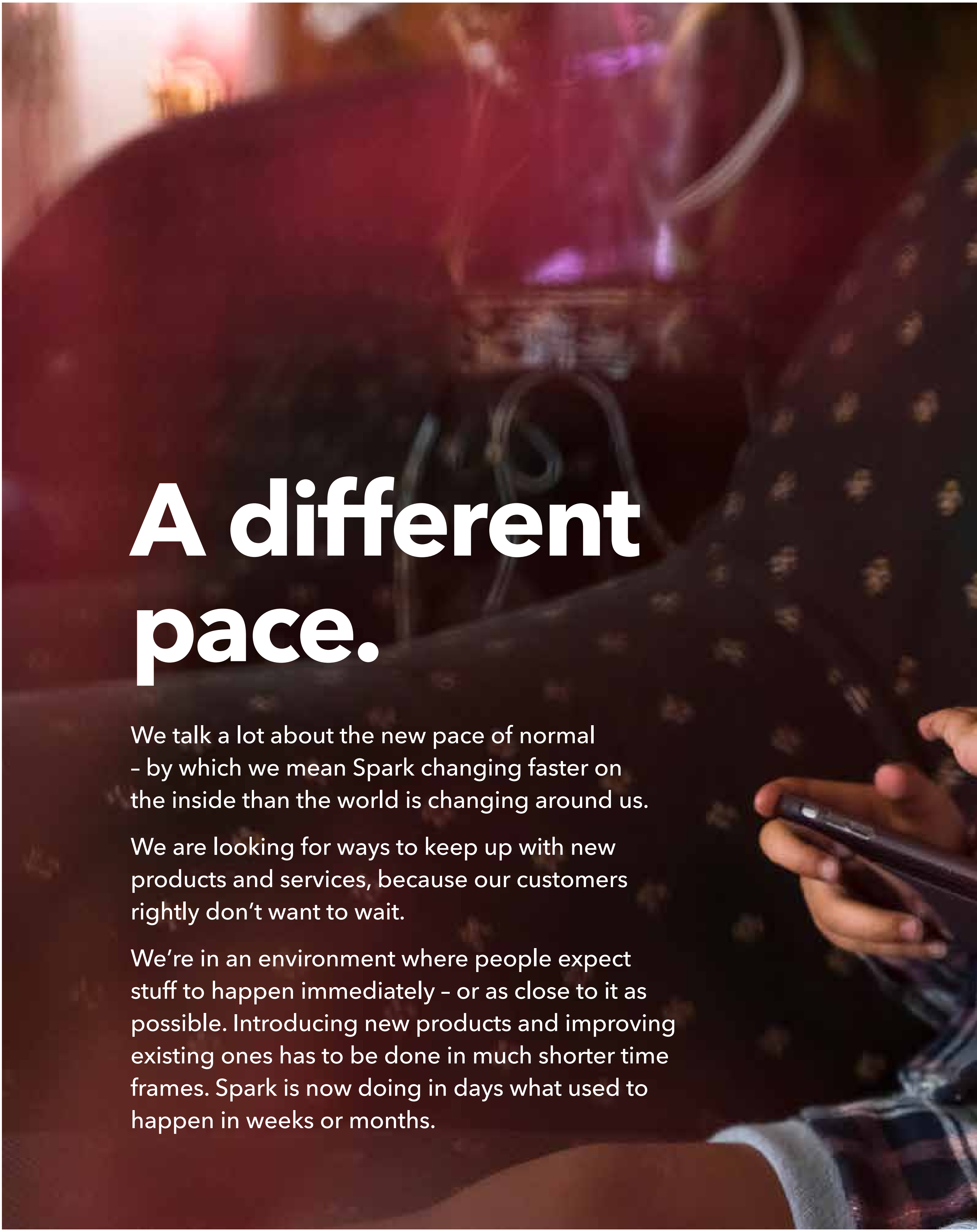
Customers leading the way.

Customer experience is the new source of competitive advantage. To succeed, we are concentrating our time and energy on the things that matter for customers.

That means the experience you have when you join Spark, when you use our products, when you want to change your plan or need help. We are making sure when we get feedback from customers, we use this to help shape the products of the future.

We understand customer journeys deeply and are working out where there are sources of frustration so we can make the experience truly market-leading.

This means being nimble enough to improve things iteratively or change tack quickly and seamlessly.

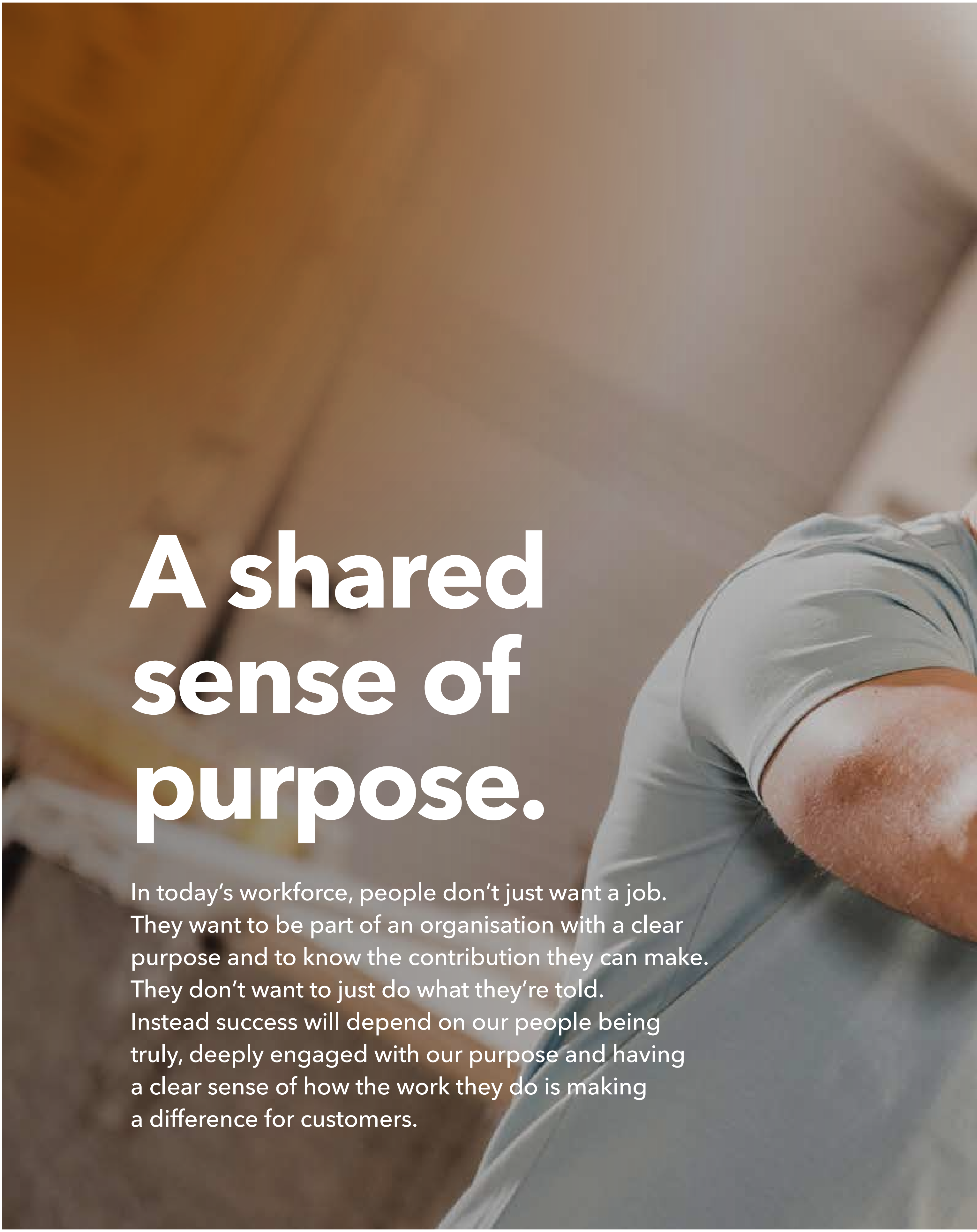


A different pace.

We talk a lot about the new pace of normal – by which we mean Spark changing faster on the inside than the world is changing around us.

We are looking for ways to keep up with new products and services, because our customers rightly don't want to wait.

We're in an environment where people expect stuff to happen immediately – or as close to it as possible. Introducing new products and improving existing ones has to be done in much shorter time frames. Spark is now doing in days what used to happen in weeks or months.



A shared sense of purpose.

In today's workforce, people don't just want a job. They want to be part of an organisation with a clear purpose and to know the contribution they can make. They don't want to just do what they're told. Instead success will depend on our people being truly, deeply engaged with our purpose and having a clear sense of how the work they do is making a difference for customers.

What does Agile mean for Spark?

Spark is the first large company in New Zealand to go all in with Agile.

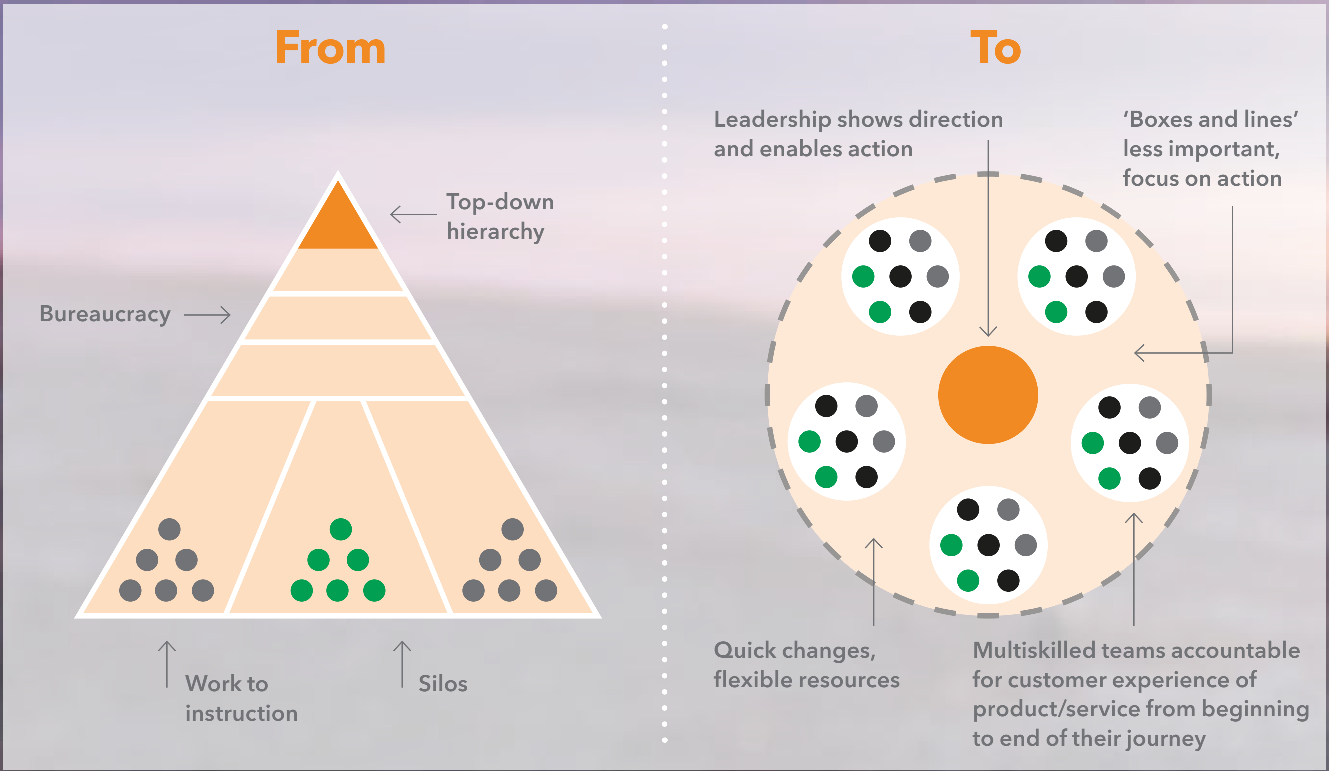
Agile is a business organisational model that has been used for a number of years by some of the world's largest digital services businesses.

It replaces traditional hierarchical control with small, cross-functional and self-managing teams – all working to a central organisational purpose. It also involves working on smaller, faster, incremental improvements to products and services, and looking at a customer's journey with our business from beginning to end.

Agile is putting Spark's focus squarely on our customers, providing feedback loops and disciplined frameworks to give deep and clear insights on what customers need and expect.

Multifunctional teams and flat structure mean no need to 'hand over' work to another part of the business or seek approvals from above. Teams can simply deliver for customers, fast.

By focusing our work on Spark's overall purpose and our contribution to customers, Agile ensures all of our people are engaged and feel empowered to make a difference.



Spark's Agile building blocks

Channel and delivery units

Our customer service and sales teams. These parts of the business are already operating as autonomous teams, so their structure remains largely the same – with an increased focus on self-management and empowerment.

Tribes

Our network teams, IT platforms teams, marketing teams and product development teams are now reorganised into Tribes, Squads and Chapters (see definitions on right). All people in these areas work in multifunctional teams, which manage new products or services – or improvements to products or services – from beginning to end, and are fully accountable for delivering them (previously these sorts of projects were handed from team to team as they progressed).

Centres of Excellence

Parts of our business with specialist skills, such as finance, human resources, procurement, communications, brand marketing and legal. Individuals in these teams will be deployed to support tribes and squads as they are needed.

Subsidiaries

Our subsidiaries solve market or capability gaps – where there are benefits from retaining a level of independence. They will remain separate to the main Spark business.

Agile terms defined…

Tribes

A group of several squads that are all working in the same business area, focused on either a product (e.g. broadband), a customer segment (e.g. consumer), or an area of technical expertise where it's not practical to embed that expertise in other tribes (e.g. billing).

Squad

An autonomous, multidisciplinary team (up to nine people) able to define work and make business decisions. Has 'end to end' responsibility for a certain purpose related to the product.

Chapter

A group of people from different squads who perform similar roles and regularly meet to share expertise and solve problems (e.g. consumer marketing).

Spark financial performance 2018

Operating revenues and other gains $

3,649M ▲ 1.0%

EBITDA[1] $

989M ▼ 2.7%

Adjusted EBITDA[1,2] $

1,038M ▲ 2.2%

Net earnings $

385M ▼ 7.9%

Adjusted net earnings[1,2] $

420M ▲ 0.5%

Mobile revenue $

1,280M ▲ 6.9 %

Broadband revenue $

685M ▼ 0.6%

Cloud, security and service management revenue $

373M ▲ 15.1%

Capital expenditure[1] $

413M ▼ 0.5%

Dividends per share

25 cents No change

Mobile connections

2.458M ▲ 2.8 %

* All changes are comparative to FY17 or 30 June 2017.

1 Earnings before interest, income tax, depreciation and amortisation (EBITDA), adjusted EBITDA, adjusted net earnings and capital expenditure are all non-Generally Accepted Accounting Practice (GAAP) measures and are not comparable to the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) measures. These measures are defined and reconciled on page 40.

2 Adjusted for the impact of $49 million (and $35 million net of tax) costs of change associated with the Quantum programme (Spark's shift to being the industry's lowest cost operator through radically simplified and digitised processes, products and services).

Operational highlights

- Continued growth in mobile connections, revenues and margins
- Continued growth in cloud, security and service management revenues
- Transitioned to Agile operating model at scale
- Successful results from New Zealand's first live 5G mobile test site and 5G indoor trial
- More than half of Spark home broadband customers moved on to new technologies (fibre or wireless broadband)
- Ramped up decommissioning of public switched telephone network (PSTN); equipment now removed from 70 exchanges
- Launched nationwide low-power Internet of Things (IoT) network; trials on mobile-network based IoT network under way
- Launched new Lightbox platform with movies and a separate kids section
- Entered into sports content market, securing rights to Rugby World Cup 2019, Premier League football and other premium content.

Customer experience highlights

- Cutting edge data and automation deployments, and improvements to customer websites and apps, reduced customer service calls by 24%
- Improved customer satisfaction with increase in net promoter score (NPS) across both Spark and Skinny brands
- Improved Spark App now has 840,000 unique users, a 15% increase on FY17
- Automated varied and sometimes complex business tasks by deploying more than 40 'bots'
- Launched four customer-facing virtual assistants or 'chatbots', which are resolving simple customer questions
- Halved the average time to process customised deals for large business customers
- Completed migration of 178,000 consumer and small business customers to new, simplified plans with self-service functionality.

Helping all of New Zealand win big in a digital world.

Justine Smyth Chair

Simon Moutter Managing Director

Tēnā koutou,

We've talked a lot over the past few years about transformation. Spark is already a very different company from five years ago. We know our future will be profoundly different to our past – and it's coming at us fast.

We know that our future customers who will shape our business in the years ahead have grown up in a world where the internet is ubiquitous: where they can instantly play any song they like; download any book or video; play online games with people spread all over the planet. They don't see why they should wait for the stuff that's coming out overseas and they expect companies to have the best digital tools and channels and be easy to deal with. These customers demand more and more of us – and we need to deliver, because if we don't, we can be certain a competitor will.

In the volatile, uncertain, complex and ambiguous world we now operate in, we have been focused on leveraging Spark's competitive advantage – the thing that gives us confidence we can live up to our purpose: to help all of New Zealand win big in a digital world.

When it comes down to it, our competitive advantage revolves around our relationship with around three million New Zealanders who engage with Spark's products and services up to hundreds of times every day. This gives us the scale required to build the best digital services and technology platforms. It gives us the rich data to develop a deeper understanding of New Zealanders and their needs. And as a result, it gives us a powerful opportunity to provide the best customer experience in market and carve out a locally-relevant position that none of our competitors – local or global – can match.

We've already come a long way, with better and more competitive products in market; vibrant new brands and a far better customer experience through our digital channels. But we never rest on our laurels. To truly become leaders in customer experience Spark needs to continue to reinvent how we do things.

And that's why we announced during the financial year that we are undertaking a company-wide transition to an Agile way of working.

Agile focuses our business – everything we do and produce – around the customer. It paves the way for their needs, perceptions and feedback to have greater influence on the way we conceive customer journeys, products and services than ever before. It allows us to respond to market opportunities more quickly as we

Agile focuses our business – everything we do and produce – around the customer. It paves the way for their needs, perceptions and feedback to have greater influence on the way we conceive customer journeys, products and services than ever before.

look to adopt a minimum viable product (MVP) approach – that is, launching products and services quickly and early and then iterating and improving them as we go.

Agile allows us to deliver the purpose-centred workplace that we know talented people – both young and more mature – are increasingly demanding. Because under Agile our people work in small, multifunctional squads focused on delivering a specific customer outcome, they can clearly see their contribution to the customer experience and the business strategy. By bringing different disciplines together in one team and focusing on the end outcome for customers, Agile also encourages deep engagement, better productivity and collaborative, positive behaviours – because the model simply doesn't work any other way.

To bring our people on the journey, over the past ten months we have rolled out an intense programme of communication about the transition to Agile and what it means for them. The response we've had is hugely positive and there is a palpable sense of optimism and energy in the business.

We've also worked hard to address the things that might detract from this sense of engagement. In September 2017 we publicly admitted that – despite an enormous amount of work putting in place systems, processes and initiatives – we had fallen short of creating the truly diverse and inclusive workplace we aspire to at Spark. Independent reviewers identified that many of our people, particularly women, felt our approach had been too clinical and focused on 'ticking boxes'. It reminded us that diversity and inclusion is not just about systems or processes. It is also about how people feel – and requires us to lead with our 'hearts' as well as our 'heads'.

Over the past few months we've enabled our people to bring forward fresh thinking and initiatives that underpin our renewed commitment to diversity and inclusion. These include practical steps, like our new Flexible Working and improved Paid Parental Leave policies. But we've also looked deeply at how we can address the 'heart' of our organisation and change culture and behaviours. Starting in April we invited all staff to sign our Blue Heart Pledge – a personal commitment to diversity and inclusion – and a commitment to constructively call out behaviour that doesn't live up to our standards. So far more than 2,700 of our people have signed the pledge, including our Board and the Spark Leadership Squad, and we expect that number to grow in the coming months.

By creating a collaborative and respectful environment, a diverse workplace where all voices are heard, we are far more likely to solve the complex and difficult problems the future will inevitably bring.

Financial performance on plan

When we made the call to transform our company to an Agile way of working, we could see that as well as setting our people up to deliver a better experience for our customers, the Agile approach would also allow us to operate more efficiently.

Since the latter stages of FY17, we've undertaken a programme of business improvement and cost reduction through simplification, digitisation and automation, which we've called 'Quantum'. In the lead up to our Agile transformation, we decided to accelerate this programme – incurring costs and realising benefits earlier.

This decision was based on our increasing confidence that we could improve customer experience and operate under a lower cost structure in an Agile model.

The acceleration meant additional implementation costs of $24 million were brought forward into FY18 earnings which, added to the $25 million costs of change we had already planned for, brought total costs of change for FY18 to $49 million. As a result of this, overall, reported EBITDA for FY18 of $989 million declined by $27 million, or 2.7%, compared with FY17.

Excluding change costs, adjusted EBITDA for FY18 was $1,038 million, an increase of $22 million or 2.2%.

We continue to achieve modest growth in operating revenues and other gains up $35 million, or 1.0%, to $3,649 million. This is on the back of continued strong performance in mobile, up 6.9%; cloud, security and service management, up 15.1%; and growth associated with the acquisitions of Ubiquity and Digital Island. As in prior years, these strong growth lines were offset by the decline in traditional voice and data revenues, which this year were down another 11.6%.

Spark also saw Southern Cross dividends decline by $11 million to $50 million during FY18. We expect dividends received from Southern Cross to decline significantly during FY19 to between $10 million and $20 million, as the level of pre-purchased capacity from large customers decreases.

Depreciation and amortisation costs were relatively stable, with an increase of $4 million, or 0.9%, and net interest expenses increased by $4 million, or 15.4%, associated with higher net debt levels. Tax expenses were relatively flat year on year and capital expenditure of $413 million was in line with expectation.

Overall, reported net earnings declined $33 million, or 7.9%, to $385 million, due to the Quantum programme change costs. On an adjusted basis, net earnings were $420 million – relatively flat year on year.

We continued to see competitive challenges over the year, particularly in the hyper-competitive fixed broadband market, where margins remain under heavy pressure. This is a key driver for our emphasis on wireless investment.

Strategic focus drives continued growth

In June last year we set out a three-year vision of where the market was going and how Spark would succeed in this operating environment. This included setting out three specific focus areas: an increased emphasis on wireless; leveraging multibrands; and being the lowest cost operator through simplification, digitisation and automation.

Amid the change programme of the past 12 months, Spark has remained focused on delivering against these focus areas and we have seen very good progress over the year.

EMPHASIS ON WIRELESS

We have once again seen growth in our mobile connections, revenues and margins across the business. Our unlimited mobile plan, launched in September 2017, has been very successful – showing customers value the comfort of price certainty on their mobile usage as much, if not more, than the actual ability to consume unlimited mobile data. Success with this new plan has driven improved mobile margins by increasing the proportion of Spark mobile customers on plans costing $79 and above.

We continued to grow our wireless broadband product, albeit a little behind the targets we set and we're now seeing the full-year benefits of wireless broadband adoption in our customer base, which has driven a 6.7% increase in broadband gross margin over the year. Our focus is now shifting to the retention of existing wireless broadband connections and migration of copper voice connections to wireless voice alternatives.

We are also continuing to enhance the offer by launching a 240GB plan in selected areas.

Success in wireless-based products and services is underpinned by our investment in the mobile network. We have now rolled out 4.5G to 31 locations across the country, bringing customers faster speeds and giving the network more capacity. Our planning is well advanced for 5G, which we expect to implement across our network from the early 2020s – depending on factors like spectrum availability. We conducted New Zealand's first live 5G outdoor mobile test in Wellington in March, achieving speeds of up to 9 Gigabits per second (Gpbs). An indoor trial in Auckland the following month achieved speeds of 18 Gbps – one of the fastest speeds achieved anywhere in the world to date and close to the theoretical maximum of 20 Gbps. The trial allows us to test, in a real-world environment, the speeds, coverage and parameters of the spectrum we'll be using for 5G.

In behind the wireless access network is the new Converged Communications Network (CCN), which will replace the ageing Public Switched Telephone Network (PSTN). This massive, once-in-a-generation technology upgrade will provide the foundation for Spark's voice services into the future and will bring together all voice communications – be it landline, mobile, video or data-based. It will enable richer, better customer experiences with voice, video, and collaboration features over whatever Spark service is available at the moment customers want to use it. The upgrade is being progressively phased in over five years (from April 2017) and we are now 10% of the way through shutting down the old PSTN.

Spark's investment in the Internet of Things (IoT) has significantly progressed. We have advanced the roll out of two low-power networks. The first of these now covers more than 65% of the population and a second cellular IoT network has launched in one region – with a nationwide roll out under way and a number of customer contracts signed. Our IoT capability is already enabling a range of use cases, such as metering, smart lighting and environmental monitoring, connected vehicles and trackers on industrial vehicles to monitor location of packages and condition of vehicles. We are also seeing a number of interesting use cases for IoT sensors in agribusiness to better manage farms, orchards and other agricultural use cases such as beehives.

MULTIBRAND

Over the year we saw solid improvements in customer experience and brand reputation rankings. This included improvements in Net Promoter Score (NPS) for both the Skinny and the Spark brands, and Spark was the only telecommunications brand to make it into the top 20 in two independent annual corporate reputation surveys (Reptrak and RepZ).

Our multibrand strategy continues to help us win customers across different market segments. We further differentiated the premium Spark brand as a mass market digital services provider, leveraging our partnerships strategy to offer attractively-priced Sky Fanpass subscriptions to Spark unlimited home broadband customers. Fanpass now sits alongside our existing Netflix, Spotify and Lightbox offers for Spark customers.

Our no frills, low-cost Skinny brand repositioned itself in the market with a new, more mature but still light-hearted brand campaign, reflecting Skinny's dual commitment to low prices and customer satisfaction. It also launched a rewards programme for customers, rolled out plan updates to become more competitive and saw good growth from its data binge product.

We saw great progress across our suite of specialty brands: Revera and CCL in the cloud services space; Lightbox in home entertainment; specialist business telco provider Digital Island; supply chain solution company Telegistics; and data-analytics and marketing business Qrious. Over the year Qrious saw revenue growth through its work on data-driven customer intelligence and engagement – where we see the biggest market opportunities. Our Wholesale business also won a big new business partner during the year, with Dimension Data shifting its business to the Spark network.

DIGITISATION AND AUTOMATION

Our programme of simplification, automation and digitisation continues to deliver results as we automate high-volume processes and design customer journeys as 'digital first'. By expanding and improving the digital and self-service options available we have reduced calls to our customer contact centres by almost a quarter year on year.

Some notable improvements include the online "fix my broadband" diagnosis tool, which allows customers to diagnose broadband connection issues, often helping them resolve issues for themselves or significantly decrease the time required for Spark to put resolution measures in place. We have also deployed four customer-facing virtual assistants – serving customers across the Spark, Lightbox, Bigpipe and Morepork brands. These 'chatbots' help to answer simple questions, freeing up our customer service agents for more complex queries. They are in addition to more than 40 bots deployed throughout the business to automate a range of business tasks.

This programme of digitisation and automation is underpinned by our drive for simplification across the business. We have now completed the migration of 178,000 consumer and small business customers on to newer, simplified plans with self-service functionality – offering a better customer experience and reducing our customer care costs. In March we shut down the legacy dial-up service, which has allowed us to reduce our overhead costs by simplifying our offer to customers.

Giving New Zealand businesses the edge

The transitioning of our business customers to digital services products gained real momentum over the year. We saw further growth in cloud services, driven by the continued uptake of 'as a Service' products and the extension of our security offer to enterprise customers. Our new focus on service delivery continues to improve the profitability of our top IT services clients and we had some major new client wins over the year.

Evolving media landscape

Spark is committed to being a key player in a rapidly evolving media environment. During the financial year we relaunched Lightbox on a new platform with several new features and services – including a pay-as-you-go movie service, password-protected kids area and a premium subscription option. This helped Lightbox surpass 350,000 users.

We also announced Spark had secured the rights to Rugby World Cup 2019, English Premier League football (from the 2019 season) and other high-quality content – with more announcements to come. New Zealanders will be able to stream Rugby World Cup 2019 matches and related content live or on-demand over their home broadband or mobile connections, with TVNZ also screening seven live matches free-to-air. Other sports content will be available on a subscription basis on Spark's sports platform, which will launch in early 2019. The service will be available to all New Zealanders – not just Spark customers. While we have not yet announced our platform provider, we are negotiating with world-class sports streaming specialists to deliver this element of our sports offer. We see an opportunity for standalone financial returns in the sports media market but we are also disciplined when it comes to our investments in this area. We are looking to secure content that can give us a commercial return and believe we've achieved that with the high-quality content we've secured to date.

Highly competitive market

We continued to see competitive challenges over the year, particularly in the hyper-competitive fixed broadband market, where margins remain under heavy pressure. This is a key driver for our emphasis on wireless investment.

While we continue to see growth in mobile, this market also remains very price competitive.

The Commerce Commission has informed us it will publish the Issues Paper for its Mobile Market Study by the end of August. We continue to engage with the Commission on the study, but as we have emphasised in the past, with three world-class networks delivering prices that are below Organisation for Economic Co-operation (OECD) averages and three mobile network operators that are ploughing significant investment into an intensely competitive market, we don't envisage there will be a case for any new mobile market regulation.

Senior leadership changes

During the year we announced some changes to Spark's leadership line up as we move to an Agile way of working and away from a traditional hierarchical organisational structure based around large business units. In the new Spark Leadership Squad, we have assembled the right mix of skills, talent and experience to collectively make the big calls that will underpin our ongoing success across the company. In this new model, Leadership Squad members are no longer responsible for individual business units, instead providing support and guidance as sponsors of relevant Agile units.

The change saw Jolie Hodson take on the role of Customer Director, Mark Beder become Technology Director and Claire Barber become Product Director.

Melissa Anastasiou has also joined the Leadership Squad. Melissa has been Spark's General Counsel since 2009 and more recently took on a broader role working on Spark's diversity and inclusion programmes and on a range of strategic initiatives.

We've announced Matt Bain as Marketing Director, a new role within the Leadership Squad – commencing towards the end of the 2018 calendar year. Matt is currently European Managing Director for AKQA, one of world's leading innovation and brand experience agencies, with responsibility for 500+employees across five countries. He will bring his outstanding digital marketing and customer experience skills right into the centre of our thinking and actions.

Looking to the future

Significant change has been a consistent fact of life at Spark in recent years but during the past financial year we took this to a new level as we radically embraced an Agile operating methodology. We're proud of what we've achieved, firmly positioning ourselves for future success in an uncertain and fast-changing industry and world. Furthermore, we have delivered this change while maintaining financial and operational momentum and ensuring our business performance is to plan.

In the coming year we will be focused on capturing the advantages the Agile way of working will deliver for us: highly engaged and productive people; a total focus on what matters for customers; and the ability to deliver new products and services – and improve existing ones – faster than ever before.

We believe our strategy sets us up for a strong FY19. As we look ahead we are confident we can continue to deliver for you as shareholders, while making a wider contribution as we help all of New Zealand win big in a digital world.

Ngā mihi,

Justine Smyth
Chair

Simon Moutter
Managing Director

22 August 2018

Our Board.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1. Justine Smyth
Chair

Justine joined the Board of Spark New Zealand in December 2011. Her background is in finance and business management (with Deloitte and Lion Nathan). She is currently a director of Auckland International Airport Limited and Chair of The Breast Cancer Foundation New Zealand. Former governance roles include being a board member of the Financial Markets Authority and Deputy Chair of New Zealand Post Limited. Justine's experience in governance, mergers and acquisitions, taxation and financial performance of large corporate enterprises, as well as actively investing in small and medium enterprises (SMEs) underpins her contribution as a director. Justine has a Bachelor of Commerce from the University of Auckland and is a Fellow of the New Zealand Institute of Chartered Accountants and a Chartered Fellow of the Institute of Directors.

2. Alison Barrass
Non-executive Director

Alison joined the Board in September 2016. She brings a broad range of skills, including knowledge and expertise in the fast-moving consumer goods (FMCG) sector and in governance, leadership and marketing-led innovation. Her background includes 30 years' experience at major international FMCG companies, including PepsiCo, Kimberley-Clark, Goodman Fielder and Griffins Foods. She currently Chairs the Board of Methven and is a director with Gough Group, Heilala Vanilla, Lewis Road Creamery and Rockit Global. Alison was previously Chair of the Breast Cancer Research Trust and a director of The Parenting Place and Callaghan Innovation. Alison has a Bachelor of Science from the University of Southampton and a Business Diploma in Marketing from the University of Auckland.

3. Paul Berriman
Non-executive Director

Paul joined the Board in December 2011, bringing over 25 years of international experience in telecommunications, media and convergence. Since 2002 he has been Group Chief Technology Officer of the HKT Trust, where he's responsible for leading the group's product and technology roadmap and strategic development. Prior to this he was Managing Director of management consultancy Arthur D. Little in Hong Kong and he has held roles in Reuters and several major Hong Kong service providers. In 2009 Paul was recognised by the IPTV World Forum with its Special Merit Award for Outstanding Industry Contribution and in 2008 he was listed as one of the Global Telecoms Business Magazine's top 100 "most influential persons in telecoms". He is a Chartered Engineer who holds a Bachelor of Science in electro-acoustics from the University of Salford (UK) and an MBA from the University of Hong Kong. Paul is a Director of Rain Networks in South Africa and the Next Generation Mobile Networks Alliance in the UK.

4. Alison Gerry
Non-executive Director

Alison joined the Board in July 2016. She has more than 20 years of experience working in trading, finance and risk roles for corporates and financial institutions, including Macquarie Bank, HSBC and Lion Nathan. Alison spent 17 years working overseas, mainly in Australia and Asia, and was also a Visiting Fellow at Macquarie University for 12 years. From 2007 Alison has been a professional company director and is currently also a director of Infratil and Vero and on the Board of Wellington Airport. She is former Deputy Chair of Kiwibank and a former director of TVNZ and NZX. Alison has a Bachelor of Management Studies 1st class Hons from Waikato University and a Master of Applied Finance from Macquarie University.

5. Pip Greenwood
Non-executive Director

Pip joined the Board in April 2018, bringing significant experience in capital markets, mergers and acquisitions, telecommunications and governance. She was recently appointed as interim CEO of Russell McVeagh, having been a senior partner at the firm, with over ten years' experience on the firm's Board including time as its Chair. Over the years Pip has advised on many high-profile New Zealand corporate transactions that have changed the face of industries. She was a member of the New Zealand Takeovers Panel from 2007 to 2011 and is a current director of Fisher & Paykel Healthcare and a trustee of the Auckland Writers Festival. Pip has an LLB from the University of Canterbury.

6. Ido Leffler
Non-executive Director

Ido joined the Board in June 2014. He brings experience in developing digital brands and extensive networks in the start-up communities of Silicon Valley and Australasia. Ido is the co-founder and Chief Executive Officer at Yoobi, a school supplies company that engages kids through bright colours, cool designs and, most importantly, cause. He is also Co-founder of Yes To Inc. – a leading global natural beauty brand; Co-founder and Chairman of Brandless – a disruptive consumer packaged goods company; and the Chairman of Beach House Group – a global consumer products solutions house. Ido sits on numerous corporate and advisory boards, including The United Nations Foundation Global Entrepreneur Council.

7. Simon Moutter
Managing Director

As Managing Director Simon works to ensure the company has a sound strategy in place and applies his leadership and management capability to deliver on that strategy and run an efficient business. He has led the reinvention of Telecom to Spark, to better reflect the fast-changing new world of digital services. Simon returned to Spark in mid-2012, having managed most parts of Telecom as Chief Operating Officer during the years 2003-2008. In the intervening years he led Auckland International Airport for a period of four years, in which he transformed the customer experience and delivered a significant uplift in its growth trajectory. Simon also spent 13 years in the electricity and gas industry, including as Chief Executive of Powerco (1992 to 1999). Simon has a Master's degree in Engineering from the University of Canterbury and a Bachelor's degree in Science from Massey University.

8. Charles Sitch
Non-executive Director

Charles joined the Board in December 2011. He has more than 20 years' experience in driving business strategy, having worked for McKinsey & Company from 1987, where he became senior director in 2010, primarily working with CEOs and boards on strategy and operations turnarounds, before retiring in 2010. Since 2006 he has been involved in various new business ventures. Charles is Chairman of the Board of Trinity College at the University of Melbourne and a committee member of the Melbourne Cricket Club. He holds an MBA from Columbia Business School and an LLB and BCom from Melbourne University. He is also a Graduate of the Australian Institute of Company Directors.

Leadership Squad.


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1. Claire Barber
Product Director

As Product Director Claire is responsible for designing and delivering products and service experiences that customers value. Claire is also responsible for shaping Spark's investments and maturing capability in digital, IT, data and experience design to deliver on future business needs. She joined Spark in July 2011 as General Manager Change and Technology and was appointed Chief Digital Officer in July 2016. She has led strategic projects, including IT in-sourcing, developing new operating models and simplifying products and processes. Claire brings to the role more than 20 years of experience in international technology and telecommunications, having held a variety of roles in IBM working with clients in India, China and the Asia Pacific region. She has a PhD from the University of Northumbria in the UK and has previously held positions in academia locally and internationally.

2. Mark Beder
Technology Director

As Technology Director Mark steers the big technology choices and deployment that ensures Spark offers customers New Zealand's best data connectivity experience. This means optimising the huge investments in data networks, mobile, and IT infrastructure to set Spark up for success and growth and enable New Zealand's digital future. Mark became Chief Operating Officer in 2016, after joining the business in 2003. Since 2003 he has held several senior roles, including General Manager Value Management with responsibility for Group Procurement, IT and network investment, management of the Chorus relationship and mobile capacity. He has successfully driven major initiatives and innovation, including Spark's Mobile network evolution and the ongoing replacements of the PSTN with a new Converged Communications Network (CCN). Before joining Spark Mark worked as a Senior Manager for Ernst and Young Consulting in Auckland. He has a Bachelor's degree in Commerce from the University of Auckland.

3. David Chalmers
Finance Director

As Finance Director David draws on his extensive experience in finance, media and digital business to drive clear insights around what customers value, what makes the business more competitive and what delivers value for Spark in competitive and rapidly changing digital markets. His role includes accountability for framing the key strategic choices for Spark. He joined the Spark Leadership Team as Chief Financial Officer (CFO) in October 2016. Prior to Spark David was Chief Financial Officer for Mediaworks, including a period of time as interim Chief Executive Officer. He has held a number of senior financial and general management roles with iSelect Limited, Dulux Group Limited and Macquarie Capital. David has an MBA from INSEAD Business School and a Bachelor of Commerce (Hons) from the University of Melbourne.

4. Jolie Hodson
Customer Director

As Customer Director Jolie understands dynamic, competitive markets and focuses on developing clear insight into what customers value, what makes the business more competitive and what delivers value for Spark New Zealand. Jolie joined Spark in 2013 as CFO before becoming CEO Spark Digital in October 2016. Prior to joining Spark she worked for 12 years with the Lion Group and Deloitte in a range of senior finance roles. She has a Bachelor of Commerce from the University of Auckland and has attended the Strategic Management Program at Sydney's Macquarie Graduate School of Management.

5. Joe McCollum
Human Resources (HR) Director

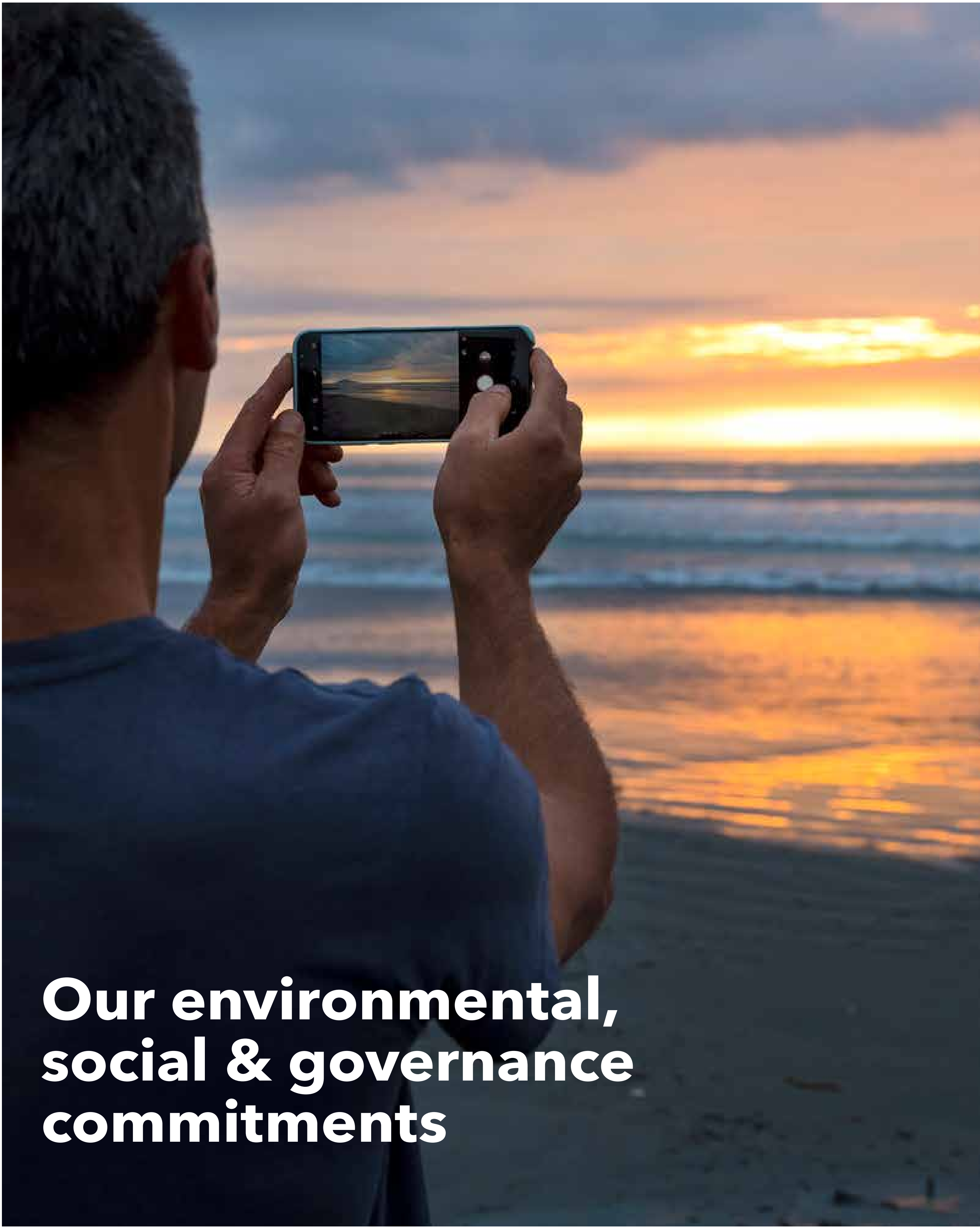
As HR Director Joe understands the critical importance of an organisational culture of success and has been very involved in the cultural shift at Spark. He joined Spark in November 2012, bringing over 30 years' global experience in leading transformational HR initiatives at companies undergoing significant change and operating in rapidly changing markets. He has a diverse background that includes executive leadership positions in the hospitality, music, software and media industries in New Zealand, the UK and elsewhere. This includes as HR Director for Lion Nathan and senior roles at EMI and news media group DMGT, global chemical company ICI and global software provider Misys. Joe also worked in Saudi Arabia for five years in the 1970s as the HR Director for a 4,500-staff hospital company before joining Pepsi initially in Cyprus and then in the headquarters in New York. He has an MSc in Business Studies from Columbia University.

6. Melissa Anastasiou
General Counsel

Melissa was appointed to the Spark Leadership Squad on 1 July 2018.
As General Counsel, Melissa leads Spark's legal and compliance functions, providing Spark with strategic legal and commercial guidance, ensuring the business acts lawfully and with the utmost integrity.
She has also played a pivotal role in leading out Spark's diversity and inclusion programme. Melissa joined Spark in 2009 and undertook a range of legal roles across the organisation before being appointed as Group General Counsel in 2012. Prior to joining Spark Melissa spent a number of years as a Senior Legal Counsel for UK mobile provider Telefonica O2. She also has extensive experience working for leading corporate law firms in Auckland and the UK. Melissa has a Bachelor of Laws from Victoria University of Wellington.

Matt Bain
Marketing Director – **joins November 2018**

Matt will join Spark as Marketing Director in November 2018, bringing his outstanding digital marketing and customer experience skills to place the customer right at the centre of Spark's thinking and actions. Matt is a New Zealander, currently based in Amsterdam as European Managing Director for agency AKQA – one of the world's leading innovation and brand experience agencies, with responsibility for 500+ employees across five countries.
Over an 18-year career Matt has built an impeccable international reputation with some of the world's greatest brands – Nike, Heineken, Mini, Rolls Royce, Siemens, EASports, Audi, Phillips, Tommy Hilfiger and KLM amongst others. He holds a Bachelor of Commerce from the University of Auckland.



Our environmental, social & governance commitments

Long-term Growth

People & remuneration

Community

Environment

Governance

Risk

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.

Spark prepares a separate Environment, Social and Governance Report (ESG Report), which provides more detail on our commitments in each of these areas. The following sections provide a summary of our ESG Report, which is available from our website at **www.sparknz.co.nz/what-matters** and **www.sparknz.co.nz/about/governance**

Long-term growth

Spark is committed to delivering consistent earnings growth, sustainable business performance and dividends that in the long term are fully funded through earnings.

FY18 adjusted EBITDA up

2.2%

FY18 adjusted earnings per share up

0.4%

Compound average total shareholder return:

17.0% p.a.

over the past three years

This strategy is reinforced by three, more recent, key 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; a strong culture of diverse and engaged talent; and maintaining a strong governance framework helps strengthen 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; and
- 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 people and Leadership Squad 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; and
- 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. 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 New Zealanders win big in a digital world.

SPARK'S MODEL FOR LONG-TERM GROWTH

Long-term growth
Evidenced by Total Shareholder Returns

SHARE PRICE GROWTH

KEY FOCUS AREAS

Consistent earnings growth

Modest revenue growth
- Grow core mobile and IT services
- Enter high-growth segments
- Selective bolt-on mergers and acquisitions

Margin expansion
- Embrace a wireless future
- Digitise the service experience to create operational efficiency

Sustainable business performance

Competitive advantage
- Amazing customer experiences
- Differentiate through multi brand and inclusions
- Superior IT platforms and networks

Environmental and social sustainability
- Environmentally aware
- Reduce carbon emissions
- Contributing to New Zealand communities
- Socially diverse and engaged talent

Strong governance
- Proactive risk management policies
- Diverse Board composition and skills

Rising dividend profile

Tight capital expenditure management driving FCF growth
- Capex maintained at ~11-12% of sales
- Investment focused on future revenue streams and transforming customer experience

Prudent capital structure
- A- credit rating
- 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; with consideration to topping up earnings in the short term

People and remuneration

Spark seeks to employ the best people and 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 develop their full potential and bring top talent through into leadership roles sooner rather than later.

Our key people goals are to:

- Create a diverse pipeline of leaders and employees, with a culture of inclusion;
- Ensure Spark people are fairly remunerated, and incentivised in ways that lead to better customer outcomes;
- Ensure Spark has the right skills in our Board and Leadership teams for the digital future; and
- Provide a safe and healthy work environment for Spark people and those who work with us.

Spark has some long-term goals and aspirations linked to these, including having more than 50% of our directors, Leadership Squad and people leaders be either female or non-NZ European; embed diversity and inclusion programmes into our recruitment and progression practices; ensure our people and people leaders have the skills they need to succeed in an Agile environment, achieve 100% gender pay parity and ensure the high standards of health and safety we have set flow through to everything we do.

33% **of Spark Leadership Squad was female at 30 June 2018**

Progress on these goals during FY18 included:

- 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 Spark's Leadership Squad increased from 29% in FY17 to 33% as at 30 June 2018;
- Reviewed and updated our parental leave policy: effective from FY19 Spark paid parental leave will increase from six weeks to up to 22 weeks;
- Launched the Blue Heart Pledge to demonstrate our commitment to promoting diversity and inclusion in the workplace; and
- Developed and applied a set of clear standards in a clearly defined health and safety framework.

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

In 2018 we invited all Spark people to make the 'Blue Heart Pledge', to mark their commitment to supporting diversity and inclusion. 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.

As part of our transition to Agile, we established a new contribution model, with transparent criteria for ensuring like-for-like pay, for a like-for-like contribution – which is how we measure pay parity. All our people in the parts of the business that have become 'fully Agile' (reorganised into tribes and squads) have already been mapped to this model with any pay parity issues resolved.

MĀORI CULTURAL AWARENESS

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 Āwhinatia 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.

We continue to grow and develop our Māori talent. A key achievement in FY18 was the launch of the 'Tuia Te Ao' cultural intelligence app to help all Spark employees to learn about te reo Māori/Māori language me ōna tikanga/and culture.

PRIDE

Spark was the first company in New Zealand's telecommunications sector to achieve Rainbow Tick certification. We have maintained this accreditation throughout FY18. In 2018 we joined the #thankstoyou campaign, part of the Auckland Pride Festival, to further demonstrate our commitment to being an ally and supporter of the Rainbow Community. The campaign included the announcement of a three-year strategic partnership with OUTLine (a confidential telephone support and face-to-face counselling service available to the LGBTQI+ community and their families and friends).

HEALTH AND SAFETY (H&S)

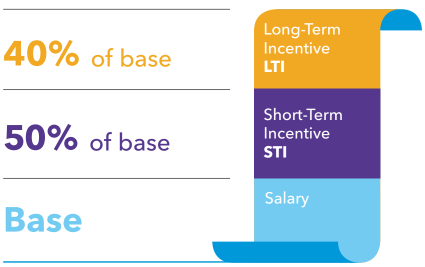
The health and safety of our people is of the utmost importance to Spark. We have recently developed and committed to a 12-month health and safety roadmap, which drew partially on recommendations from external H&S consultancy IMPAC, which we contracted to do a H&S gap analysis. Our roadmap established a set of clearly defined H&S standards that require us to have a clearly defined H&S framework, active hazard & risk management, an employee-driven safety culture and the right resources and processes to deliver on our framework. Integral to this plan is the implementation of a new H&S information system, which will shape and monitor key performance indicators across the business, focusing on Spark's strategic objectives, targets and managing critical hazards and risks.

Remuneration

Spark wants the best possible people doing great things for our customers and for New Zealand. To achieve this we remunerate them with competitive salaries, provide them with a wide range of benefits and use performance incentives that include customer satisfaction as a key measure.

LEADERSHIP SQUAD REMUNERATION

For the majority of the Spark Leadership Squad remuneration is structured around three key elements.



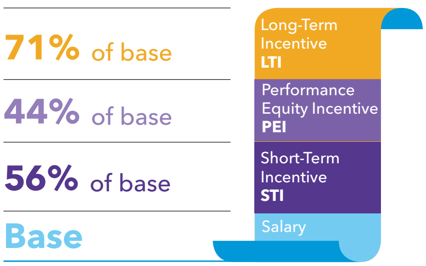
Base salary – All Spark employee packages include a substantial fixed remuneration component that is set based on market relativities, performance, qualifications and experience.

Short-term incentives (STI) – At Spark we believe it's about setting two or three targets that will improve performance of the business.

Long-term incentives (LTI) – For Spark executives a key part of their role is to effectively balance the short-term and long-term success of Spark for people, customers and shareholders. LTI is set over three years, with an absolute Total Shareholder Return (TSR) target of Spark's cost of equity plus 1% compounding annually.

MANAGING DIRECTOR'S REMUNERATION

The Managing Director's remuneration is structured slightly differently to reflect the long-term performance focus of his role.



PERFORMANCE EQUITY INCENTIVE (PEI)

In addition to the three factors applied to the Leadership Squad, the Managing Director has a further PEI, essentially a deferred STI, set at 44% of his base. The PEI has the same performance criteria as the STI scheme but the award is deferred for two years and delivered in Spark shares.

FY18 SHORT-TERM INCENTIVES PERFORMANCE OUTCOME

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 on pages 90 and 91.

FY19 INCENTIVES

The mechanics of 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.

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.

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 JUMP

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 expanded Spark Jump – which offers heavily subsidised broadband to families with school-aged children who cannot afford commercial broadband. Administered by the 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 well, 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 in three new social ventures, totalling $550,000 and focused on creating step-change in digital skills and capability amongst kids.

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

- OMG tech!, a not-for-profit education initiative to open the world of technology to young students;
- 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 where Spark people provide mentoring to school principals.

Spark Jump

FY18 Performance

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 learning to low-income communities.

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

Spark Foundation set out to create the step-change required to scale up the education programme, with the help of Spark's resources and friendship. Our involvement started when the Manaiakalani Trust was operating in a single site in Tamaki, Auckland and with the help of Spark's resources it has grown into a fully-formed methodology available to more than 50 schools across New Zealand.

Manaiakalani 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 Spark Foundation's contribution totalled almost $2.8 million. Spark Foundation remains proud of its contribution and continues to have a positive relationship with the Trust.

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 hundreds of thousands of New Zealanders use the site to support 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 have continued to participate in volunteering and payroll giving programmes, which allow them to generously donate time or funds to causes of their choice. In FY18, 1,125 days of employee time were gifted. Spark Give, a 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 totalling $840,000 were 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.

Givealittle

$18m

in donations raised by Givealittle in FY18

Spark Volunteer

1,125

volunteer days donated in FY18

Spark Give

$840,000

donated via Spark Give in FY18

590

schools and charitable organisations received payroll giving donations in FY18

Unleashing potential through stronger communities

Spark is committed to making New Zealand a better place for all of us by supporting a range of important community projects:

- Sponsorship of Lifeline's new text service HELP, which provides another channel of support for New Zealanders going through times of emotional distress;
- Encouraging young women to consider careers in technology by hosting 100 primary school-aged girls at our Spark City campus for Superhero Daughter Day; and
- Helping New Zealand businesses find their edge through Spark Lab, a multiplatform thought leadership platform providing videos, articles, events and business tools.

Environment

Spark believes environmental sustainability can be an important driver of innovation in New Zealand.

Addressing and responding to climate risk

As a technology business, Spark has a relatively low emissions profile. However, we are focused on continuing to challenge ourselves to go further in reducing our greenhouse gas emissions (measured in CO2 equivalent) – both direct and indirect. We are also looking at how we may need to adapt to the risks presented by climate change.

CARBON TARGET FOR 2025

In 2016 we set an ambition to reduce greenhouse gas emissions (measured in tonnes of CO_2e) by 25% from FY16 levels by 2025.

Over the past financial year, we have seen our total emissions increase on FY17 and (slightly) on the base year of FY16. There are two main drivers of these increases:

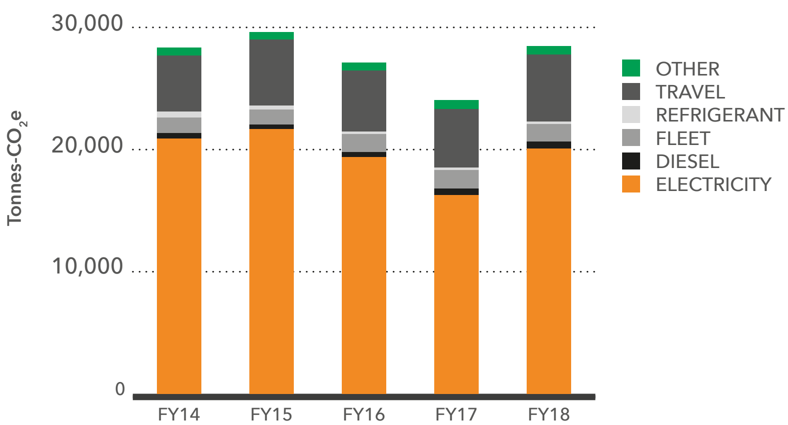
1. The increase from the base year of FY16 was primarily due to an increase in value chain emissions – air travel and customers' electricity consumption in Spark's data centres (reflecting significant growth in our data centre business).
2. Spark's largest emission source is electricity and as we source 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).

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 to 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.

GREENHOUSE GAS EMISSIONS



Network recycling revenue

TARGET FOR FY18
$360k

ACTUAL IN FY18
$397k

TARGET FOR FY19
$360k

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 transition from the ageing PSTN network to our new IP-based converged communication network (CCN), which is a much more efficient technology.

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 following section on 'Building Design' below).

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

NETWORK RECYCLING

Spark's waste management strategy proactively manages and coordinates removal and recycling in an efficient and cost-effective manner. 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.

ENERGY EFFICIENT VEHICLES

Spark has joined New Zealand's 30 largest companies in committing to 30% of our corporate fleet being electric by October 2019. To date, we have 10 fully electric vehicles. We have around 133 other vehicles coming off lease or at the end of their economic lives over the next 12–18 months, and the majority of these will be replaced with electric vehicles.

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, including a solar control glazing system, low-energy lighting, rain water tanks to provide water to toilets and advanced chiller beam units to control heating and cooling.

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 in Auckland, Wellington and Christchurch, housing around 2,600 of our people, will be designed to these high standards.

MOBILE PHONE RECYCLING

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, 25,422 mobile phones were recycled through the RE:MOBILE programme, with a percentage of the profits going to the environmental charity Sustainable Coastlines.

RE:MOBILE

25,422

mobile phones recycled in FY18

TARGET FOR FY18

35,000
mobile phones recycled

ACTUAL IN FY18

25,422

TARGET FOR FY19

35,000

Energy-efficient vehicles

CURRENT FLEET INCLUDES:

10 fully electric vehicles

47 hybrid (non plug-in) vehicles

AMBITION

30% of fleet electric or plug-in hybrid by October 2019

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.

Diverse Board

50%

of Board is female

Diversity

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.

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 its 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.

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 its 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.

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.

Board succession

Justine Smyth, an existing Spark director with extensive governance experience including time as the Chair of Spark's Audit and Risk Management and Human Resources and Compensation Committees, was appointed as Spark's Chair effective 3 November 2017, succeeding Mark Verbiest who retired from the Board following Spark's 2017 Annual Meeting. Illustrating the strength of Board succession planning, the following Board Committee changes were also effective 3 November 2017:

- Ms Smyth succeeded Mr Verbiest as Chair of the Nominations and Corporate Governance Committee;
- Alison Gerry succeeded Ms Smyth as the Chair of the Audit and Risk Management Committee; and
- Alison Barrass succeeded Ms Smyth as the Chair of the Human Resources and Compensation Committee.

Following the retirement of Mark Verbiest, the Board sought to appoint a new director with relevant skills and experience who would complement the diverse perspectives already present around Spark's Board table. On 14 December 2017 the Spark New Zealand Board subsequently announced the appointment of Pip Greenwood as a non-executive director.

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. Ms Greenwood's appointment took effect on 1 April 2018.

Future Director

Spark also appointed Nagaja Sanatkumar as its first 'future director' on 4 December 2017. The Future Directors programme is run by the New Zealand Institute of Directors and 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.

Ms Sanatkumar is currently the General Manager of Global eCommerce at innovative New Zealand clothing retailer Icebreaker and has an extensive background in technology and marketing, with a focus on digital and e-commerce customer experiences.

Board skills matrix

	Justine Smyth	Alison Barrass	Paul Berriman	Alison Gerry	Pip Greenwood	Ido Leffler	Simon Moutter	Charles Sitch
Qualifications	BCom, FCA, CFINSD	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

Risk

Spark's purpose 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.

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 Squad 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 framework is mandated by Spark's Managing Risk Policy. Additional guidance is provided by Spark's core policies that help Spark's people manage specific risks.

Principal Risks

Spark's current principal risks and their mitigation measures are summarised below.

CUSTOMER EXPERIENCE

Improving customer experience is essential to grow and retain customers and achieve our planned financial performance. To make customers the focus of our business, Spark has undertaken an Agile transformation. Key features include adopting an Agile customer-experience focused organisational design and ways of working so that customer centricity is embedded in 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 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 to 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 high levels of price pressure that squeezes margins.

TECHNOLOGY PERFORMANCE (NETWORK AND IT)

Services 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 COST

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 integrates the processing of voice, data and media traffic from all access platforms at lower costs than the legacy platforms it replaces. 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 our 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 also 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 Digital Trust Team regularly engage with the business to provide legal and other compliance support, including tools, training and advice.

Spark results overview

Key performance indicators

Financial performance

YEAR ENDED 30 JUNE		2018	2017	% CHANGE
Operating revenues and other gains	$M	3,649	3,614	1.0%
Operating expenses	$M	(2,657)	(2,594)	2.4%
Share of associates' and joint ventures' net losses	$M	(3)	(4)	(25.0%)
Reported earnings before interest, income tax, depreciation and amortisation (EBITDA)[1]	$M	989	1,016	(2.7%)
Adjusted EBITDA[1]	$M	1,038	1,016	2.2%
Reported net earnings	$M	385	418	(7.9%)
Adjusted net earnings[1]	$M	420	418	0.5%

Connections

Total mobile connections

2,458K

▲ 2.8%

Broadband connections[2]

700K

▲ 1.9%

People

Employee numbers[3]

5,507

▼ 4.6%

Capital expenditure[1]

Total capital expenditure

$413M

▼ 0.5%

Capital expenditure to operating revenues

11.3%

FY17 11.5%

Investors

Earnings per share

21.0 cents

▼ 7.9%

Adjusted earnings per share[1]

22.9 cents

▲ 0.4%

Total dividends per share

25 cents

FY17 25 cents

1 EBITDA, adjusted EBITDA, adjusted net earnings, adjusted earnings per share and capital expenditure are non-Generally Accepted Accounting Practice (GAAP) measures and are not comparable to the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) measures. These measures are defined and reconciled on page 40.

2 Includes wireless broadband connections.

3 Employee numbers are full-time equivalents, including contractors, and are measured as at 30 June.

Net earnings movements

EBITDA
$989M
▼ $27M
▼ 2.7%

ADJUSTED EBITDA
$1,038M
▲ $22M
▲ 2.2%

OPERATING REVENUES AND OTHER GAINS
$3,649M
▲ $35M
▲ 1.0%

Mobile revenue
▲ $83M ▲ 6.9%

Strong mobile service revenue growth of $36 million, or 4.6%, was driven by increased average revenue per user and connection growth. Other mobile revenue, which increased $47 million, or 11.3%, continues to be driven by the sale of high-end mobile devices.

Cloud, security and service management
▲ $49M ▲ 15.1%

Growth reflects strong customer demand for the benefits and flexibility that Cloud-based 'as-a-Service' products offer.

Broadband revenue
▼ $4M ▼ 0.6%

Broadband revenue decreased despite an increase in connections due to increased migration to lower-priced but higher-margin wireless broadband products since FY17.

Procurement and partners
▲ $8M ▲ 2.3%

Procurement and partners revenue increased due to greater volumes over the period.

Voice revenue
▼ $83M ▼ 12.7%

Voice revenue continued to decline, albeit at a slightly accelerated rate, as a greater proportion of customers opt for broadband-only services to their homes or businesses.

Managed data and networks revenue
▼ $17M ▼ 8.2%

Managed data revenue continued to decline due to the migration of business and wholesale customers off traditional data products, and ongoing price pressure.

Other gains
▼ $10M ▼ 50.0%

FY18 includes other gains of $10 million related to the sale of 50% of Connect 8 while FY17 included $20 million from the sale of surplus land in Mayoral Drive, Auckland.

Other operating revenue
▲ $9M ▲ 5.1%

Other operating revenue growth was driven by the continued progress of Spark Ventures' businesses, such as Qrious (including the purchase of Ubiquity in July 2017) and a $3 million gain associated with the buy-back of retail stores, partially offset by $11 million lower Southern Cross dividends.

OPERATING EXPENSES
($2,657M)
▲ $63M
▲ 2.4%

Payments to telecommunications operators
▼ $39M ▼ 5.7%

Decrease in baseband and access charges and broadband costs from the uptake of wireless broadband.

Labour
▼ $37M ▼ 6.7%

Labour costs have decreased despite costs associated with business acquisitions due to lower staff levels as we transition to the lowest cost operator model and the implementation of the Quantum programme.

Mobile costs
▲ $43M ▲ 9.9%

Increase in mobile costs reflects increased mobile revenue, in particular mobile device costs.

Other operating expenses
▲ $28M ▲ 5.6%

Increase due to a higher level of advertising campaigns (up $15 million), higher electricity prices and higher impairment expenses (up $5 million).

IT services costs
▲ $19M ▲ 4.5%

IT services costs increased in line with the growth in cloud, security and service management revenues.

Costs of change
▲ $49M

Costs of change associated with Spark's 'Quantum' performance improvement programme to radically simplify and digitise processes, products and services. These include external subject matter expertise ($12 million), relocation and property lease costs ($4 million), restructuring expenses ($26 million), programme office functions ($3 million) and product and system decommissioning costs ($4 million).

SHARE OF ASSOCIATES' AND JOINT VENTURES' NET LOSSES
($3M)

▼ $1M ▼ 25.0%

Spark's holdings in associates and joint ventures has decreased, resulting in lower net losses recognised, including the exit of Putti during the period.

NET EARNINGS
$385M
▼ $33M ▼ 7.9%

ADJUSTED NET EARNINGS
$420M
▲ $2M ▲ 0.5%

EBITDA
$989M
▼ $27M
▼ 2.7%

Income tax expense
$140M
▼ $2M ▼ 1.4%

Decrease in line with the decrease in net earnings before tax.

Depreciation and amortisation expense
$434M
▲ $4M ▲ 0.9%

Small increase due to shorter average useful lives of new technologies offsetting lower average capital expenditure levels in the past three years.

Net finance expense
$30M
▲ $4M ▲ 15.4%

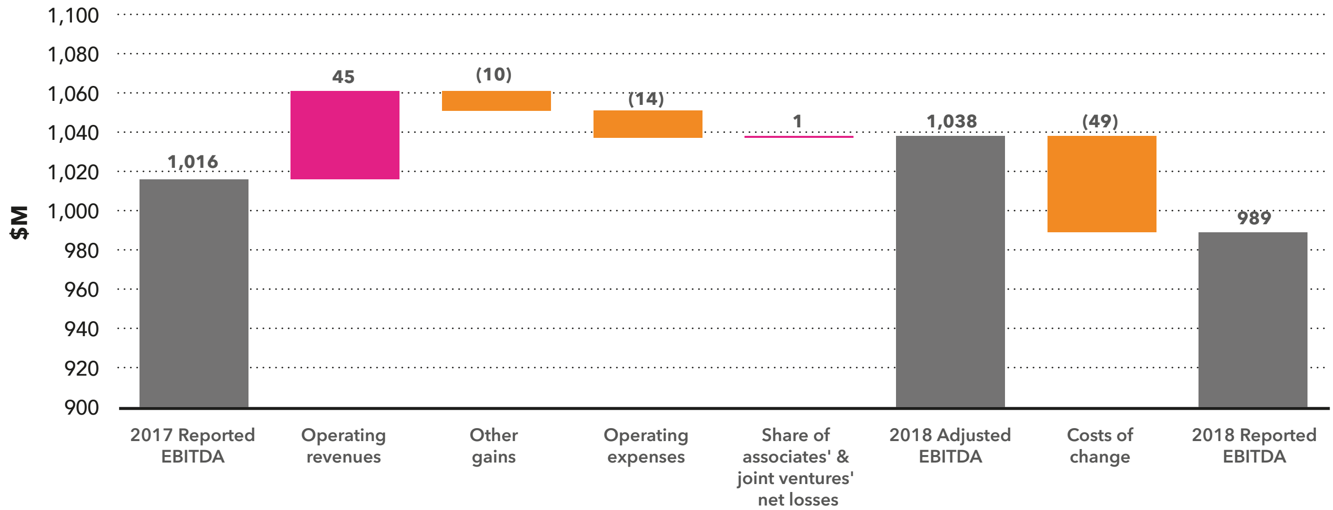
Increase due to a $4 million increase in finance expenses. This reflects an increase in average debt and stable interest rates compared to the prior year, partially offset by higher capitalised interest.

Adjusted EBITDA and adjusted net earnings

As detailed on page 40 Spark presents adjusted EBITDA and adjusted net earnings when the year includes significant items greater than $25 million. As included in the table above, FY18 included $49 million of costs of change and adjusted EBITDA and adjusted net earnings for the year are reconciled as follows:

YEAR ENDED 30 JUNE	2018 $M	2017 $M	% CHANGE
Reported EBITDA	989	1,016	(2.7%)
Add: costs of change	49	–	NM
Adjusted EBITDA	**1,038**	**1,016**	**2.2%**
Reported net earnings after tax	385	418	(7.9%)
Add: costs of change	49	–	NM
Less: tax effect on costs of change	(14)	–	NM
Adjusted net earnings	**420**	**418**	**0.5%**

Adjusted EBITDA increased $22 million, or 2.2%, and adjusted net earnings increased $2 million or 0.5%.



A summary of the results of Spark's key business units are outlined on pages 42 to 45. Further details of the FY18 and historical performance of Spark are available in a separate financials file on the investor section of our website at: **investors.sparknz.co.nz/investor-centre.**

In FY19 following a shift to Agile ways of working and change in Spark's operating model, the current business unit segmentation will no longer be applicable. A revised segment disclosure will be provided in the FY19 financial statements.

Cash flows

Spark's principal sources of liquidity are operating cash flows and external borrowing from established debt programmes and bank facilities. The full statement of cash flows is provided on page 50 in the financial statements. The following provides a summary of the cash inflows and outflows from operating, investing and financing activities during the year and the movements compared to FY17.

	CASH INFLOWS	CASH OUTFLOWS
NET CASH FLOWS FROM OPERATING ACTIVITIES **$777M** ▲ $60M ▲ 8.4%	**Cash received from customers** **$3,508M ▲ 2.4%** Increase is consistent with the increase in operating revenues from the prior year and movements in working capital. **Dividend receipts** **$50M ▼ 24.2%** Decrease in Southern Cross dividend receipts due to lower dividends during the year and the timing of cash receipts.	**Payments to suppliers and employees** **($2,592M) ▼ 0.7%** Decrease largely driven by working capital improvements. **Income tax payments** **($167M) ▲ 16.8%** Increase in tax payments due to the timing of tax payments. **Net interest payments** **($22M) No change** No change in net interest payments reflecting lower costs of debt and higher capitalised interest offsetting an increase in average net debt during the year.
NET CASH FLOWS FROM INVESTING ACTIVITIES **($484M)** ▲ $104M ▲ 27.4%	**Proceeds from sale of businesses** **$8M ▲ $8M** Proceeds from the sale of 50% of Connect 8 during the year, with no sales in FY17. **Proceeds from sale of property, plant and equipment** **$1M ▼ 96.3%** Minor asset sales during FY18, compared to $27 million received from the sale of Mayoral Drive in FY17.	**Payments for capital expenditure and capitalised interest paid** **($422M) ▲ 4.5%** Payments largely consistent with capital expenditure for the period, with the increase driven by higher capitalised interest and movement in working capital. **Payments for, and advances to, long-term investments** **($20M) ▲ 300.0%** Payments for FY18, including investment in GlobeTouch, PropertyNZ and the Rural Connectivity Group and advances to Southern Cross. There were no significant investments in FY17. **Payments for purchase of business** **($51M) ▲ 47M** Payments during the period included the acquisitions of Ubiquity, Digital Island and the buy-back of retail stores with only minor acquisitions in FY17.
NET CASH FLOWS FROM FINANCING ACTIVITIES **($290M)** ▼ $47M ▼ 13.9%	**Net proceeds from debt** **$174M ▲ 35.9%** A net increase in short and long-term debt to support acquisitions activity and the top up of dividends. **Receipts from finance leases** **$2M ▲ 100.0%** Small increase in receipts from finance leases during the period.	**Dividend payments** **($458M) No change** No change in dividend payments as dividends declared per share remained unchanged. **Payments for finance leases** **($8M) No change** No change in payments for finance leases during the period.

Capital expenditure[1]

Total capital expenditure for FY18 was $413 million, a decrease of $2 million, or 0.48%, on FY17 (noting that FY17 spend included approximately $15 million for remediation and network resiliency improvements following the November 2016 Kaikoura earthquakes). FY18 capital expenditure was 11.3% of operating revenues, within our target of 11%-12% of operating revenues and decreasing slightly from 11.5% in FY17.

YEAR ENDED 30 JUNE	2018 $M	2017 $M
Cloud	39	42
Converged Communications Network (CCN)	32	15
International cable construction and capacity purchases	14	34
IT systems	113	112
Mobile network	115	102
Plant, network and core sustain and resiliency	62	67
Other	38	43
Total capital expenditure	**413**	**415**

Capital expenditure in FY18 included the following key focus areas and projects:

- $39 million was invested in cloud-related capital expenditure to support cloud, security and service management revenue growth;
- $32 million was invested in the CCN, which will replace the legacy PSTN network and enable us to deliver IP-based voice services in the future;
- Investment in international cable construction and capacity purchases was $14 million as Spark continued to invest in Southern Cross international cable capacity albeit at lower levels than in the prior year;
- IT systems investment of $113 million in FY18 was focused on simplification, automation and digitisation across our products, customer journeys and IT systems to remove manually intensive tasks and improve customer experience. This also included the continued build of Telecommunications-as-a-Service IT platforms for Spark Digital clients to support its substantial take up by eligible government agencies;
- $115 million was invested in Spark's mobile network in FY18 to continue the deployment of the single radio access network (SRAN) and Long-Term Evolution (LTE) sites, increased capacity and coverage for wireless broadband, as well as lifecycle investment and licensing in the mobile core;
- $62 million was invested in the fibre build programme, Optical Transport Network (OTN) and Carrier Ethernet expansion to meet customer demand for services and traffic growth across the network as coverage expands. Various investments in Spark-owned properties were also carried out; and
- Other capital expenditure of $38 million includes investment in store refits, migrating Lightbox to a new platform, Connect 8 (before the sale of 50% in May 2018), Qrious and launch of Spark's first low-power IoT network (Lora WAN).

1 Capital expenditure is a non-GAAP measure and is defined on page 40.

Dividends

Spark pays dividends on a semi-annual basis. A 75% imputed ordinary dividend of 11 cents per share was declared for H1 FY18, together with a 75% imputed special dividend of 1.5 cents per share. A 75% imputed ordinary dividend of 11 cents per share has also been declared for H2 FY18, together with a 75% imputed special dividend of 1.5 cents per share, bringing the total dividends for FY18 to 25 cents per share, consistent with FY17.

	H1 FY18 ORDINARY DIVIDENDS	H1 FY18 SPECIAL DIVIDENDS	H2 FY18 ORDINARY DIVIDENDS	H2 FY18 SPECIAL DIVIDENDS
Dividends declared				
Ordinary shares	11.0 cents	1.5 cents	11.0 cents	1.5 cents
American Depositary Shares	40.59 US cents	5.54 US cents	36.17 US cents	4.93 US cents
Imputation				
Percentage imputed	75%	75%	75%	75%
Imputation credits per share	3.2083 cents	0.4375 cents	3.2083 cents	0.4375 cents
Supplementary dividend per share[2]	1.4559 cents	0.1985 cents	1.4559 cents	0.1985 cents
'Ex' dividend dates				
New Zealand Stock Exchange	15 Mar 2018	15 Mar 2018	20 Sep 2018	20 Sep 2018
Australian Securities Exchange	15 Mar 2018	15 Mar 2018	20 Sep 2018	20 Sep 2018
American Depositary Shares	15 Mar 2018	15 Mar 2018	20 Sep 2018	20 Sep 2018
Record dates				
New Zealand Stock Exchange	16 Mar 2018	16 Mar 2018	21 Sep 2018	21 Sep 2018
Australian Securities Exchange	16 Mar 2018	16 Mar 2018	21 Sep 2018	21 Sep 2018
American Depositary Shares	16 Mar 2018	16 Mar 2018	21 Sep 2018	21 Sep 2018
Payment dates				
New Zealand and Australia	6 Apr 2018	6 Apr 2018	5 Oct 2018	5 Oct 2018
American Depositary Shares	20 Apr 2018	20 Apr 2018	15 Oct 2018	15 Oct 2018

1 Based on the exchange rate at 15 August 2018 of NZ$1 to US$0.6576 and a ratio of five ordinary shares per one American Depositary Share. The actual exchange rate used for conversion is determined in the week prior to payment when the Bank of New York performs the physical currency conversion.

2 Supplementary dividends are paid to non-resident shareholders.

For FY19, subject to there being no material adverse changes in operating outlook, Spark anticipates paying an annual total dividend of 25 cents per share. This is likely to be made up of an ordinary dividend determined by earnings, topped up by a special dividend to maintain a total dividend of 25.0 cents per share. It is currently anticipated that the FY19 ordinary and special dividend will be at least 75% imputed. The dividend reinvestment plan remains suspended.

Non-GAAP measures

This annual report includes non-GAAP financial measures that are not prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS'). Spark believes that these non-GAAP financial measures provide useful information to readers to assist in the understanding of the financial performance, financial position or returns of Spark. These measures are also used internally to evaluate performance of business units, to analyse trends in cash-based expenses, to establish operational goals and allocate resources. However, they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with NZ IFRS, as they are not uniformly defined or utilised by all companies in New Zealand or the telecommunications industry.

Spark's policy is to present 'adjusted EBITDA' and 'adjusted net earnings' when the year includes significant items (such as gains, expenses and impairments) greater than $25 million. In FY18 costs of change of $49 million associated with the Quantum programme (as described on page 35) have been deemed an adjusting item. There were no adjusting items in FY17.

EARNINGS BEFORE INTEREST, INCOME TAX, DEPRECIATION AND AMORTISATION (EBITDA)

Spark calculates EBITDA by adding back depreciation and amortisation, net finance expense and income tax expense to net earnings. EBITDA includes Spark's share of associate and joint venture net losses. A reconciliation of Spark's EBITDA and adjusted EBITDA is provided below and based on amounts taken from, and consistent with, those presented in the financial statements.

YEAR ENDED 30 JUNE	2018 $M	2017 $M
Net earnings for the period reported under NZ IFRS	385	418
Add back: depreciation and amortisation	434	430
Add back: net finance expense	30	26
Add back: income tax expense	140	142
EBITDA	**989**	**1,016**
Add: costs of change	49	-
Adjusted EBITDA	**1,038**	**1,016**

ADJUSTED NET EARNINGS

Adjusted net earnings reflects adjusted EBITDA, together with any adjustments to depreciation and amortisation and net finance expense, whilst also allowing for any tax impact of those items.

YEAR ENDED 30 JUNE	2018 $M	2017 $M
Net earnings for the period reported under NZ IFRS	385	418
Add: costs of change	49	-
Less: tax effect on costs of change	(14)	-
Adjusted net earnings	**420**	**418**

ADJUSTED EARNINGS PER SHARE

Spark calculates adjusted earnings per share using adjusted net earnings as reconciled above ($420 million), divided by the weighted average number of shares outstanding during the year (1,834 million). Adjusted basic and diluted earnings per share for FY18 was 22.9 cents.

CAPITAL EXPENDITURE

Capital expenditure is the additions to property, plant and equipment and intangible assets, excluding goodwill, acquisitions and other non-cash additions that may be required by NZ IFRS, such as decommissioning costs.

Spark Home, Mobile & Business

The Spark Home, Mobile & Business division is made up of the Spark, Skinny, Bigpipe and Lightbox brands that provide more than two million New Zealand consumers and SMEs with access to the technology, digital and entertainment services they need to unleash their potential. It provides a full range of data, voice and content services across fibre, wireless and copper broadband, 3G, 4G and 4.5G mobile, online video entertainment and nationwide Wi-Fi zones.

48,000
mobile connection growth

>50%
of broadband customers on fibre or wireless technology

114,000
wireless broadband customers

Financial result

YEAR ENDED 30 JUNE	2018 $M	2017 $M	CHANGE %
Operating revenues	2,065	2,040	1.2%
Operating expenses	(1,194)	(1,187)	0.6%
EBITDA[1]	**871**	**853**	**2.1%**
EBITDA margin	42.2%	41.8%	

OPERATIONAL HIGHLIGHTS

- Strong mobile performance delivering 7.1% growth in service revenue with continued growth in our $59 and $79 pay monthly plans driving 3.1% average revenue per user growth;
- Successful launch of the unlimited mobile plan, driving upsells;
- An increase of 30,000 customers using wireless broadband, with 114,000 now using the service, resulting in improved customer experience and operating cost savings;
- 37% increase in Lightbox users from 260,000 to over 355,000 and launched a new pay per view movies service, introducing a new revenue stream for Spark;
- Key partnerships thriving with customers growing on both Netflix (200% year on year growth) and Spotify (16% year on year growth);
- 16% reduction in inbound contact centre volume;
- Our employee NPS (eNPS) has grown 21 points as employees continue to actively engage in the transition towards Agile and empowered ways of working;
- 17% improvement in Skinny mobile margin driven by a combination of strong customer and average revenue per user growth, as well as a rationalisation of channels to realise profitable growth;
- Strong performance in our brands with improvements in NPS in both our Spark and Skinny brands;
- Customer use of our chat service has increased 56%; and
- Insourcing of the Spark retail stores has delivered $5 million of EBITDA benefits.

FINANCIAL PERFORMANCE

Operating revenues increased by $25 million, or 1.2%, in FY18. This was primarily driven by a $78 million, or 7.9%, increase in mobile revenues, including mobile service revenue growth of 7.1% from continued connection gains and a 3.1% increase in average revenue per user from FY17. This increase was partially offset by a $49 million, or 15.3%, decrease in voice revenues, in line with previous trends, as a greater proportion of customers opted for a broadband-only service to their home or business. Broadband revenues decreased by $5 million, or 0.8%, due to increased migration to lower-priced but higher-margin wireless broadband products since FY17. Cloud, security and service management, procurement and partners, managed data and networks and other operating revenues remained relatively stable, increasing $1 million.

Operating expenses increased by $7 million, or 0.6%, from FY17 primarily driven by increased mobile costs reflecting increased mobile revenue and, in particular, mobile device costs. There was also increased promotional activity during the period through Spark Arena, the 'Little can be Huge' brand campaign and key new product launches. These increases were partially offset by a $16 million, or 11.8%, reduction in labour cost and decreased input costs through increased wireless broadband and voice connections.

This resulted in an overall increase in EBITDA of $18 million, or 2.1%, in FY18.

1 Costs of change associated with the Quantum programme are excluded from the segment result and are included within the Corporate Centre as reconciled in note 2.1 of the financial statements.

Spark Digital

Spark Digital provides solutions for the rapidly evolving needs of business, enterprise and government customers to meet the demands of an increasingly globalised and mobile customer base. Spark Digital has unique experience and capability to deliver customers some of the best ICT solutions in New Zealand and is committed to helping customers gain the competitive advantage that digital solutions can deliver.

Cloud, security and service management revenue increased

15.5%

Financial result

YEAR ENDED 30 JUNE	2018 $M	2017 $M	CHANGE %
Operating revenues	1,263	1,237	2.1%
Operating expenses	(863)	(853)	1.2%
EBITDA[1]	**400**	**384**	**4.2%**
EBITDA margin	31.7%	31.0%	

OPERATIONAL HIGHLIGHTS

- Real momentum in transitioning the business to be a digital services provider, with approximately 65% of revenues now driven by IT Services;
  - Launched new security products, to capture the growth potential in this market; and
  - Developed new online self-service functionality to guide customers through online journeys;
- Launch of new service model providing consistent service experience for SME business customers across all channels;
- Focused effort on increasing pro-active contacts and issue resolution, driving continued improvement in the customer relationship NPS scores;
- Increased operational excellence performance resulting in service desk interaction NPS improving 28 points;
- Consistently good service delivery has resulted in continued growth in the profitability of our top IT Services clients; and
- Significant customer wins creating the pipeline for FY19 revenue growth.

FINANCIAL PERFORMANCE

Operating revenues increased by $26 million, or 2.1%, in FY18. The primary driver of growth was cloud, security and service management revenue, which grew $49 million, or 15.5%, reflecting strong customer demand for 'as-a-Service' products. When coupled with growth in procurement and partners of $9 million, the revenue growth was substantially more than the ongoing decline in higher margin voice and managed data and networks, albeit at lower margins. Voice revenue decline accelerated in FY18 largely due to price pressure on our contact centre solutions.

Operating expenses increased by $10 million, or 1.2%, in FY18. Most of the growth was in operating expenses required to support the revenue growth in cloud, security and service management and procurement and partners. Labour decreased by $11 million, or 5.2%, with new employees brought on to support the growing cloud and security businesses more than offset by decreases in other areas through the Quantum programme.

Overall, Spark Digital EBITDA increased by $16 million, or 4.2%, in FY18, with growth in cloud, security and service management and the ongoing cost reduction from Quantum offsetting underlying higher margin voice and managed data and networks declines.

1 Costs of change associated with the Quantum programme are excluded from the segment result and are included within the Corporate Centre as reconciled in note 2.1 of the financial statements.

Spark Connect & Platforms

Spark Connect is responsible for Spark's ongoing network performance and technology roadmap, core connectivity, physical infrastructure and shared services functions, with the objective of lowering our cost per gigabyte of data across our networks. Spark Platforms is responsible for leveraging previous investments in our IT re-engineering programme to re-invent customer experience through digital and service transformation.

31

locations have 4.5G services and promising 5G trials under way

Improving customer experience using digital first journeys and automation

Financial result

YEAR ENDED 30 JUNE	2018 $M	2017 $M	CHANGE %
Operating revenues and other gains	70	52	34.6%
Operating expenses	(394)	(399)	(1.3%)
Share of associates' and joint ventures' net losses	(2)	(1)	100.0%
EBITDA[1]	**(326)**	**(348)**	**(6.3%)**

OPERATIONAL HIGHLIGHTS

- Rolled out 4.5G services to 31 locations to enhance network performance and capacity and are now on a pathway to 5G;
- Successful results at New Zealand's first live 5G mobile test site achieving speeds of 9 Gigabits per second and an indoor trial achieving speeds of 18 Gigabits per second;
- Continued decommissioning of the PSTN network, with removal of equipment from a total 72 exchanges, or 10%, of the PSTN network;
- Lifted revenue growth momentum in our distribution business;
- Delivered Phase 1 of Converged Communication Network, unlocking further wireless broadband and wireless voice potential;
- New fibre capacity of 415 kilometres added to the network, 265 kilometres built and 150 kilometres leased;
- Delivered efficiency savings through procurement and supply chain activities and effective inventory management;
- Sold 50% of Connect 8 Limited to Electra Limited, with the new joint venture acquiring Sky Communications Limited, supporting our fibre expansion programmes and growth in mobile capacity;
- Delivered significant improvements to customer websites, customer app and customer relationship management systems, with 71% of customer journeys now designed digital first;
- Automated 12 high-volume processes using robotic process automation to remove manually intensive tasks and improve customer experience;
- Developed cutting edge data and automation capabilities through establishing a data lake, aggregating 100+ terabytes of data; and
- Website and MySpark app updated to provide the ability to complete more self-service transactions.

FINANCIAL PERFORMANCE

Operating revenues and other gains increased by $18 million, or 34.6%, in FY18. This includes revenues from Chorus, Telegistics Repair Limited, Connect 8 Limited (prior to the sale of 50% in May 2018) and partnering arrangements. Mobile revenue and other operating revenue increased $8 million, or 17.4%, while voice revenue remained flat. Other gains of $10 million were recognised in relation to the sale of 50% of Connect 8.

Operating expenses reduced by $5 million, or 1.3%, in FY18. This was primarily driven by a $19 million, or 11.9%, reduction in labour cost linked to the Quantum programme. This decrease was partially offset by a $14 million, or 5.8%, increase in other operating expenses, which includes the impact of higher spot prices on electricity costs, increased direct network costs and higher other expenses, partly offset by lower bad debts expense.

Overall, Spark Connect & Platforms EBITDA improved by $22 million, or 6.3%, in FY18 due to both increased operating revenues and other gains and reductions in operating expenses.

1 Costs of change associated with the Quantum programme are excluded from the segment result and are included within the Corporate Centre as reconciled in note 2.1 of the financial statements.

Spark Ventures & Wholesale

Spark Ventures & Wholesale is responsible for the development of a portfolio of new businesses and services that will create long-term value for Spark, along with the stewardship of Spark's Wholesale products and services. Through a balanced portfolio of partner, build, acquire and invest activity, Spark Ventures & Wholesale will identify and unleash new markets, revenue, business models and capabilities through three growth engines: differentiation, adjacencies and new wholesale services.

Strategic investment in GlobeTouch and increased investment in homes.co.nz

Acquisitions of Ubiquity and Digital Island

Financial result

YEAR ENDED 30 JUNE	2018 $M	2017 $M	CHANGE %
Operating revenues	240	244	(1.6%)
Operating expenses	(130)	(114)	14.0%
Share of associates' and joint ventures' net losses	–	(1)	(100.0%)
EBITDA[1]	**110**	**129**	**(14.7%)**
EBITDA margin	45.8%	52.9%	

OPERATIONAL HIGHLIGHTS

- Growth in Qrious revenue and EBITDA, resulting from the merger of Qrious and Ubiquity, key client opportunities for customer intelligence and engagement expertise;
- Launched first low-power IoT network (Lora WAN) with more than 65% population coverage already achieved;
- Continued decline in voice revenues offset by strong growth in our Wholesale backhaul and IoT revenues; and
- Spark Ventures portfolio expanded through strategic minority investment in international IoT business GlobeTouch and acquisitions of Ubiquity and Digital Island. Further investment was made in homes.co.nz while Putti investment was exited.

FINANCIAL PERFORMANCE

Operating revenues across Spark Ventures & Wholesale decreased by $4 million, or 1.6%, in FY18. This was primarily due to ongoing rationalisation of wholesale legacy copper-based voice and data services, which decreased $24 million, or 15.9%. This continues to be partially offset by revenue growth in Qrious, IoT, new wholesale data and mobile services and revenue from Ubiquity and Digital Island businesses, which together increased $20 million, or 36.4%.

Operating expenses increased by $16 million, or 14.0%, in FY18. This was due to increased labour costs of $8 million, primarily associated with the acquisitions of Ubiquity and Digital Island. Increased operating expenses to support growth in Qrious, IoT and Digital Island were partly offset by cost efficiencies in Wholesale, Morepork and Ventures support areas. Additionally, a $7 million impairment expense was recorded in relation to long-term investments, inventory and property, plant and equipment.

Overall, Spark Ventures & Wholesale EBITDA declined by $19 million, or 14.7%, in FY18 due to the rationalisation of legacy-based services by wholesale customers, higher operating expenses to support new businesses and impairment costs, partially offset by earnings growth in new ventures and reduced share of associates' and joint ventures' net losses.

NB: Spark Ventures and Wholesale includes Wholesale, Qrious, Morepork and IoT operations, costs associated with early-stage proof of concepts and pilots and, where applicable, share of net profits or losses associated with associate investments.

1 Costs of change associated with the Quantum programme are excluded from the segment result and are included within the Corporate Centre as reconciled in note 2.1 of the financial statements.

Financial statements

Statement of profit or loss and other comprehensive income

YEAR ENDED 30 JUNE

	NOTES	2018 $M	2017 $M
Operating revenues and other gains	2.2	3,649	3,614
Operating expenses	2.3	(2,657)	(2,594)
Share of associates' and joint ventures' net losses	4.1	(3)	(4)
Earnings before interest, income tax, depreciation and amortisation		989	1,016
Depreciation and amortisation	3.4, 3.5	(434)	(430)
Net finance expense	2.4	(30)	(26)
Net earnings before income tax		525	560
Income tax expense	6.2	(140)	(142)
Net earnings for the year		**385**	**418**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of long-term investments designated at fair value through other comprehensive income		(22)	(11)
Items that may be reclassified to profit or loss:			
Translation of foreign operations		–	(1)
Cash flow hedges net of tax	5.2	(6)	11
Other comprehensive (loss) for the year		**(28)**	**(1)**
Total comprehensive income for the year		**357**	**417**

Earnings per share			
Basic and diluted earnings per share (cents)		21.0	22.8
Weighted average ordinary shares (millions)		1,834	1,832
Weighted average ordinary shares and options (millions)		1,834	1,834

See accompanying notes to the financial statements.

Statement of financial position

AS AT 30 JUNE

	NOTES	2018 $M	2017 $M
Current assets			
Cash		55	52
Short-term receivables and prepayments	3.1	648	610
Short-term derivative assets	5.2	6	–
Inventories	3.2	79	94
Taxation recoverable		19	–
Total current assets		**807**	**756**
Non-current assets			
Long-term receivables and prepayments	3.1	258	237
Long-term derivative assets	5.2	10	7
Long-term investments	4.1	98	108
Property, plant and equipment	3.4	1,039	1,070
Intangible assets	3.5	1,207	1,153
Total non-current assets		**2,612**	**2,575**
Total assets		**3,419**	**3,331**
Current liabilities			
Short-term payables, accruals and provisions	3.3	470	464
Short-term derivative liabilities	5.2	–	30
Debt due within one year	5.1	249	295
Taxation payable		3	2
Total current liabilities		**722**	**791**
Non-current liabilities			
Long-term payables, accruals and provisions	3.3	21	18
Long-term derivative liabilities	5.2	63	45
Long-term debt	5.1	948	692
Deferred tax liabilities	6.2	124	134
Total non-current liabilities		**1,156**	**889**
Total liabilities		**1,878**	**1,680**
Equity			
Share capital		941	935
Reserves		(437)	(406)
Retained earnings		1,037	1,122
Total equity		**1,541**	**1,651**
Total liabilities and equity		**3,419**	**3,331**

See accompanying notes to the financial statements.

On behalf of the Board

Justine Smyth, Chair

Simon Moutter, Managing Director

Authorised for issue on 22 August 2018

Statement of changes in equity

YEAR ENDED 30 JUNE 2018	NOTES	SHARE CAPITAL $M	RETAINED EARNINGS $M	HEDGE RESERVE $M	SHARE-BASED COMPEN-SATION RESERVE $M	REVALUATION RESERVE $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	TOTAL $M
Balance at 30 June 2017		**935**	**1,122**	**(20)**	**5**	**(368)**	**(23)**	**1,651**
Adjustment on adoption of NZ IFRS 9 (net of tax)	3.1, 6.2	–	(12)	–	–	–	–	(12)
Balance at 1 July 2017		**935**	**1,110**	**(20)**	**5**	**(368)**	**(23)**	**1,639**
Net earnings for the year		–	385	–	–	–	–	385
Other comprehensive income/(loss)		–	–	(6)	–	(22)	–	(28)
Total comprehensive income/(loss) for the year		**–**	**385**	**(6)**	**–**	**(22)**	**–**	**357**
Contributions by, and distributions to, owners:								
Dividends	5.4	–	(458)	–	–	–	–	(458)
Supplementary dividends		–	(50)	–	–	–	–	(50)
Tax credit on supplementary dividends		–	50	–	–	–	–	50
Issuance of shares under share schemes		6	–	–	(3)	–	–	3
Total transactions with owners		**6**	**(458)**	**–**	**(3)**	**–**	**–**	**(455)**
Balance at 30 June 2018		**941**	**1,037**	**(26)**	**2**	**(390)**	**(23)**	**1,541**

YEAR ENDED 30 JUNE 2017	NOTE	SHARE CAPITAL $M	RETAINED EARNINGS $M	HEDGE RESERVE $M	SHARE-BASED COMPEN-SATION RESERVE $M	REVALUATION RESERVE $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	TOTAL $M
Balance at 1 July 2016		**923**	**1,162**	**(31)**	**9**	**(357)**	**(22)**	**1,684**
Net earnings for the year		–	418	–	–	–	–	418
Other comprehensive income/(loss)		–	–	11	–	(11)	(1)	(1)
Total comprehensive income/(loss) for the year		**–**	**418**	**11**	**–**	**(11)**	**(1)**	**417**
Contributions by, and distributions to, owners:								
Dividends	5.4	–	(458)	–	–	–	–	(458)
Supplementary dividends		–	(59)	–	–	–	–	(59)
Tax credit on supplementary dividends		–	59	–	–	–	–	59
Issuance of shares under share schemes		8	–	–	(4)	–	–	4
Other transfers		4	–	–	–	–	–	4
Total transactions with owners		**12**	**(458)**	**–**	**(4)**	**–**	**–**	**(450)**
Balance at 30 June 2017		**935**	**1,122**	**(20)**	**5**	**(368)**	**(23)**	**1,651**

See accompanying notes to the financial statements.

Statement of cash flows

YEAR ENDED 30 JUNE

	NOTES	2018 $M	2017 $M
Cash flows from operating activities			
Cash received from customers		3,508	3,425
Interest receipts		15	14
Dividend receipts		50	66
Payments to suppliers and employees		(2,592)	(2,609)
Income tax payments		(167)	(143)
Interest payments		(37)	(36)
Net cash flows from operating activities	6.5	**777**	**717**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		1	27
Proceeds from long-term investments		–	6
Proceeds from sale of business		8	–
Payments for purchase of business		(51)	(4)
Payments for, and advances to, long-term investments		(20)	(5)
Payments for purchase of property, plant and equipment and intangibles		(414)	(398)
Capitalised interest paid		(8)	(6)
Net cash flows from investing activities		**(484)**	**(380)**
Cash flows from financing activities			
Net proceeds from debt	5.3	174	128
Dividend payments		(458)	(458)
Payments for finance leases		(8)	(8)
Receipts from finance leases		2	1
Net cash flows from financing activities		**(290)**	**(337)**
Net cash flow		**3**	**–**
Opening cash position		52	52
Closing cash position		**55**	**52**

See accompanying notes to the financial statements.

Notes to the financial statements: General information

Section 1 General information

In this section

This section includes general information to assist in understanding how these financial statements were prepared. A summary of significant transactions and events provides a snapshot of what affected the financial performance and position of Spark during the year.

1.1 About this report

Reporting entity

These financial statements are for Spark New Zealand Limited (the Company) and its subsidiaries (together 'Spark' or 'the Group').

Spark is a major supplier of telecommunications and digital services in New Zealand. Spark provides a full range of telecommunications and information and communications technology products and services, including: local, national, international and value-added telephone services; mobile services, data networks, broadband services, internet TV; IT services and procurement; equipment sales; and installation services.

The Company is incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and is an FMC reporting entity under the Financial Markets Conduct Act 2013. The Company is listed on the New Zealand Main Board equity security market and the Australian Securities Exchange and the address of its registered office is Spark City, 167 Victoria Street West, Auckland 1010, New Zealand.

Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards ('IFRS').

The measurement basis adopted in the preparation of these financial statements is historical cost, modified by the revaluation of certain investments and financial instruments as identified in the accompanying notes. These financial statements are expressed in New Zealand dollars, which is Spark's functional and presentation currency. All financial information has been rounded to the nearest million, unless otherwise stated. Certain comparative information has been updated to conform with the current year's presentation.

The principal accounting policies applied in the preparation of these financial statements are set out in the accompanying notes where an accounting policy choice is provided by NZ IFRS. A policy is also included when it is new or has changed, is specific to Spark's operations or is significant or material. Where NZ IFRS does not provide an accounting policy choice, Spark has applied the requirements of NZ IFRS but a detailed accounting policy is not included.

New and amended standards adopted by Spark

Early adoption of NZ IFRS 9 *Financial Instruments* (2014)

Spark has early adopted NZ IFRS 9 *Financial Instruments* (2014) (NZ IFRS 9), the final version of the standard, which replaces earlier versions of NZ IFRS 9 and completes the replacement of NZ IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard includes three areas of change:

1. Classification and measurement of financial instruments;
2. A single, forward-looking, 'expected loss' impairment model; and
3. Substantially reformed approach to hedge accounting.

1. Classification of financial instruments

Spark early adopted Part 1 of NZ IFRS 9 (2009) *Financial Instruments* from the year ended 30 June 2010 and adoption of the final NZ IFRS 9 standard has not required any changes to Spark's classification and measurement of financial assets or financial liabilities.

2. New impairment model

NZ IFRS 9 prescribes an 'expected credit loss' model instead of the previous incurred loss model, so it is no longer necessary for a trigger event to have occurred before recognising credit losses. NZ IFRS 9 requires Spark to now base the measurement of expected credit losses on forward-looking information, as well as current and historic information. This has resulted in an increase in provisioning for expected credit losses, as losses are recognised earlier. Spark has applied the simplified approach to all balances, which requires the recognition of lifetime expected credit losses at all times. The cumulative impact of the change has been adjusted through opening retained earnings, as shown in the statement of changes in equity. Refer to note 3.1 for further details on Spark's expected credit loss provision measured under the new impairment model.

3. Hedge accounting

NZ IFRS 9 introduces a new hedge accounting framework that better aligns with Spark's risk management objectives and provides greater flexibility in achieving hedge accounting. This includes the introduction of an aggregate exposure concept, being the combination of an exposure and a derivative, which together, can be designated as a hedged item. NZ IFRS 9 also includes a more qualitative and forward-looking approach to assessing hedge effectiveness. There was no financial impact on adoption. Refer to note 5.2 for further details on Spark's hedge accounting.

Amendments to NZ IAS 7 *Statement of cash flows*

As part of the disclosure initiative, amendments were made to NZ IAS 7 *Statement of cash flows,* which introduce additional disclosure to enable better understanding of changes in liabilities arising from financing activities. The amendment became effective for Spark in the current year and a reconciliation has been provided in note 5.3 (d).

See note 6.8 for details on new accounting standards issued but not yet adopted.

Notes to the financial statements: General information

1.2 Key estimates and assumptions

The preparation of these financial statements requires management to make estimates and assumptions. These affect the amounts of revenues and expenses reported for the period and the measurement of assets and liabilities as at 30 June. Actual results could differ from these estimates.

The principal areas of judgement for Spark in preparing these financial statements are found in the following notes:

- Note 2.2 Operating revenues and other gains
- Note 3.1 Receivables and prepayments
- Note 3.4 Property, plant and equipment
- Note 3.5 Intangible assets.

1.3 Significant transactions and events in the financial year

The following significant transactions and events affected the financial performance and financial position of Spark for the year ended 30 June 2018:

Quantum programme (see note 2.3)

- Spark announced on 25 May 2018 that it would be accelerating its 'Quantum' performance improvement programme to realise financial benefits earlier than previously envisaged. Costs of change for the year ended 30 June 2018, which include external subject matter expertise, relocation and property lease costs, restructuring expenses, programme office functions and product and system decommissioning costs, totalled $49 million.

Business combinations (see note 4.2)

Spark made a number of acquisitions during the year, including:

- On 4 July 2017 Spark completed the acquisition of marketing automation provider Ubiquity. The acquisition blends the considerable marketing software strengths of Ubiquity together with the powerful smarts of Spark's big data and analytics software business Qrious Limited;
- On 22 November 2017 Spark completed the acquisition of Digital Island Limited, a New Zealand-based business telecommunications provider; and
- During the year, Spark issued termination notices and made payments to third party licensees of 29 retail stores, moving these stores away from management by dealer partners to direct Spark management.

Long-term investments (see note 4.1)

- Spark sold 50% of the shares in Connect 8 Limited to electricity distribution company Electra Limited. As part of the transaction Connect 8 took full ownership of Electra Limited subsidiary Sky Communications Limited – a telecommunications contractor providing design, build and supply of wireless networks for all of New Zealand's major mobile network owners.
- Spark increased its investment in PropertyNZ Limited on 10 May 2018 to 22.5%. From this date the investment was classified as an associate and accounted for under the equity method.
- Spark exited its investment in App La Carte Limited (Putti), selling its 50% holding on 21 November 2017.
- Spark's net earnings for the year includes $3 million from our share of the net losses of associates and joint ventures.
- The fair value of Spark's investment in Hutchison Telecommunications Australia Limited decreased by $22 million during the year due to a decrease in its quoted share price from A$0.064 to A$0.047. The change in fair value is recognised within other comprehensive income.

Debt programme (see note 5.1)

- On 31 August 2017 Spark increased its existing committed revolving facility with Westpac New Zealand Limited, maturing on 30 November 2020, by $75 million to $200 million.
- On 31 August 2017 Spark also established a new $125 million committed revolving facility with MUFG Bank, Ltd to mature on the 30 November 2022.
- On 20 October 2017 Spark issued A$150 million of 10-year fixed rate bonds maturing on 20 October 2027. This was Spark's inaugural issue using its Australian debt issuance programme and first offshore long-term debt issuance since the demerger of Spark and Chorus in November 2011, adding diversification and tenor benefits to complement existing domestic funding programmes.

Capital expenditure (see notes 3.4 and 3.5)

- Spark's additions to property, plant and equipment and intangible assets were $413 million, details of which are provided in notes 3.4 and 3.5 and on page 38 of this annual report.

Dividends (see note 5.4)

- Dividends paid during the year ended 30 June 2018 in relation to the H2 FY17 second-half dividend (ordinary dividend of 11 cents per share and special dividend of 1.5 cents per share) and H1 FY18 first-half dividend (ordinary dividend of 11 cents per share and special dividend of 1.5 cents per share) totalled $458 million or 25.0 cents per share. Dividends paid during the prior year ended 30 June 2017 totalled $458 million or 25.0 cents per share.

Changes in operating revenue classifications (see note 2.2)

- Spark updated the break down of operating revenue by type to provide better information on the nature of operating revenues. These changes are outlined in note 2.2.

Notes to the financial statements: Financial performance information

Section 2 Financial performance information

In this section

This section provides details of Spark's four operating segments and their financial performance for the year. Further details are also provided on the line items that generate Spark's net earnings before tax, including operating revenues and other gains, operating expenses and net finance expense.

2.1 Segment information

Spark's operating segments at 30 June 2018 are:

- **Spark Home, Mobile & Business** – provides products, services and support to consumer and small business customers. It provides a full range of services and content, data and voice services across fibre, wireless and copper broadband, mobile, online video entertainment and nationwide Wi-Fi zones;
- **Spark Digital** – integrates IT and telecommunications services to provide converged ICT solutions for clients;
- **Spark Connect & Platforms** – responsible for Spark's network and IT operations, shared business operations and digital and service transformation; and
- **Spark Ventures & Wholesale** – responsible for development of a portfolio of new businesses and services and the stewardship of Spark's wholesale products and services.

In addition to the four operating segments, a Corporate Centre contains income and expenses not associated with the operating segments, such as non-operating other gains or losses, dividends from long-term investments and costs of providing corporate services, such as communications, legal, finance and human resources.

The segment results disclosed are based on those reported to the Managing Director and are how Spark reviews its performance. Segment results are measured based on earnings before net finance expense, income tax expense, depreciation and amortisation and other gains and expenses not allocated to segments.

The assets and liabilities of Spark are reported and reviewed by the Managing Director in total and are not allocated by operating segment. The majority of Spark's operations are within New Zealand and there are no other material geographic segments.

Comparative segment results

Spark has reclassified the comparative segment results to reflect changes in business unit structures and changes in accountabilities for managing revenues and costs. This includes the move of small to medium business customers from Spark Digital to Spark Home, Mobile & Business, the mobility business from Spark Digital to Spark Ventures & Wholesale and other minor changes between business units, including mobile inbound roaming, interconnect and payphones. There is no change to the overall Spark reported result because of these changes.

Restated segment results for each half-year period of FY16, FY17 and FY18 are available in a separate detailed financials file on the investor section of Spark's website at: investors.sparknz.co.nz/investor-centre.

YEAR ENDED 30 JUNE 2018	SPARK HOME, MOBILE & BUSINESS $M	SPARK DIGITAL $M	SPARK CONNECT & PLATFORMS $M	SPARK VENTURES & WHOLESALE $M	TOTAL $M
Mobile	1,070	169	11	30	1,280
Broadband	655	26	–	4	685
Voice	272	198	6	96	572
Cloud, security and service management	8	365	–	–	373
Procurement and partners	4	349	–	–	353
Managed data and networks	4	155	–	31	190
Other operating revenue	52	–	43	41	136
Other gains	–	–	10	–	10
Internal revenue	–	1	–	38	39
Total segment operating revenues and other gains	**2,065**	**1,263**	**70**	**240**	**3,638**
Segment result[1]	**871**	**400**	**(326)**	**110**	**1,055**

1 Costs of change associated with the Quantum programme are excluded from the segment result and are within the Corporate Centre.

Notes to the financial statements: Financial performance information

2.1 Segment information (continued)

YEAR ENDED 30 JUNE 2017	SPARK HOME, MOBILE & BUSINESS $M	SPARK DIGITAL $M	SPARK CONNECT & PLATFORMS $M	SPARK VENTURES & WHOLESALE $M	TOTAL $M
Mobile	992	171	7	27	1,197
Broadband	660	29	–	–	689
Voice	321	216	6	112	655
Cloud, security and service management	8	316	–	–	324
Procurement and partners	5	340	–	–	345
Managed data and networks	5	163	–	39	207
Other operating revenue	49	–	39	28	116
Internal revenue	–	2	–	38	40
Total segment operating revenues	**2,040**	**1,237**	**52**	**244**	**3,573**
Segment result	**853**	**384**	**(348)**	**129**	**1,018**

Reconciliation from segment operating revenues and other gains to consolidated operating revenues and other gains

YEAR ENDED 30 JUNE	2018 $M	2017 $M
Segment operating revenues and other gains	3,638	3,573
Less internal revenue	(39)	(40)
Other gains not allocated for segmental reporting	–	20
Dividend income	50	61
Operating revenues and other gains	**3,649**	**3,614**

Reconciliation from segment result to consolidated net earnings before income tax

YEAR ENDED 30 JUNE	2018 $M	2017 $M
Segment result	1,055	1,018
Net result of corporate revenue and expenses[1]	(66)	(2)
Depreciation and amortisation	(434)	(430)
Net finance expense	(30)	(26)
Net earnings before income tax	**525**	**560**

1 Includes $49 million costs of change excluded from the segment results for the year ended 30 June 2018.

2.2 Operating revenues and other gains

The accounting policies specific to Spark's operating revenues are outlined below:

Revenue from cloud, security and service management contracts

- Revenue from contractual arrangements, including IT services contracts to design and build IT solutions, generally comprise multiple products and services. Such contracts often require Spark to integrate a bundle of goods or services that represent a combined output for the customer. As such, the arrangement is accounted for and revenue recognised in relation to these bundled goods and services or the contract as a whole.
- Costs incurred to fulfil such contractual arrangements may be deferred and recognised in operating expenses over the life of the contract to the extent that they are recoverable from future revenue.

Key estimates and assumptions

The revenue recognition on contracts that span more than one accounting period may be impacted by estimates of the total costs, ultimate profitability or other appropriate inputs. These revenues are also subject to ongoing profitability reviews of underlying contracts to determine whether the latest estimates applied remain appropriate.

2.2 Operating revenues and other gains (continued)

Revenue arrangements with multiple elements

- Where multiple products or services are sold in a single arrangement, revenue is recognised in relation to each distinct good or service. When products or services are not considered to be distinct, they are combined into a bundle that is distinct or the arrangement is accounted for as a whole.
- A product or service is distinct where, amongst other criteria, a customer can benefit from it on its own or together with other resources that are readily available.
- Revenue is allocated to each distinct product or service in proportion to its fair value and recognised when, or as, control is transferred to the customer.
- Generally, control for products is transferred and revenue recognised at the point in time it is delivered to the customer and for services, control is transferred, and revenue recognised, over time as the service is provided.

Key estimates and assumptions

Determining the fair value of distinct products or services in revenue arrangements with multiple deliverables can be complex and is subject to judgement.

YEAR ENDED 30 JUNE	2018 $M	2017 $M
Operating revenues		
Mobile	1,280	1,197
Broadband	685	689
Voice	572	655
Cloud, security and service management	373	324
Procurement and partners	353	345
Managed data and networks	190	207
Dividend income	50	61
Other operating revenue	136	116
	3,639	**3,594**
Other gains		
Gain on sale	10	20
	10	**20**
Total operating revenues and other gains	**3,649**	**3,614**

Operating revenues

Operating revenues include $2,881 million from the rendering of services (30 June 2017: $2,884 million), $372 million from the sale of goods (30 June 2017: $328 million) and $336 million of IT procurement revenues (30 June 2017: $321 million).

Spark has revised the categories of operating revenues presented to provide more relevant information on the nature of the revenue. This has resulted in the disaggregation of the previously reported ‘IT services’ revenue category as outlined below:

Revenue type	Previous category	New category
Cloud, security and service management	IT services	Cloud, security and service management
Procurement and partners	IT services	Procurement and partners
Videoconferencing	IT services	Voice
Networks	IT services	Managed data and networks
Mobility revenue	IT services	Other operating revenue

Gain on sale

In the year ended 30 June 2018 a gain on sale of $10 million arose from the sale of 50% of Connect 8 Limited, being the difference between the proceeds received and the fair value of Spark’s retained 50% interest and the net assets sold. In the year ended 30 June 2017 Spark sold surplus land in Mayoral Drive, Auckland for cash proceeds of $27 million. The land had a carrying value of $7 million, resulting in a gain on sale of $20 million.

Notes to the financial statements: Financial performance information

2.3 Operating expenses

YEAR ENDED 30 JUNE	2018 $M	2017 $M
Payments to telecommunications operators	651	690
Mobile acquisition, procurement and IT services	918	856
Labour	513	550
Other operating expenses		
Direct network costs	62	60
Computer costs	84	82
Accommodation costs	105	99
Advertising, promotions and communication	84	69
Bad debts	16	18
Costs of change	49	–
Impairments	7	2
Other	168	168
	575	498
Total operating expenses	**2,657**	**2,594**

Costs of change

Costs of change associated with Spark's 'Quantum' programme totalled $49 million during the year ended 30 June 2018. Costs of change include external subject matter expertise ($12 million), relocation and property lease costs ($4 million, including impairments of $2 million), restructuring expenses ($26 million), programme office functions ($3 million, including $2 million of labour) and product and system decommissioning costs ($4 million, including impairments of $1 million).

Costs of change have been separately classified within operating expenses for the year ended 30 June 2018 in accordance with Spark's policy (outlined on page 40) of presenting 'Adjusted EBITDA' and 'Adjusted net earnings' where significant or unusual items are greater than $25 million.

Cost of inventories recognised as an expense

The cost of inventories recognised as an expense in relation to broadband modems, mobile devices and other accessories was $389 million (30 June 2017: $335 million).

Donations

Donations for the year ended 30 June 2018 were $2,346,000, comprised of Spark's donation to the Spark Foundation of $2,321,000 and other donations of $25,000 (30 June 2017: $2,283,000, comprised of the Spark Foundation donation of $2,271,000 and other donations of $12,000). Spark made no donations to political parties in the years ended 30 June 2018 or 30 June 2017.

Auditor's remuneration

YEAR ENDED 30 JUNE	2018 $'000	2017 $'000
Audit of financial statements		
Audit and review of financial statements[1]	1,079	1,240
Other services		
Regulatory audit work[2]	52	52
Other assurance services[3]	101	31
Total fees paid to auditor	**1,232**	**1,323**

1 The audit fee includes fees for both the annual audit of the financial statements and the review of the interim financial statements.

2 Regulatory audit work consists of the audit of telecommunications-related regulatory disclosures.

3 Other assurance services relate to reporting on trust deed requirements, solvency returns and other compliance services.

2.4 Net finance expense

YEAR ENDED 30 JUNE	2018 $M	2017 $M
Finance income		
Finance lease income	14	14
Interest income from cash	1	1
Other interest income	1	1
	16	16
Finance expense		
Finance expense on long-term debt[1]	(41)	(36)
Other interest and finance expenses	(13)	(12)
	(54)	**(48)**
Plus: interest capitalised	8	6
	(46)	**(42)**
Net finance expense	**(30)**	**(26)**

1 Includes $4 million transferred from the cash flow hedge reserve for the year ended 30 June 2018 (30 June 2017: $4 million).

Interest was capitalised on property, plant and equipment and intangible assets under development for the year ended 30 June 2018 at an annualised rate of 4.6% (30 June 2017: 4.5%).

Notes to the financial statements: Operating assets and liabilities

Section 3 Operating assets and liabilities

In this section

This section provides details on the operating assets and liabilities of Spark, including working capital balances, such as receivables, inventories and payables, together with long-term assets that are used to provide goods and services to our customers, such as property, plant and equipment and intangible assets.

3.1 Receivables and prepayments

AS AT 30 JUNE	2018 $M	2017 $M
Short-term receivables and prepayments		
Trade receivables	262	263
Unbilled revenue	239	203
Prepayments	89	81
Finance lease receivables	9	8
Other receivables	49	55
	648	**610**
Long-term receivables and prepayments		
Unbilled revenue	57	47
Finance lease receivables	131	131
Other receivables	70	59
	258	**237**

Amounts are stated at their net carrying value, including expected credit loss allowance provisions. The fair value of finance lease receivables is estimated to be $208 million (30 June 2017: $243 million) and the carrying amount of all other receivables, measured at amortised cost, are approximately equivalent to their fair value because of the short term to maturity.

Finance lease receivables

Spark has a number of leases for space in exchange buildings, including as a lessor for space in Spark exchanges and a lessee for space in Chorus exchanges. These leases include a legal right of offset, as Spark and Chorus settle the payments on a net basis and are therefore shown as a net finance lease receivable on the statement of financial position.

The profile of lease net receipts is set out below:

	2018		2017	
AS AT 30 JUNE	UNDISCOUNTED $M	DISCOUNTED $M	UNDISCOUNTED $M	DISCOUNTED $M
Less than one year	9	9	9	8
Between one and five years	51	38	46	34
More than five years	337	93	354	97
Finance lease receivable	**397**	**140**	**409**	**139**
Less unearned finance income	(257)	–	(270)	–
Present value of finance lease receivable	**140**	**140**	**139**	**139**
Short-term finance lease receivable		9		8
Long-term finance lease receivable		131		131

The leases have multiple rights of renewal and the full lease terms have been used in the calculation of the net financial lease receivable, as it is likely that due to the specialised nature of the buildings, the leases will be renewed to the maximum terms.

3.1 Receivables and prepayments (continued)

Expected credit loss allowance provision

As outlined in note 1.1 Spark has early adopted the final version of NZ IFRS 9, which includes a single, forward-looking, 'expected loss' impairment model. The expected credit loss allowance provision was recalculated using the new NZ IFRS 9 model as at 1 July 2017 and the cumulative impact of the change has been adjusted through retained earnings and as such no comparative information has been presented.

Movements in the loss allowance provision for the year ended 30 June 2018, including this adjustment, are as follows:

YEAR ENDED 30 JUNE 2018	$M
Closing loss allowance as at 30 June 2017 (calculated under NZ IAS 39)	14
Adjustment on adoption of NZ IFRS 9	17
Opening expected credit loss allowance as at 1 July 2017 (calculated under NZ IFRS 9)	**31**
Charged to costs and expenses	19
Bad debts recovered	(2)
Utilised	(18)
As at 30 June 2018	**30**

Spark has applied the simplified approach to providing for expected credit losses, which requires the recognition of a lifetime expected loss provision for trade receivables, unbilled revenue, finance lease receivables and other receivables. This has resulted in an increase in provisioning for expected credit losses on application of NZ IFRS 9, as losses are recognised earlier. Previously, allowances for credit losses were only recognised when a trigger event occurred, such as late or non-payment. Further, the level of provisioning was based primarily on historical information and trends in relation to recoverability.

The loss allowance provision recognised under NZ IFRS 9 now includes expected credit loss provisions for certain trade receivables, unbilled receivables, finance lease receivables and other receivables for which provisions were previously not recognised. Further, the calculation of the allowance provision now incorporates forward-looking information, such as forecasted economic conditions.

The expected credit loss allowance provision has been determined as follows:

AS AT 30 JUNE 2018	Current $M	≤ 1 Month $M	> 1 Month $M	Total $M
Expected loss rate	2.9%	7.7%	20.0%	3.5%
Gross carrying amount	796	26	25	847
Expected credit loss allowance provision	**23**	**2**	**5**	**30**
Short-term loss allowance provision				22
Long-term loss allowance provision				8

The composition of the loss allowance provision between receivable types is as follows:

AS AT 30 JUNE 2018	$M
Trade receivables	14
Unbilled revenue	10
Finance lease receivables	5
Other receivables	1
Expected credit loss allowance provision	**30**

Key estimates and assumptions

The expected credit loss allowance provision is determined based on assumptions about the risk of default and expected loss rates of customers and other counterparties. Spark uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on Spark's past collection history, existing market conditions, as well as forward-looking estimates at the end of the reporting period. Forward-looking estimates include assessment of forecasted changes to interest rates, unemployment rates and gross domestic product in New Zealand.

Notes to the financial statements: Operating assets and liabilities

3.2 Inventories

AS AT 30 JUNE	2018 $M	2017 $M
Goods held for resale	64	65
Content rights inventory	13	26
Maintenance materials and consumables	2	3
Total inventories	**79**	**94**

Content rights inventory

Spark enters into contracts for the right to stream digital content for sport and to subscribers of Lightbox. Content rights are stated at the lower of cost and net realisable value, less accumulated amortisation. The amortisation of content rights is recognised within operating expenses on a straight-line basis over their licence periods or, for live sports content, over its broadcast period. The content rights amortisation charge for the year ended 30 June 2018 was $20 million (30 June 2017: $19 million).

3.3 Payables, accruals and provisions

AS AT 30 JUNE	2018 $M	2017 $M
Short-term payables, accruals and provisions		
Trade accounts payable	280	271
Revenue billed in advance	90	94
Accrued personnel costs	48	51
Provisions	16	8
Other payables and accruals	36	40
	470	**464**
Long-term payables, accruals and provisions		
Provisions	8	7
Other payables and accruals	13	11
	21	**18**

Trade accounts payable are financial instruments and held at amortised cost.

Provisions

Total provisions as at 30 June 2018 were $24 million (30 June 2017: $15 million). New provisions of $18 million were made during the year (30 June 2017: $13 million) and provisions of $9 million were utilised or released (30 June 2017: $11 million).

The largest portion of the provisions relate to restructuring provisions of $11 million (30 June 2017: $4 million) and onerous leases and make-good property provisions of $6 million (30 June 2017: $6 million).

3.4 Property, plant and equipment

YEAR ENDED 30 JUNE 2018	TELECOMMUNI-CATIONS EQUIPMENT AND PLANT $M	FREEHOLD LAND $M	BUILDINGS $M	OTHER ASSETS $M	WORK IN PROGRESS $M	TOTAL $M
Opening net book value	678	60	227	100	5	1,070
Additions	–	–	12	–	222	234
Transfers	153	–	–	67	(220)	–
Acquisitions	1	–	–	2	–	3
Disposals	(3)	–	–	–	–	(3)
Impairments	–	–	(2)	–	–	(2)
Depreciation charge	(191)	–	(29)	(43)	–	(263)
Closing net book value	**638**	**60**	**208**	**126**	**7**	**1,039**
AS AT 30 JUNE 2018						
Cost	3,890	60	544	600	7	5,101
Accumulated depreciation and impairment losses	(3,252)	–	(336)	(474)	–	(4,062)
Closing net book value	**638**	**60**	**208**	**126**	**7**	**1,039**

YEAR ENDED 30 JUNE 2017	TELECOMMUNI-CATIONS EQUIPMENT AND PLANT $M	FREEHOLD LAND $M	BUILDINGS $M	OTHER ASSETS $M	WORK IN PROGRESS $M	TOTAL $M
Opening net book value	705	67	240	78	14	1,104
Additions	–	–	18	–	201	219
Transfers	148	–	–	62	(210)	–
Acquisitions	–	–	–	4	–	4
Disposals	–	(7)	–	–	–	(7)
Depreciation charge	(175)	–	(31)	(44)	–	(250)
Closing net book value	**678**	**60**	**227**	**100**	**5**	**1,070**
AS AT 30 JUNE 2017						
Cost	3,743	60	533	535	5	4,876
Accumulated depreciation and impairment losses	(3,065)	–	(306)	(435)	–	(3,806)
Closing net book value	**678**	**60**	**227**	**100**	**5**	**1,070**

Notes to the financial statements: Operating assets and liabilities

3.4 Property, plant and equipment (continued)

Key estimates and assumptions

Spark's property, plant and equipment is measured at cost and depreciation is charged on a straight-line basis over the estimated useful lives. Determining the appropriate useful life of an asset of property, plant and equipment requires management judgement, including the expected period of service potential, the likelihood technological advances will make the asset obsolete, the likelihood of Spark ceasing to use it and the effect of government regulation.

The estimated useful lives of Spark's property, plant and equipment is as follows:

Telecommunications equipment and plant	
Junctions and trunk transmission systems	10 – 50 years
Switching equipment	5 – 12 years
Customer premises equipment	3 – 5 years
Other network equipment	2 – 25 years
Buildings	9 – 50 years
Other assets	
Motor vehicles	6 years
Furniture and fittings	2 – 25 years
Computer equipment	3 – 5 years

The assessment of assets for impairment is based on a large number of factors; such as changes in current competitive conditions, expectations of growth in the telecommunications industry, the discontinuance of services, the expected future cash flows an asset is expected to generate and other changes in circumstances that indicate an impairment exists. Key judgements include rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for valuing future cash flows.

3.5 Intangible assets

YEAR ENDED 30 JUNE 2018	SOFTWARE $M	CAPACITY $M	SPECTRUM LICENCES $M	OTHER INTANGIBLES $M	GOODWILL $M	WORK IN PROGRESS $M	TOTAL $M
Opening net book value	291	255	194	63	194	156	1,153
Additions[1]	–	16	1	–	–	162	179
Transfers	150	–	–	–	–	(150)	–
Acquisitions	–	–	–	33	22	–	55
Disposals	–	–	–	(2)	(3)	–	(5)
Impairments	–	–	–	(4)	–	–	(4)
Amortisation charge	(127)	(20)	(16)	(8)	–	–	(171)
Closing net book value	**314**	**251**	**179**	**82**	**213**	**168**	**1,207**
AS AT 30 JUNE 2018							
Cost	1,943	645	271	127	261	168	3,415
Accumulated amortisation and impairment losses	(1,629)	(394)	(92)	(45)	(48)	–	(2,208)
Closing net book value	**314**	**251**	**179**	**82**	**213**	**168**	**1,207**

1 Total software capitalised in the year ended 30 June 2018 includes $56 million of internally generated assets.

YEAR ENDED 30 JUNE 2017	SOFTWARE $M	CAPACITY $M	SPECTRUM LICENCES $M	OTHER INTANGIBLES $M	GOODWILL $M	WORK IN PROGRESS $M	TOTAL $M
Opening net book value	269	236	209	72	188	157	1,131
Additions[1]	–	36	–	–	–	160	196
Transfers	161	–	–	–	–	(161)	–
Acquisitions	–	–	–	–	6	–	6
Amortisation charge	(139)	(17)	(15)	(9)	–	–	(180)
Closing net book value	**291**	**255**	**194**	**63**	**194**	**156**	**1,153**
AS AT 30 JUNE 2017							
Cost	1,794	629	270	100	242	156	3,191
Accumulated amortisation and impairment losses	(1,503)	(374)	(76)	(37)	(48)	–	(2,038)
Closing net book value	**291**	**255**	**194**	**63**	**194**	**156**	**1,153**

1 Total software capitalised in the year ended 30 June 2017 includes $26 million of internally generated assets.

Key estimates and assumptions

Intangible assets are amortised over their useful lives on a straight-line basis, except goodwill, which is tested for impairment annually. Determining the appropriate useful life of an intangible asset requires management judgement, including its expected period of service potential, the likelihood technological advances will make it obsolete and the likelihood of Spark ceasing to use it.

The estimated useful lives of Spark intangible assets is as follows:

Software	2 – 8 years
Capacity	15 – 25 years
Spectrum licences	17 – 20 years
Other intangible assets	
Customer contracts and brands	5 – 10 years
Other intangible assets	5 – 80 years

Notes to the financial statements: Operating assets and liabilities

3.5 Intangible assets (continued)

Goodwill

Goodwill by cash-generating unit (CGU) is presented below:

AS AT 30 JUNE	2018 $M	2017 $M
Spark Home, Mobile & Business	28	27
Spark Digital	140	140
Revera	7	7
Digital Island	13	–
Qrious	5	–
Computer Concepts	20	20
	213	**194**

Goodwill of $22 million was recognised on acquisition of Ubiquity and Digital Island, as outlined in note 4.2, including $4 million allocated to the Spark Home, Mobile & Business and Spark Digital CGU's. Goodwill of $3 million was derecognised on the sale of 50% of Connect 8.

During the years ended 30 June 2018 and 30 June 2017 no impairment arose as a result of the assessment of goodwill. Headroom currently exists in each CGU and, based on sensitivity analysis performed, no reasonably possible changes in the assumptions would cause the carrying amount of the CGUs to exceed their recoverable amounts.

Key estimates and assumptions

Goodwill is assessed annually for impairment by estimating the future cash flows, based on Board-approved business plans, with key assumptions being forecast earnings and capital expenditure for each CGU. The forecast financial information is based on both past experience and future expectations of CGU performance. The major inputs and assumptions used in performing an impairment assessment that require judgement include revenue forecasts, operating cost projections, customer numbers and customer churn, discount rates, growth rates and future technology paths.

Nil terminal growth was applied to all CGUs except Qrious, where 2% was applied and a pre-tax discount rate of 10.1% was utilised for the year ended 30 June 2018 (30 June 2017: 11.2%).

Notes to the financial statements: Group structure

Section 4 Group structure

In this section

Spark is comprised of a number of subsidiary companies, together with other long-term investments, including a number of associates and joint ventures – entities where Spark has significant influence or joint control through an ownership holding of 50% or less but not control. This section includes information on these holdings, together with details on Spark's joint operation and significant subsidiaries.

4.1 Long-term investments

AS AT 30 JUNE	2018 $M	2017 $M
Shares in Hutchison	69	91
Investment in associates and joint ventures	21	13
Other long-term investments	8	4
	98	**108**

Spark holds a 10% interest in Hutchison Telecommunications Australia Limited (Hutchison) which is quoted on the Australian Securities Exchange (ASX) and its fair value is measured using the observable market share price as quoted on the ASX, classified as being within level one of the fair value hierarchy. As at 30 June 2018 the quoted price of Hutchison's shares on the ASX was AUD$0.047 (30 June 2017: AUD$0.064).

Investment in associates and joint ventures

Spark's investment in associates and joint ventures at 30 June 2018 consists of the following:

NAME	TYPE	COUNTRY	OWNERSHIP	PRINCIPAL ACTIVITY
Connect 8 Limited	Joint Venture	New Zealand	50%	Fibre network construction
Feenix Communications Limited	Associate	New Zealand	30%	Supplier of network services
Lightbox Sport General Partner Limited	Joint Venture	New Zealand	50%	A holding company
NOW New Zealand Limited	Associate	New Zealand	37%	Internet service provider
Pacific Carriage Holdings Limited	Associate	Bermuda	50%	A holding company
PropertyNZ Limited (homes.co.nz)	Associate	New Zealand	23%	Property data website
Rural Connectivity Group Limited	Joint Venture	New Zealand	33%	Rural broadband
Southern Cross Cables Holdings Limited	Associate	Bermuda	50%	A holding company
TNAS Limited	Joint Venture	New Zealand	50%	Telecommunications development
Vigil Monitoring Limited (Jupl)	Associate	New Zealand	26%	Healthcare technology

All investments in associates and joint ventures are measured using the equity method and none are considered to be individually material. Changes in the aggregate carrying amount of Spark's investment in associates and joint ventures was as follows:

	ASSOCIATES		JOINT VENTURES		TOTAL	
YEAR ENDED 30 JUNE	2018 $M	2017 $M	2018 $M	2017 $M	2018 $M	2017 $M
Investment at the beginning of the year	13	18	–	5	13	23
Opening value on transfer to equity method	2	–	8	–	10	–
Additional investment during the year	2	1	3	–	5	1
Adjustment on consolidation of Connect 8 Limited	–	–	–	(4)	–	(4)
Dividends received	–	–	–	(1)	–	(1)
Impairments	(4)	(2)	–	–	(4)	(2)
Share of net losses	(3)	(4)	–	–	(3)	(4)
Investment at the end of the year	**10**	**13**	**11**	**-**	**21**	**13**

Notes to the financial statements: Group structure

4.1 Long-term investments (continued)

Spark's exit of App La Carte Limited and write down of its holding in Vigil Monitoring Limited resulted in impairments of $4 million during the year ended 30 June 2018.

Spark has suspended equity accounting for Pacific Carriage Holdings Limited and Southern Cross Cables Holdings Limited (together 'Southern Cross') as their carrying value has been reduced to nil. Spark has no obligation to fund Southern Cross' deficits or repay dividends. Spark's share of Southern Cross profits not recognised for the year ended 30 June 2018 was $51 million (30 June 2017: $46 million) due to the existence of historic cumulative Southern Cross deficits not recognised.

4.2 Business combinations

Business combinations during the year include:

- On 4 July 2017 Spark acquired 100% of the ordinary shares of Ubiquity Software Limited and the business assets of the Ubiquity Technologies Trust (together 'Ubiquity'). Ubiquity is a marketing automation provider and the acquisition blends its considerable marketing software strengths together with the powerful smarts of Spark's big data and analytics software business Qrious Limited.
- On 22 November 2017 Spark acquired 100% of the ordinary shares of Digital Island Limited (Digital Island). Digital Island is a New Zealand-based business telecommunications provider.
- During the year Spark issued termination notices and made payments to third party licensees of 29 retail stores, moving these stores away from management by dealer partners to direct management. Moving away from a dealer partner model to directly owned retail stores allows Spark to showcase digital experiences to customers in an interactive retail environment and create consistent experiences for customers. The reacquired licensee rights have been measured at fair value and recognised as an intangible asset.

Total consideration paid in relation to these transactions was $51 million. Goodwill recognised from the acquisitions of $22 million has been allocated to the CGU that is expected to benefit from the synergies of the transaction. Goodwill of $13 million has been allocated to the Digital Island CGU, $5 million to the Qrious CGU and $4 million to the Spark Home, Mobile & Business and Spark Digital CGUs.

The following values were recognised in the financial statements in respect of the Ubiquity, Digital Island and retail store transactions:

	2018 $M
Assets	
Short-term receivables and prepayments	3
Inventories	2
Property, plant and equipment	3
Intangible assets	33
Goodwill	22
Total assets	**63**
Liabilities	
Short-term payables, accruals and provisions	5
Deferred tax liabilities	4
Total liabilities	**9**
Net assets acquired	**54**

Ubiquity and Digital Island contributed operating revenues of $21 million for the period to 30 June 2018. If the acquisitions had occurred on 1 July 2017, it is estimated that the contribution to Spark's operating revenues would have been $29 million.

4.3 Subsidiaries

Subsidiaries are all entities over which Spark has control. The significant subsidiary companies of Spark and their activities are as follows:

NAME	COUNTRY	OWNERSHIP	PRINCIPAL ACTIVITY
Computer Concepts Limited	New Zealand	100%	IT infrastructure and business cloud services
Digital Island Limited	New Zealand	100%	Business telecommunications provider
Gen-i Australia Pty Limited	Australia	100%	Provides outsourced telecommunications services
Lightbox New Zealand Limited	New Zealand	100%	Subscription video-on-demand service
Qrious Limited	New Zealand	100%	Big data analytics and marketing automation business
Revera Limited	New Zealand	100%	IT infrastructure and data centre provider
Spark Finance Limited	New Zealand	100%	A Group finance company and issuer of debt securities
Spark New Zealand Trading Limited	New Zealand	100%	Provides local, national and international telephone and data services
Spark Retail Holdings Limited	New Zealand	100%	Retailer of telecommunications products and services
TCNZ (Bermuda) Limited	Bermuda	100%	A holding company
Teleco Insurance Limited	Bermuda	100%	A Group insurance company
Telecom New Zealand USA Limited	United States	100%	Provides international wholesale telecommunications services
Telecom Southern Cross Limited	New Zealand	100%	A holding company

The financial year end of all significant subsidiaries is 30 June.

The following changes in relation to Spark's subsidiaries occurred during the year ended 30 June 2018:

- Spark New Zealand Trading Limited aquired Digital Island Limited on 22 November 2017;
- Spark New Zealand Trading Limited sold 50% of Connect 8 Limited to Electra Limited on 22 May 2018; and
- Qrious Limited aquired Ubiquity Software Limited on 4 July 2017. Ubiquity Software Limited was deregistered from the New Zealand Companies Register effective 2 June 2018, with its business operations transferred to Qrious Limited.

4.4 Joint operation

Spark has entered into a joint arrangement in relation to the construction and operation of the Tasman Global Access fibre-optic submarine cable between Australia and New Zealand. As at 30 June 2018 the carrying value of Spark's share of property, plant and equipment in the joint operation was $36 million (30 June 2017: $39 million).

Notes to the financial statements: Funding and risk

Section 5 Funding and risk

In this section

This section provides details on Spark's funding, derivatives, hedge accounting and the financial and capital risks that arise from our operations. This includes our exposure to currency, interest rate, credit and liquidity risks and our strategy for managing them. Spark also manages capital (equity and debt) considering shareholders' interests and our credit rating.

5.1 Debt

Debt is recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, debt is classified and measured at amortised cost plus, for hedged liabilities that are in a fair value hedging relationship, adjustments for fair value changes attributable to the risk being hedged. Any difference between cost and redemption value (including fair value changes) is recognised in the statement of profit or loss over the period of the borrowings, using the effective interest rate method.

AS AT 30 JUNE				2018 $M	2017 $M
FACE VALUE	FACILITY	COUPON RATE	MATURITY		
Short-term debt					
Short-term borrowings		Variable	< 1 month	–	6
Commercial paper		Variable	< 5 months	149	149
				149	155
Bank funding					
MUFG Bank, Ltd	100 million NZD	Variable	13/03/2018	–	100
Bank of New Zealand	100 million NZD	Variable	31/10/2018	100	90
Westpac New Zealand Limited	200 million NZD	Variable	30/11/2020	50	–
MUFG Bank, Ltd	125 million NZD	Variable	30/11/2022	125	–
				275	190
Domestic notes					
250 million NZD		5.25%	25/10/2019	250	250
100 million NZD		4.50%	25/03/2022	102	102
100 million NZD		4.51%	10/03/2023	104	102
125 million NZD		3.94%	07/09/2026	120	116
				576	570
Foreign currency Medium Term Notes					
Euro Medium Term Notes – 22 million GBP		5.63%	14/05/2018	–	40
Euro Medium Term Notes – 18 million GBP		5.75%	06/04/2020	34	32
Australian Medium Term Notes – 150 million AUD		4.00%	20/10/2027	163	–
				197	72
				1,197	**987**
Debt due within one year				249	295
Long-term debt				948	692

None of Spark's debt is secured and all debt ranks equally with other liabilities. There are no financial covenants over Spark's debt, however, there are certain triggers in the event of default, as defined in the various debt agreements. There have been no events of default over Spark's debt in the years ended 30 June 2018 and 30 June 2017.

The fair value of long-term debt, including amounts due within one year, (calculated based on the present value of future principal and interest cash flows, discounted at market interest rates at balance date) was $1,072 million compared to a carrying value of $1,048 million as at 30 June 2018 (30 June 2017: fair value of $862 million compared to a carrying value of $832 million).

5.2 Derivatives and hedge accounting

AS AT 30 JUNE	2018 DERIVATIVE ASSETS $M	2018 DERIVATIVE LIABILITIES $M	2017 DERIVATIVE ASSETS $M	2017 DERIVATIVE LIABILITIES $M
Designated in a cash flow hedge	7	(52)	2	(61)
Designated in a fair value hedge	6	(5)	3	(9)
Other	3	(6)	2	(5)
	16	**(63)**	**7**	**(75)**
Short-term derivatives	6	–	–	(30)
Long-term derivatives	10	(63)	7	(45)

Spark's derivatives are held at fair value, calculated using discounted cash flow models and observable market rates of interest and foreign exchange. This represents a level two measurement under the fair value measurement hierarchy, being inputs other than quoted prices included within level one that are observable for the asset or liability. As at 30 June 2018 and 30 June 2017 no derivative financial assets or derivative financial liabilities have been offset in the statement of financial position. The potential for offsetting of any derivative financial instruments is immaterial.

Hedge accounting

Derivatives are hedge accounted when they are designated into an effective hedge relationship as a hedging instrument. The nature and the effectiveness of the hedge accounting relationship will determine where the gains and losses on remeasurement are recognised. Derivatives are designed as:

- Fair value hedges, where the derivative is used to manage interest rate risk in relation to debt;
- Cash flow hedges, where the derivative is used to manage the variability in cash flows of highly probable forecast transactions; and
- Dual fair value and cash flow hedges, where the derivative is used to hedge the interest rate risk on foreign debt and the variability in cash flows due to movements in foreign exchange rates.

At inception, each hedge relationship is formalised in hedge documentation. Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. Spark determines the existence of an economic relationship between the hedging instrument and the hedged item based on the currency, amount and timing of respective cash flows, reference interest rates, tenors, repricing dates, maturities and notional amounts. Spark assesses whether the derivative designated in each hedging relationship is expected to be, and has been, effective in offsetting the changes in cash flows of the hedged item using the hypothetical derivative method.

Derivatives in hedge relationships are designated based on a hedge ratio of 1:1. In these hedge relationships the main source of ineffectiveness is the effect of the counterparty and Spark's own credit risk on the fair value of the derivatives, which is not reflected in the change in the fair value of the hedged item attributable to changes in foreign exchange and interest rates.

5

Cash flow hedges

Cross-currency interest rate swaps and interest rate swaps are jointly designated in cash flow hedges to manage interest and foreign exchange rate risk on debt. The hedged cash flows will affect Spark's statement of profit or loss and other comprehensive income as interest and principal amounts are repaid over the remaining term of the debt.

Interest rate swaps are designated in cash flow hedges to manage the interest rate exposure of highly probable forecast variable rate debt and aggregate variable interest rate exposures created by swapping fixed rate into variable rate debt.

Spark also enters into forward exchange contracts to hedge forecast foreign currency purchases, the majority expected to be made within 12 months. The related cash flows are recognised in the statement of profit or loss and other comprehensive income over this period.

A reconciliation of movements in the cash flow hedge reserve, net of tax, is outlined below:

YEAR ENDED 30 JUNE	2018 $M	2017 $M
Balance at the beginning of the year	(20)	(31)
Gain/(loss) recognised in other comprehensive income	(13)	12
Amount reclassified to finance expense	3	3
Amount reclassified to property, plant and equipment/intangible assets and inventory	4	(4)
Total movements to other comprehensive income/(loss)	**(6)**	**11**
Balance at the end of the year	**(26)**	**(20)**

Other amounts deferred in equity will be transferred to the statement of profit or loss over the next seven years (30 June 2017: eight years). As at 30 June 2018 the cost of hedging reserve was nil (30 June 2017: nil).

Notes to the financial statements: Funding and risk

5.2 Derivatives and hedge accounting (continued)

Fair value hedges

Interest rate swaps are designated in a fair value hedge to manage interest rate risk in relation to debt. The gain or loss from remeasuring the interest rate swaps and debt at fair value is recognised in the statement of profit or loss and other comprehensive income.

During the year ended 30 June 2018 Spark recognised a $6 million gain on fair value hedges and a $6 million loss on hedged exposures (30 June 2017: $14 million loss on fair value hedges and a $14 million gain on hedged exposures) and there has been no material ineffectiveness on fair value hedging relationships.

Dual fair value and cash flow hedges

Spark issued Australian dollar (AUD) denominated debt on 12 October 2017. As part of Spark's risk management policy, cross-currency interest rate swaps were entered into to convert all of the proceeds of the debt issuance to New Zealand dollars and convert the foreign currency fixed rate of the debt issuance to a New Zealand dollar floating rate. To mitigate profit or loss volatility, the cross-currency interest rate swaps were designated into a dual fair value and cash flow hedge relationship. The cross-currency basis element of the cross-currency interest rate swaps are excluded from the designation and are separately recognised in other comprehensive income in a cost of hedging reserve.

For fair value hedges, the gain or loss from remeasuring the cross-currency interest rate swaps and debt at fair value is recognised in the statement of profit or loss and other comprehensive income. For cash flow hedges, gains or losses deferred in the cash flow hedge reserve will be reclassified to Spark's statement of profit or loss and other comprehensive income as interest and principal amounts are repaid over the remaining term of the debt.

The change in fair value of the hedging instrument relating to the foreign currency basis component of the cross-currency interest-rate swap is recognised in other comprehensive income and accumulated in a separate cost of hedging equity reserve. Subsequently, the cumulative amount is transferred to profit or loss at the same time as the hedged item impacts profit or loss.

The details of the hedging instruments as at 30 June 2018 are as follows:

	NOTIONAL AMOUNT OF HEDGING INSTRUMENT	STATEMENT OF FINANCIAL POSITION LINE ITEM	CARRYING AMOUNT OF THE HEDGING INSTRUMENT		CHANGE IN VALUE USED FOR CALCULATING HEDGE INEFFECTIVE-NESS
			ASSETS	LIABILITIES	
AS AT 30 JUNE 2018			$M	$M	$M
Cash flow hedges					
Cross-currency swap	GBP[1] 18m	Derivatives	–	(10)	(10)
Interest rate swaps	NZD 786m	Derivatives	–	(36)	(36)
Forward foreign-exchange contracts	NZD 131m	Derivatives	7	–	7
Fair value hedges					
Interest rate swaps	NZD 265m	Derivatives	6	(5)	1
Fair value and cash flow hedges					
Cross-currency swaps	AUD 150m	Derivatives	–	(6)	(6)
			13	**(57)**	**(44)**

1 Great British pounds sterling

5.2 Derivatives and hedge accounting (continued)

The details of hedged items as at 30 June 2018 are as follows:

AS AT 30 JUNE 2018	STATEMENT OF FINANCIAL POSITION LINE ITEM	CARRYING AMOUNT OF THE HEDGED ITEM		ACCUMULATED AMOUNT OF FAIR VALUE HEDGE ADJUSTMENTS ON THE HEDGED ITEM INCLUDED IN THE CARRYING AMOUNT OF THE HEDGED ITEM		CHANGE IN VALUE USED FOR CALCULATING HEDGE INEFFECTIVE-NESS
		ASSETS	LIABILITIES	ASSETS	LIABILITIES	
		$M	$M	$M	$M	$M
Cash flow hedges						
Euro Medium Term Note (GBP 18m)	Long-term debt	–	(34)	–	–	10
Aggregated variable interest rate exposure	–	–	–	–	–	9
Highly probable forecast variable rate debt	–	–	–	–	–	27
Committed foreign exchange transactions	–	–	–	–	–	(7)
Fair value hedges						
Domestic Notes	Long-term debt	–	(576)	–	–	(1)
Fair value and cash flow hedges						
Australian Medium Term Note (AUD 150)	Long-term debt	–	(163)	–	(2)	6
		-	**(773)**	**-**	**(2)**	**44**

5.3 Financial and capital risk management

a) Financial market risk

Spark is exposed to financial market risk primarily from changes in foreign currency exchange rates and interest rates. Spark employs risk management strategies, including the use of derivative financial instruments to manage these exposures through a Board-approved treasury policy, which provides the framework within which treasury-related activities are conducted.

Spark monitors the use of derivative financial instruments using well-defined market and credit risk limits and timely reports to senior management. All contracts have been entered into with major creditworthy financial institutions. The risk associated with these transactions is that the fair value or cash flows of financial instruments will change due to movements in market rates, coupled with the cost of replacing these agreements at the current market rates in the event of default by the counterparty.

Currency risk

Nature of the risk

Currency risk is the risk that eventual New Zealand dollar net cash flows from transactions undertaken by Spark will be adversely affected by changes in foreign currency exchange rates.

Exposure and risk management

Spark's total exposure (from non-derivative financial instruments) to foreign currency as at 30 June 2018 is $203 million (30 June 2017: $94 million). This includes $163 million long-term debt denominated in AUD (30 June 2017: nil) and $34 million long-term debt denominated in GBP (30 June 2017: $72 million). The remaining exposure is primarily trade payables and other receivables denominated in United States dollars (USD).

Spark manages currency risk arising from debt not denominated in New Zealand dollars through hedging. Spark's long-term debt issued in AUD and GBP is fully hedged using cross-currency interest rate swaps to convert these borrowings into a floating rate New Zealand dollar exposure.

Currency risk from capital and operational expenditure in foreign currencies (and related trade payables) has been substantially hedged by entering into forward exchange contracts.

Sensitivity to foreign currency movements

As at 30 June 2018 a movement of 10% in the New Zealand dollar would impact the statement of profit or loss and statement of changes in equity (after hedging) by less than $14 million (30 June 2017: $17 million). This analysis assumes a movement in the New Zealand dollar across all currencies and only includes the effect of foreign exchange movements on monetary financial instruments.

Notes to the financial statements: Funding and risk

5.3 Financial and capital risk management (continued)

Interest rate risk

Nature of the risk

Interest rate risk is the risk that fluctuations in interest rates impact Spark's financial performance or the fair value of its holdings of financial instruments.

Exposure and risk management

Spark is exposed to interest rate risk from its borrowings, which may be issued at floating rates or in foreign currency. Spark employs the use of derivative financial instruments to reduce its exposure to fluctuations in interest rates with the objective to minimise the cost of net borrowings and to minimise the impact of interest rate movements on Spark's interest expense and net earnings.

Spark uses cross-currency interest rate swaps to convert foreign currency borrowings into floating-rate New Zealand dollar positions. Interest rate swaps are used to convert certain floating-rate positions into fixed-rate positions and vice versa. As a consequence, Spark's interest rate positions are limited to New Zealand yield curves.

Sensitivity to interest rate movements

As at 30 June 2018 a movement in interest rates of 100 basis points would impact the statement of profit or loss and statement of changes in equity (after hedging) by less than $46 million (30 June 2017: $33 million).

b) Credit risk

Nature of the risk

Credit risk arises in the normal course of Spark's business on cash, receivables and derivative financial instruments if a counterparty fails to meet its contractual obligations.

Exposure and risk management

Spark is exposed to credit risk if customers and counterparties fail to make payments in respect of:

- Payment of trade and other receivables as they fall due; and
- Contractual cash flows of derivaitive assets held at fair value.

Spark's assets subject to credit risk as at 30 June 2018 were $977 million (30 June 2017: $906 million).

Spark considers the probability of default upon initial recognition of cash, receivables and derivative assets and whether there has been a significant increase in credit risk on an ongoing basis at the end of each reporting period. To assess whether there is a significant increase in credit risk, Spark compares the risk of default occuring on these assets at the reporting date with the risk of default at the date of initial recognition. Available reasonable and supportive forward-looking information is considered, especially the following indicators:

- External credit rating (as far as available);
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer or counterparty's ability to meet their obligations; and
- Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements.

Spark manages its exposure using a credit policy that includes limits on exposures with significant counterparties that have been set and approved by the Board and are monitored on a regular basis. Spark places its cash and derivative financial instruments with high-credit quality financial institutions and does not have significant concentration of risk with any single party. Concentration of credit risk for trade and other receivables is limited due to Spark's large customer base.

Spark has certain derivative and debt agreements that are subject to bilateral credit support agreements that require Spark or the counterparty to post collateral funds to support the value of certain derivatives. As at 30 June 2018 no collateral was posted (30 June 2017: nil). Letters of credit and guarantees may also be held over some receivable amounts. The carrying amounts of financial assets represent the maximum credit exposure.

c) Liquidity risk

Nature of the risk

Liquidity risk represents Spark's ability to meet its contractual obligations as they fall due.

Exposure and risk management

Spark uses cash and derivative financial instruments to manage liquidity and evaluates its liquidity requirements on an ongoing basis. In general, Spark generates sufficient cash flows from its operating activities to meet its financial liabilities. As at 30 June 2018 current assets of $807 million were greater than current liabilities of $722 million (30 June 2017: current liabilities of $791 million were greater than current assets of $756 million). Positive operating cash flows enable working capital to be managed to meet short-term liabilities as they fall due.

In the event of any shortfalls Spark has the following financing programmes:

- An uncommitted $500 million Note Facility with $150 million drawn as at 30 June 2018 (30 June 2017: $500 million facility, $150 million drawn);
- An undrawn committed standby facility of $200 million with a number of creditworthy banks (30 June 2017: $200 million);
- Committed bank facilities of $425 million with $275 million drawn as at 30 June 2018 (30 June 2017: $325 million facility with $190 million drawn); and
- Committed bank overdraft facilities of $15 million with New Zealand banks (30 June 2017: $15 million).

There are no compensating balance requirements associated with these facilities.

Spark's liquidity policy is to maintain unutilised committed facilities of at least 110% of the next 12 months' forecast peak net funding requirements. Spark's funding policy requires that the maximum amount of long-term debt maturing in any 12-month period is not to exceed $300 million.

5.3 Financial and capital risk management (continued)

Maturity analysis

The following table provides an analysis of Spark's remaining contractual cash flows relating to financial liabilities. Contractual cash flows include contractual undiscounted principal and interest payments.

AS AT 30 JUNE 2018	CARRYING AMOUNT $M	CONTRACTUAL CASH FLOWS $M	0-6 MONTHS $M	6-12 MONTHS $M	1-2 YEARS $M	2-5 YEARS $M	5+ YEARS $M
Non-derivative financial liabilities							
Trade and finance lease payables	283	283	281	1	1	–	–
Short and long-term debt	1,197	1,327	267	18	295	429	318
Derivative financial liabilities							
Interest rate swaps (net settled)	47	52	3	4	11	25	9
Cross-currency interest rate swaps (gross settled)							
Inflows	–	(264)	(3)	(5)	(43)	(20)	(193)
Outflows	16	284	4	4	54	21	201
Forward exchange contracts (gross settled)							
Inflows	–	(24)	(24)	–	–	–	–
Outflows	–	24	24	–	–	–	–
	1,543	**1,682**	**552**	**22**	**318**	**455**	**335**

AS AT 30 JUNE 2017	CARRYING AMOUNT $M	CONTRACTUAL CASH FLOWS $M	0-6 MONTHS $M	6-12 MONTHS $M	1-2 YEARS $M	2-5 YEARS $M	5+ YEARS $M
Non-derivative financial liabilities							
Trade and finance lease payables	275	275	272	1	1	1	–
Short and long-term debt	987	1,127	170	158	119	431	249
Derivative financial liabilities							
Interest rate swaps (net settled)	36	42	3	3	4	19	13
Cross-currency interest rate swaps (gross settled)							
Inflows	–	(79)	–	(44)	(2)	(33)	–
Outflows	34	118	2	66	2	48	–
Forward exchange contracts (gross settled)							
Inflows	–	(127)	(114)	(13)	–	–	–
Outflows	5	133	119	14	–	–	–
	1,337	**1,489**	**452**	**185**	**124**	**466**	**262**

Notes to the financial statements: Funding and risk

5.3 Financial and capital risk management (continued)

d) Capital risk management

Spark manages its capital considering shareholders' interests, the value of Spark's assets and the Company's credit rating. The following table summarises Spark's capital:

AS AT 30 JUNE	2018 $M	2017 $M
Cash	(55)	(52)
Short-term debt	149	155
Long-term debt at hedged rates	1,064	871
Net debt	1,158	974
Total equity	1,541	1,651
Capital	**2,699**	**2,625**

The Board continues to be committed to the Company maintaining a single 'A Band' credit rating and its capital management policies are designed to ensure this objective is met. As part of this commitment Spark manages its debt levels to ensure that the ratio of net interest-bearing debt (inclusive of associated derivatives) to EBITDA does not materially exceed 1.4 times on a long-run basis, which, for credit ratings agency purposes, Spark estimates equates approximately to adjusted debt to EBITDA of 1.5 times. The difference between these two ratios is primarily due to the credit rating agency making adjustments for operating leases and captive finance operations.

As at 30 June 2018 the Company's Standard & Poor's credit ratings for long-term and short-term debt was A- and A-2 respectively, with outlook stable (30 June 2017: same).

Net debt

Net debt includes long-term debt at the value of hedged cash flows due to arise on maturity, plus short-term debt, less any cash. Net debt is a non-GAAP measure and is not defined in accordance with NZ IFRS but is a measure used by management. The following table reconciles long-term debt at hedged rates to long-term debt at spot rates as reported under NZ IFRS:

AS AT 30 JUNE	2018 $M	2017 $M
Long-term debt	1,048	832
Impact of hedged rates used	14	39
Unamortised discount	2	–
Long-term debt at hedged rates	**1,064**	**871**

A reconciliation of movements in net debt is provided below:

		CASH FLOWS		NON-CASH MOVEMENTS				
YEAR ENDED 30 JUNE 2018	AS AT 1 JULY 2017	PROCEEDS	PAYMENTS	INTEREST AMORTISA-TION	FAIR VALUE CHANGES	FOREIGN EXCHANGE MOVEMENT	OTHER	AS AT 30 JUNE 2018
Cash	(52)	(6,342)	6,339	-	-	-	-	(55)
Short-term debt	155	1,262	(1,273)	4	-	-	1	149
Long-term debt	832	1,287	(1,079)	-	6	2	-	1,048
Derivatives	39	209	(232)	2	-	(2)	-	16
Net debt	**974**	**(3,584)**	**3,755**	**6**	**6**	**–**	**1**	**1,158**

		CASH FLOWS		NON-CASH MOVEMENTS				
YEAR ENDED 30 JUNE 2017	AS AT 1 JULY 2016	PROCEEDS	PAYMENTS	INTEREST AMORTISA-TION	FAIR VALUE CHANGES	FOREIGN EXCHANGE MOVEMENT	OTHER	AS AT 30 JUNE 2017
Cash	(52)	(5,138)	5,138	-	-	-	-	(52)
Short-term debt	100	699	(646)	2	-	-	-	155
Long-term debt	775	900	(825)	-	(14)	(4)	-	832
Derivatives	34	-	-	-	-	5	-	39
Net debt	**857**	**(3,539)**	**3,667**	**2**	**(14)**	**1**	**–**	**974**

5.4 Equity and dividends

Share capital

Movements in the Company's issued ordinary shares were as follows:

YEAR ENDED 30 JUNE	2018 NUMBER	2017 NUMBER
Shares at the beginning of the year	1,832,843,587	1,829,795,177
Issuance of shares under share schemes and other transfers	2,547,196	3,048,410
Shares at the end of the year	**1,835,390,783**	**1,832,843,587**

All issued shares are fully paid and have no par value. Shareholders of ordinary shares have the right to vote at any general meeting of the Company.

Dividends declared and paid

	2018		2017	
YEAR ENDED 30 JUNE	CENTS PER SHARE	$M	CENTS PER SHARE	$M
Previous year second half-year dividend paid	12.5	229	12.5	229
First half-year dividend paid	12.5	229	12.5	229
Total dividends paid in the year	**25.0**	**458**	**25.0**	**458**
Second half-year dividend declared subsequent to balance date not provided for	12.5	229	12.5	229

Events after balance date

On 22 August 2018 the Board approved the payment of a second-half ordinary dividend of 11.0 cents per share or approximately $202 million and a special dividend of 1.5 cents per share or approximately $27 million. The ordinary and special dividend will be 75% imputed in line with the corporate income tax rate. In addition, supplementary dividends totalling approximately $21 million will be payable to shareholders who are not resident in New Zealand. In accordance with the Income Tax Act 2007, Spark will receive a tax credit from Inland Revenue equivalent to the amount of supplementary dividends paid.

Notes to the financial statements: Other information

Section 6 Other information

In this section

This section includes other information relating to Spark's financial statements, such as taxation, employee share schemes, disclosure of related party transactions, reconciliation of net earnings to operating cash flows, commitments, contingencies and the impact of new accounting standards that have not yet been adopted.

6.1 Net tangible assets

The calculation of Spark's net tangible assets per share and its reconciliation to the statement of financial position is presented below:

AS AT 30 JUNE	2018 $M	2017 $M
Total assets	3,419	3,331
Less intangible assets	(1,207)	(1,153)
Less total liabilities	(1,878)	(1,680)
Net tangible assets	**334**	**498**
Number of shares outstanding (in millions)	1,835	1,833
Net tangible assets per share	**$0.18**	**$0.27**

Net tangible assets per share is a non-GAAP financial measure that is not defined in NZ IFRS. It is required to be disclosed by NZX and ASX listing requirements.

6.2 Taxation

Income tax expense

The income tax expense is determined as follows:

YEAR ENDED 30 JUNE	2018 $M	2017 $M
Statement of profit or loss		
Current income tax		
Current year income tax expense	(148)	(137)
Adjustments in respect of prior periods	2	(2)
Deferred income tax		
Depreciation, provisions, accruals, tax losses and other	8	(6)
Adjustments in respect of prior periods	(2)	3
Income tax expense recognised in the statement of profit or loss	**(140)**	**(142)**

Reconciliation of income tax expense

YEAR ENDED 30 JUNE	2018 $M	2017 $M
Net earnings before income tax	**525**	**560**
Tax at current rate of 28%	(147)	(157)
Adjustments to taxation		
Non-assessable gains on sale	3	5
Other non-assessable items	(2)	–
Tax effects of non-New Zealand profits	6	9
Adjustments in respect of prior periods	–	1
Total income tax expense	**(140)**	**(142)**

6.2 Taxation (continued)

Deferred tax assets and liabilities

Deferred tax assets and liabilities are offset in the statement of financial position and presented as a net deferred tax liability. The movement in the deferred tax assets and liabilities is provided below:

ASSETS/(LIABILITIES)	FIXED ASSETS $M	PROVISIONS & ACCRUALS $M	OTHER $M	TOTAL $M
Balance at 30 June 2017	(136)	6	(4)	(134)
Adjustment on adoption of NZ IFRS 9	–	5	–	5
Balance at 1 July 2017	**(136)**	**11**	**(4)**	**(129)**
Amounts recognised in statement of profit or loss				
Relating to the current period	5	–	3	8
Adjustments in respect of prior periods	(1)	(2)	1	(2)
Acquisitions	–	–	(4)	(4)
Amounts recognised in equity relating to the current period	(1)	–	4	3
At 30 June 2018	**(133)**	**9**	**–**	**(124)**
To be recovered within 12 months	(5)	–	–	(5)
To be recovered after more than 12 months	(128)	9	–	(119)
At 1 July 2016	(136)	12	(1)	(125)
Amounts recognised in statement of profit or loss				
Relating to the current period	3	(10)	1	(6)
Adjustments in respect of prior periods	(2)	4	1	3
Amounts recognised in equity relating to the current period	(1)	–	(5)	(6)
At 30 June 2017	**(136)**	**6**	**(4)**	**(134)**
To be recovered within 12 months	(3)	10	–	7
To be recovered after more than 12 months	(133)	(4)	(4)	(141)

Spark has not recognised the tax effect of accumulated unrestricted losses and temporary differences amounting to AUD$461 million at 30 June 2018 based on the relevant corporation tax rate of Australia (30 June 2017: AUD$467 million). These losses and temporary differences may be available to be carried forward to offset against future taxable income. However, utilisation is contingent on the production of taxable profits over a significant period of time and is subject to compliance with the relevant taxation authority requirements.

Spark has a negative imputation credit account balance of $45 million as at 30 June 2018 (30 June 2017: $47 million negative balance). The imputation credit account had a positive balance as at 31 March 2018 and 31 March 2017.

Notes to the financial statements: Other information

6.3 Employee share schemes

Spark operates share-based compensation plans that are equity settled as outlined below.

Restricted share schemes

A restricted share scheme was initially introduced for selected employees in September 2001. For new allocations after August 2015 these were replaced by two new restricted share schemes:

- Spark New Zealand Long Term Incentive Scheme; and
- Spark New Zealand Managing Director Long Term Incentive Scheme.

The Spark New Zealand Long Term Incentive Scheme is for the Leadership Team and senior managers and delivers one scheme with the same set of rules under one long-term incentive, with a performance hurdle in place. The Spark New Zealand Managing Director Long Term Incentive Scheme replaced the Managing Director performance rights scheme.

Under these restricted share schemes ordinary shares in the Company are issued to Spark Trustee Limited. Participants purchase shares from Spark Trustee Limited with funds lent to them by the Company and which are held on their behalf by Spark Trustee Limited. If the individual is still employed by Spark at the end of the vesting period (generally three years) and applicable performance hurdles are met, the employee is provided a cash bonus, which must be used to repay the loan and the shares are then transferred to the individual. The target for this hurdle is the Company's cost of equity plus 1% compounding annually, with the exception of one-off exceptional grants issued in FY14 for which the hurdle was two times Spark's annual cost of equity compounding over three years.

Share rights schemes

The Share Rights Scheme (SRS) was used for selected Leadership Team members and senior employees, and the Managing Director Performance Rights Scheme (PRS) for the Managing Director. The final grants under these schemes were made in September 2014 and were exercisable from September 2017.

Under the SRS and PRS participants were granted rights to purchase Company shares at a nil cost strike price. Share rights have no voting rights until exercised and generally cannot be exercised for a three-year period. The share rights were exercisable at the end of the vesting period only if the individual was still employed by Spark and, in the case of the Leadership Team and the Managing Director, a total shareholder return performance hurdle was met. The target for this hurdle was the Company's cost of equity plus 1% compounding annually, with the exception of one-off exceptional grants issued in FY14 for which the hurdle was two times Spark's annual cost of equity compounding over three years. The final options under the SRS and PRS were exercised during the year ended 30 June 2018 and none remain outstanding as at 30 June 2018.

Information regarding shares and options awarded under these schemes is as follows:

	RSS NUMBER OF SHARES	SRS NUMBER OF OPTIONS	PRS NUMBER OF OPTIONS
Balance as at 30 June 2016	**2,932,543**	**2,215,014**	**1,247,035**
Awarded or granted	736,665	–	–
Vested or exercised	(1,224,898)	(1,155,389)	(696,566)
Forfeited or lapsed	(387,405)	(298,913)	(45,906)
Balance as at 30 June 2017	**2,056,905**	**760,712**	**504,563**
Awarded or granted	711,776	–	–
Vested or exercised	(795,654)	(760,712)	(504,563)
Forfeited or lapsed	(310,783)	–	–
Balance as at 30 June 2018	**1,662,244**	**–**	**–**
Percentage of total ordinary shares	0.09%	0.00%	0.00%

The fair value of the employee services received in exchange for the grant of equity instruments is recognised as an expense, with a corresponding entry in equity. The total charge recognised for these schemes for the year ended 30 June 2018 was $3 million (30 June 2017: $4 million); the expense relating to the restricted share schemes was $2 million (30 June 2017: $3 million) and the expense relating to all SRS and PRS awards was $1 million (30 June 2017: $1 million). As at 30 June 2018, $3 million of share scheme awards remain unvested and not expensed (30 June 2017: $4 million). This expense, measured at its fair value based on a valuation model, will be recognised over the remaining vesting period of the awards.

Spark Share, an employee share purchase programme, does not have a material impact on these financial statements.

6.4 Related party transactions

Related parties of Spark include the associates and joint venture companies listed in note 4.1 and key management personnel detailed below.

Interest of directors in certain transactions

A number of the Company's directors are also directors of other companies and any transactions undertaken with these entities have been entered into on an arm's length commercial basis.

Transactions with associate and joint venture companies

Spark has the following transactions with associates and joint ventures:

- Spark provides network operations and management services to Southern Cross in respect of its operations in New Zealand;
- Spark makes payments to Southern Cross in connection with capacity it has purchased on Southern Cross' network; and
- Spark made payments to Connect 8 Limited for fibre and telecommunications construction services following the sale of 50% on 22 May 2018.

Balances and amounts in respect of these transactions with associate and joint venture companies are set out in the table below:

AS AT AND FOR THE YEAR ENDED 30 JUNE	2018 $M	2017 $M
Operating revenues[1]	56	67
Operating expenses	8	9
Capacity acquired and other capital expenditure[2]	18	20
Receivables	14	2
Payables	4	–

1 Includes dividend income from Southern Cross of $50 million for the year ended 30 June 2018 (30 June 2017: $61 million).

2 As at 30 June 2018 Spark has committed to purchases of $46 million for cable capacity from Southern Cross (30 June 2017: $55 million).

Key management personnel compensation

YEAR ENDED 30 JUNE	2018 $'000	2017 $'000
Directors' remuneration	1,280	1,321
Salary and other short-term benefits[1]	7,630	9,342
Long-term incentives and share-based compensation[2]	2,168	2,706
	11,078	**13,369**

1 Includes short-term benefits paid on termination.

2 Includes $2,135,000 share-based compensation and $33,000 other long-term incentives (30 June 2017: $2,454,000 share-based compensation and $252,000 other long-term incentives).

The table above includes remuneration of the Managing Director and the other members of the Leadership Team, including amounts paid to members of the Leadership Team who left during the year ended 30 June or were in acting Leadership Team positions. Like other Spark employees members of the Leadership Team also receive product and service concessions. In addition, where members of the Leadership Team are KiwiSaver members, they receive contributions towards their KiwiSaver schemes.

Notes to the financial statements: Other information

6.5 Reconciliation of net earnings to net cash flows from operating activities

YEAR ENDED 30 JUNE	2018 $M	2017 $M
Net earnings for the year	385	418
Adjustments to reconcile net earnings to net cash flows from operating activities		
Depreciation and amortisation	434	430
Bad and doubtful accounts	18	23
Deferred income tax	(1)	6
Share of associates' and joint ventures' net losses	3	4
Impairments	10	2
Other gains	(10)	(20)
Other	2	(16)
Changes in assets and liabilities net of effects of non-cash and investing and financing activities		
Movement in receivables and related items	(75)	(128)
Movement in inventories	16	(13)
Movement in current taxation	(26)	(3)
Movement in payables and related items	21	14
Net cash flows from operating activities	**777**	**717**

6.6 Commitments

Operating lease commitments – Spark as lessee

Spark has entered into commercial operating leases on properties, network infrastructure, motor vehicles and equipment. Certain leases are subject to Spark being able to renew or extend the lease period based on terms that would then be agreed with the lessor. Future minimum rental commitments for all non-cancellable operating leases are:

AS AT 30 JUNE	2018 $M	2017 $M
Less than one year	75	65
Between one and five years	216	205
More than five years	105	149
	396	**419**

The total of future minimum sublease payments expected to be received under non-cancellable subleases as at 30 June 2018 is $18 million (30 June 2017: $25 million).

Capital and other commitments

As at 30 June 2018 capital expenditure contracted for, but not yet incurred, was $210 million (30 June 2017: $195 million) with $148 million due in the year ending 30 June 2019. Commitments principally relate to telecommunications network equipment and cable capacity.

As at 30 June 2018 Spark had other supplier commitments of $225 million (30 June 2017: $296 million), with $210 million due in the year ending 30 June 2019.

6.7 Contingencies

Effect of outstanding claims

Spark has ongoing claims, investigations and inquiries, none of which it currently believes are expected to have a significant effect on our financial position or profitability.

6.8 New accounting standards not yet adopted

NZ IFRS 15 Revenue from contracts with customers

NZ IFRS 15 Revenue from contracts with customers (NZ IFRS 15) replaces NZ IAS 18 Revenue and related interpretations and will have a material impact on Spark. NZ IFRS 15 is effective for Spark from next financial year, being the year ending 30 June 2019. Spark currently intends to apply the standard retrospectively to prior reporting periods, subject to permitted and elected practical expedients.

Spark's revenue

NZ IFRS 15 sets out the requirements for recognising revenue and costs from contracts with customers. The standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a relative stand-alone selling price basis, based on a five-step model. Spark generates revenue from customer contracts, which vary in their form (standard or bespoke), term (casual, open-term, short-term or long-term) and customer segment (consumer, small to medium business and government and large enterprise). NZ IFRS 15 impacts will differ depending on the type of customer contract, with the main ones being:

- Consumer contracts (mass market prepaid and pay-monthly mobile, broadband and voice offerings);
- Small to medium business contracts;
- Enterprise and government contracts;
- Wholesale contracts for telecommunication services; and
- Other contracts (including products and services sold by our subsidiaries).

The expected material changes to our accounting policies on adoption of NZ IFRS 15 of contracts have been summarised by revenue type below.

Mobile revenue

The majority of Spark's consumer pay-monthly mobile contracts are 'open-term', however, some customers have contracts with a fixed contract term, such as 24 months. These contracts generally include device subsidies, which can be applied to the discounted purchase of a handset. As outlined in note 2.2, Spark currently recognises revenue from arrangements with multiple elements in a manner that is similar to the requirements of NZ IFRS 15, based on industry guidance for the telecommunications sector available for these transactions under the current revenue standard, NZ IAS 18. Revenue is currently allocated to a mobile handset and the mobile service to be delivered over the contract term based on their fair value. Revenue is recognised in relation to the mobile device at the point it is provided to the customer, as it is not contingent on the delivery of future services. Revenue for the mobile service is recognised as that service is provided across its contract term. Due to our current policy of allocating revenue to the mobile device and mobile service on its fair value there will not be a material acceleration of device revenue on adoption of NZ IFRS 15 and this may differ to other telecommunications companies. However, under NZ IFRS 15 revenue will be allocated with reference to the stand-alone selling prices and the allocation of revenue to distinct goods or services (performance obligations) may therefore vary to the current allocation.

Spark provides customers the ability to obtain devices on an 'interest free' device repayment plan. Spark currently assesses the inherent financing component of this offer to customers using Spark's incremental borrowing rate. NZ IFRS 15 requires the use of a discount rate that would be used in a separate financing transaction between Spark and the customer that reflects their credit characteristics. The application of this rate to the sale of devices sold on repayment plans will result in a material reduction in device revenue at the time of sale and an increase in interest income recognised over the repayment term. The change in discount rate will also be applied to the financing component within term contracts that include a subsidy, resulting in a reduction in device revenue at the time of sale and an increase in interest income over the mobile plan term.

NZ IFRS 15 provides updated guidance for determining whether an entity is a principal or agent when delivering goods or services to customers. This is applicable for mobile contracts where Spark provides customers the option to obtain free or discounted services that are provided by third parties, such as Spotify, within our mobile contracts. Spark has assessed that under NZ IFRS 15 we are an agent in relation to such services. Spark's current accounting policy is to recognise the cost of these extras within operating expenses. However, under NZ IFRS 15 the extras will be considered separate performance obligations and revenue will be recognised, net of relevant costs, upon delivery to the customer. This will result in a material reduction to both operating expenses and operating revenue but no impact on net earnings.

Spark does not anticipate a material change to current revenue recognition practices for mobile revenue from enterprise and government customers.

Broadband revenue

As noted above for mobile revenue and outlined in note 2.2, Spark currently recognises revenue from arrangements with multiple elements in a manner that is similar to the requirements of NZ IFRS 15. For broadband contracts this includes the recognition of revenue on delivery of modems (excluding wireless broadband modems) provided free to new broadband customers, as they are distinct. Revenue is currently allocated to the modem and the broadband service based on their relative fair value, with the revenue for the broadband service recognised as that service is provided across its contract term. We do not expect an acceleration of modem revenue on adoption of NZ IFRS 15 and this may differ to other telecommunications companies. However, as the revenue will be allocated to a customer's broadband contract with reference to the stand-alone selling prices of all performance obligation provided in the contract, the allocation will change.

Spark's broadband contracts frequently include offers such as account credits, periods of 'free' service and other incentives. Spark currently accounts for such offers as a reduction in broadband service revenue over a customer's contract period. Under NZ IFRS 15 such incentives will generally be included within the calculation of the total transaction price for the bundle of goods and services provided in a broadband contract. Revenue is then allocated to each performance

Notes to the financial statements: Other information

obligation based on its relative stand-alone selling price and recognised either at a point in time or over time. This will result in incentives generally being allocated to other performance obligations in a broadband contract, such as the modem.

As with mobile contracts the updated NZ IFRS 15 guidance for determining whether an entity is a principal or agent is also relevant for Spark's broadband contracts. Broadband contracts can include options for customers to obtain free or discounted services that are provided by third parties, such as Netflix. Spark's current accounting policy is to recognise the cost of these extras over a customer's contract term. However, under NZ IFRS 15 the extras will be considered separate performance obligations and revenue will be recognised, net of relevant costs, upon delivery to the customer.

Voice

Voice revenue includes revenue from customers with a landline-only service, calling and videoconferencing services. Revenue from such contracts is generally recognised in a pattern consistent with the requirements of NZ IFRS 15 and no material changes are expected in relation to its recognition.

Cloud, security and service management

Spark provides cloud, security and service management services primarily to large enterprises and government departments. Each contract may include multiple services, such as data centre services, infrastructure-as-a-service, software-as-a-service, secure connectivity services, data analytics services, IT sourcing, and professional services for technology requirements and IT projects. The contracts may incorporate services provided by third parties, which, based on the updated NZ IFRS 15 guidance for determining whether an entity is a principal or agent when delivering goods or services to customers, will result in Spark recognising its net proceeds from such transactions, decreasing both operating revenue and operating expenses, with no impact on net earnings.

Cloud, security and service management contracts frequently include transition projects that do not deliver a distinct good or service to the customer. As further detailed in note 2.2, costs incurred to fulfil such contracts may currently be deferred and recognised in operating expenses over the life of the contract to the extent that they are recoverable from future revenue. This treatment is consistent with the contract cost requirements of NZ IFRS 15 and no material changes are expected in relation to their accounting treatment.

Some contracts may include the provision of a service, together with a device or other equipment, which meets the definition of an operating lease under NZ IFRS 16 Leases. Spark intends to early adopt NZ IFRS 16 at the same time as NZ IFRS 15. Further details of the impact are outlined following this note.

Procurement and partners

Procurement revenue relates to the procurement of hardware and software on behalf of customers. Partner revenue relates to partner-provided IT services, primarily in the regions where Spark does not have a presence. NZ IFRS 15 provides updated guidance for determining whether an entity is a principal or agent when delivering goods or services to customers and the recognition of some procurement and partners revenue is expected to change because of the revised guidance. This will result in Spark recognising its net proceeds from such transactions, decreasing both revenue and expenses, with no impact on EBITDA.

Managed data and networks

Managed data and networks revenue includes revenue from the provision of data connectivity for businesses and proactive monitoring and managed services for customer networks. Revenue from such contracts is generally recognised in a pattern consistent with the requirements of NZ IFRS 15 and no material changes are expected in relation to its recognition.

Other operating revenue

Other operating revenue includes revenue from subsidiary companies such as Qrious, Lightbox, Morepork and other charges to customers. Revenue from such contracts is generally recognised in a pattern consistent with the requirements of NZ IFRS 15 and no material changes are expected in relation to its recognition.

Contract costs

Some commission costs are currently deferred and recognised over their contract term within operating expense. Such costs meet the costs to obtain a contract criterion under NZ IFRS 15, however, we have identified further commission costs that will be required to be capitalised under the new standard. No material changes are expected in relation to other costs to obtain or fulfil a contract. We are currently assessing the appropriate amortisation period over which these costs should be recognised.

Adoption project

Spark has undertaken a significant project to facilitate the adoption of NZ IFRS 15. This has included a detailed assessment of the nature of Spark's contracts with customers, the goods and services offered within those contracts and the expected impact from the adoption of NZ IFRS 15. Given the nature and breadth of Spark's operating revenues and customer offerings, this has been very complex and has not yet been finalised for all revenue types and contracts. The project has also assessed system requirements, data sources and internal controls required to calculate the impact from initial adoption, including the impact as at 1 July 2017 and the year ended 30 June 2018.

Estimated financial impact

Spark is finalising the analysis and assessment of the impact of NZ IFRS 15 on our financial results. This includes updating our accounting policies, internal and external reporting requirements, business processes and associated internal controls with the objective of quantifying the first-time adoption impacts, as well as supporting ongoing compliance with the new accounting requirements. Spark's operations and associated systems are complex and the new standard requires analysis and assessment of millions of contracts with our customers. Areas of expected impact have been highlighted within the assessment by revenue type above. However, at this time, it is not possible to make reliable quantitative estimates of the effects of the new standard. We expect to finalise the adjustment required to retained earnings as at 1 July 2017 and for the year ended 30 June 2018 prior to the release of our December 2018 half-year financial statements.

NZ IFRS 16 Leases

NZ IFRS 16 Leases (NZ IFRS 16) replaces NZ IAS 17 Leases and will have a material impact on Spark. Spark has elected to early adopt NZ IFRS 16 from next financial year, being the year ending 30 June 2019 and apply the full retrospective transition method, with restatement of the year ended 30 June 2018.

NZ IFRS 16 will require Spark to recognise most leases, where Spark is a lessee, on the statement of financial position. Similar to the current finance lease model, this will result in the recognition of 'right of use' assets and related lease liability balances. The expense previously recorded in relation to operating leases will move from being included in operating expenses (and within EBITDA), to depreciation and finance expense. The impact on net earnings before income tax of an individual lease over its term remains the same, however, the new standard will result in a higher interest expense in early years, and lower in later years of a lease, compared with the current straight-line expense profile of an operating lease.

Spark's leases

Spark is the lessee for a large number of operating leases, including:

- **Property** - Spark leases a number of office buildings and retail stores. These leases will have the most significant impact on adoption of NZ IFRS 16 given their high value and, taking into accounting rights of renewal that are reasonably certain to be exercised, long lease terms;
- **Mobile sites** – Spark has entered into a number of land access agreements to allow the operation of mobile network infrastructure throughout New Zealand;
- **Equipment** – Spark acts as the intermediate party (as a lessee and a lessor) in a number of back-to-back lease arrangements for customer premises equipment. Such arrangements may also include an initial sale and leaseback transaction. Under the new standard Spark has assessed that the initial sale of the equipment does not result in control being passed. As a result the equipment will not be derecognised following the initial sale and remain within property, plant and equipment. The leaseback will be accounted as a financial liability in scope of NZ IFRS 9 and the sub-lease as either an operating lease or finance lease;
- **Motor vehicles** – Spark leases motor vehicles for use in sales, field operations and maintenance of infrastructure equipment; and
- **Other leases** – other leases include items such as general IT equipment and photocopiers. Spark intends to utilise the recognition exemption for leases of low-value assets to these leases where appropriate.

Spark also acts as a lessor, including for the following:

- **Space in exchanges** – Spark has leases for space in exchange buildings, including as a lessor for space in Spark exchanges and a lessee for space in Chorus exchanges. These leases include a legal right of offset, as Spark and Chorus settle the payments on a net basis and are therefore shown as a net finance lease receivable on the statement of financial position. Spark has assessed there will be no impact on adoption for exchange space leases (more information is included in note 3.1); and
- **Property subleases** – Spark has entered subleases in relation to excess property that are all currently classified as operating leases. Each sublease has been assessed to determine whether it is a finance or operating lease under NZ IFRS 16. A number of these will be now classified as finance subleases because they are for the whole remaining term of the head lease.

Adoption project

Spark has undertaken a significant project to facilitate the early adoption of NZ IFRS 16. This has included the implementation of a lease management and accounting system. This system now retains Spark's leases where Spark is a lessee and includes all details in relation to each lease, such as the lease contract, lease type and location, lease term (including rights of renewal), lease discount rate and lease payments. The lease system calculates the value of right-of-use-assets, lease liabilities, depreciation expenses and finance expenses based on this information. Spark has performed testing over the accuracy and completeness of lease data and the outputs provided from the lease system and re-performed calculations for a number of leases, including for material leases, and issues identified have been resolved.

Spark will continue to test the accuracy of lease data within the system and its outputs. The lease system and its calculations have also been reviewed by external parties and the system provider intends to issue a controls opinion during the year ending 30 June 2019.

Estimated financial impact

The new standard will have a significant impact on the financial position and performance of Spark on adoption. We have performed an assessment of the financial impact on Spark based on leases in effect in the year ended and as at 30 June 2018. The estimated impact on the statement of profit or loss and other comprehensive income is a decrease in operating expenses of approximately $67 million and an increase in lease income of $2 million offset by an increase in depreciation and amortisation of $49 million and an increase in net finance expense of $29 million. This would result in an increase in EBITDA of $69 million but a decrease in net earnings before income tax of $9 million. The estimated impact on the statement of financial position is an increase in total assets of $426 million, an increase in total liabilities of $490 million and a decrease in equity of $64 million.

As outlined above the adoption of NZ IFRS 16 would have reduced net earnings before tax for the year ended 30 June 2018 by approximately $9 million and reduced retained earnings by approximately $64 million. This is primarily because of the lease profile of Spark's long-term corporate property leases, with the depreciation and interest expense (which is higher in earlier years of these leases) exceeding the current operating expense. The difference over the life of the leases will be nil and there is no impact on cash flows.

Assumptions

In calculating the above estimated impacts several judgements were required. These include determining the lease term (which can be complex where leases include rights of renewal or cancellation), the discount rate applicable to each lease and the lease payments, which may not be fixed and may vary depending on an index.

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Independent Auditor's Report

To the shareholders of Spark New Zealand Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Spark New Zealand Limited (the company) and its subsidiaries (the group) on pages 47 to 83:

i. present fairly in all material respects the group's financial position as at 30 June 2018 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2018;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the group in relation to regulatory audit, other assurance related services (such as trustee reporting) and compliance services. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $26 million determined with reference to a benchmark of group earnings before income tax. We chose the benchmark because, in our view, this is a key measure of the group's performance.

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Revenue recognition	
Refer to note 2.2 to the financial statements which discloses total revenues of \$3,649 million (2017: \$3,614 million) including: - Mobile \$1,280 million (2017: \$1,197 million) - Broadband \$685 million (2017: \$689 million) - Voice \$572 million (2017: \$655 million) - Cloud, security and service management \$373 million (2017: \$324 million) Revenue recognition is considered to be a key audit matter due to the complexity of the revenue recognition accounting standards as applied to the telecommunications industry, involving key judgements and estimates, principally surrounding: Multiple products bundled into a single offer from Spark's Home, Mobile & Business unit: • identifying the separate components of a bundled transaction and whether those components have stand-alone value to the customer; and • allocating total transaction consideration to the multiple components in the bundled transaction. Contractual arrangements for IT services offered from Spark's Digital business unit, involving the design, build and offering of ongoing Information Technology solutions, including 'as a service' offerings:	Our audit procedures included: For multiple products bundled into a single offer from Spark's Home, Mobile & Business unit: • reviewing a sample of customer contracts to understand each of the components in the bundled offering; • challenging the group's assessment for each component about whether the product or service has stand-alone value to the customer by considering the extent the products and services are interrelated; • comparing the allocated fair value assigned to each component of the bundle to observed market prices for the respective component; and • examining the stages at which revenue for each component is recognised, with reference to the group's operational systems and data. For the bundled offerings from Spark's Home, Mobile & Business unit, we identified no errors with the assessment of each component in the bundled offerings and reasonable assumptions were used to reflect the customer contract and fair value allocated to each component. For contractual arrangements for IT services offered from Spark's Digital business unit: • reviewing a sample of contracts to understand the services the group has contracted to deliver; • agreeing revenue recognised to a sample of customer contracts and agreed customer contract variations; • evaluating the cost and revenue forecasts that support the anticipated revenue recognition to be applied for each contract reviewed by discussion with and challenging of the project managers, reviewing project summary reports, customer correspondence and historical customer profitability analyses; and • evaluating the status of implementation of each contract, through discussion with project managers and reviewing project summary reports. For the Spark IT services contracts, we consider the estimates of projected revenue and costs or the assessments of the stage of completion of the projects to be balanced.

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The key audit matter	How the matter was addressed in our audit
• identifying the separate components of a bundled transaction and whether those components have stand-alone value to the customer; and • determining the quantum and timing of contract profit. The latter includes assessing the assumptions underpinning the individual project profitability forecasts over the life of the contract.	We identified no errors with revenue recognition.
Impact of changes in technology and the group's network strategy on the carrying value of property, plant & equipment and intangible assets	
Refer to notes 3.4 and 3.5 to the financial statements. The group has property, plant & equipment and intangible assets of $2,246 million (2017: $2,223 million) with additions during the year of $413 million (2017: $415 million). The capitalisation and carrying value of property, plant & equipment and intangible assets is considered to be a key audit matter due to the significance of the assets to the group's statement of financial position, and due to the level of judgement involved in determining the carrying value of these assets, principally: • the capitalisation or expensing of costs; • the useful economic lives assigned to the assets capitalised; and • the impact of planned or unexpected replacement technology on the carrying value of property, plant & equipment and intangible assets; and • accounting for software as a service contracts.	Our audit procedures included: • examining controls surrounding application of accounting policies to capitalise or expense project spend; • assessing the capitalisation of costs incurred on capital projects, by examining a sample of additions to identify if the spend meets the definition of an asset as per the applicable accounting standards; • assessing the allocated useful economic lives, by comparing to industry benchmarks and our knowledge of the business and its operations and the technology life-cycles anticipated; • assessing the need for accelerated depreciation or impairment of assets, by considering the impact of developments in technology and changes to the group's technology transformation strategy; and • reviewing a sample of software as a service contracts to determine whether the licensing and delivery model provided by the contracts have been expensed or capitalised as appropriate depending on the terms of each contract. We found no issues as a result of our audit procedures over the amounts capitalised to property, plant & equipment and intangible assets. We found asset useful lives used by the group were within an acceptable range when compared to those commonly used in the industry, and appropriately reflected technological developments within the group's intended capital roadmap. We considered the impact of developments in technology and changes to the group's technology transformation strategy on useful lives and carrying value and considered the carrying value to be appropriate.
Transition to Agile-at-scale operating model	
Spark is continuing on its strategic shift that commenced in 2013 from a traditional telecommunications company to a digital services company. As a consequence, Spark is:	Our procedures in respect of the restructuring provision included: • obtaining an in-depth understanding of the elements of the restructuring announcement, including the build-up of the estimate of the expected personnel restructure;

The key audit matter	How the matter was addressed in our audit
- implementing Agile-at-scale to embed customer centricity, increase speed to market and achieve greater productivity; - continuing to simplify, automate and digitise processes, products and services under the 'Quantum' programme; and - pursuing expansion into media through relaunch of Lightbox and securing the rights to coverage of Rugby World Cup 2019. For the year ended 30 June 2018, the above has manifested itself in the financial statements as a restructuring expense within the costs of change of $26 million and a restructuring provision of $11 million. Restructuring expenses are included within operating expenses in note 2.3. This is a key audit matter due to the judgement in determining the extent of redundancies in light of the timing of decisions to restructure the business, the ongoing impact of the initiative, and whether the year ended 30 June 2018 or subsequent years are affected.	• understanding the timing of decisions made to restructure in relation to the announcement date and the detail surrounding the restructuring programme (such as the identification of individuals identified and business units affected); and • vouching a sample of termination costs to employee contracts. Overall we consider the restructuring provision is a reasonable estimate of the future costs including redundancy payments the group is committed to undertake at 30 June 2018. The restructuring announcements were made prior to 30 June 2018 and therefore have been appropriately recorded in the year ended 30 June 2018 and the pay-out was calculated in reference to the affected employee's contractual entitlement.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information includes the Chair and Managing Director Report, Environmental, Social & Governance Reporting, Performance and Other Information including disclosures relating to corporate governance and statutory information. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

KPMG

Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor’s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor’s report.

The engagement partner on the audit resulting in this independent auditor's report is David Gates.

For and on behalf of

KPMG

KPMG
Wellington

22 August 2018

Corporate governance and disclosures

Corporate governance

The Board and management are committed to ensuring that Spark New Zealand Limited (Spark) maintains a high standard of corporate governance and adheres to high ethical standards. 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.

Spark has adopted the NZX Corporate Governance Code and the ASX Corporate Governance Council's Principles and Recommendations (3rd Edition). As at 22 August 2018 the Board considers that Spark has followed all principles and recommendations for the FY18 reporting period.

Further information regarding Spark's corporate governance policies, practices and processes can be found on its website and in its FY18 Environmental, Social & Governance Report, which comprises Spark's corporate governance statement, found at: **www.sparknz.co.nz/about/governance.**

Stock exchange listings

Spark ordinary shares are listed on the NZSX and ASX and Spark continues to comply with NZSX Listing Rules and applicable ASX Listing Rules.

Spark is incorporated in New Zealand and is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001. The acquisition of Spark shares may be limited by the New Zealand Takeovers Code and the Overseas Investment Act 2005. Spark does not operate additional ownership restrictions.

Spark's American Depositary Shares, each representing five ordinary Spark shares and evidenced by American Depositary Receipts (ADRs), are traded over-the-counter in the United States. Spark deregistered its ADRs and shares under the United States Securities Exchange Act of 1934 (Securities Exchange Act) on 2 September 2014, at which point its United States Securities and Exchange Commission (SEC) reporting obligations under the Securities Exchange Act and the United States Sarbanes-Oxley Act of 2002 ceased.

Director remuneration

The total remuneration available to non-executive directors is fixed by shareholders. The current annual remuneration limit is $1,630,000 following an increase of $130,000 approved at the annual meeting held in November 2017.

The fees payable to non-executive directors during FY18 were:

BOARD/COMMITTEE	CHAIR[1]	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 annual remuneration limit of $1,630,000.

This increase approximates the average annual CPI increase seen over the last four quarters and is expected to broadly maintain the market positioning outlined in the independent Ernst & Young benchmarking report that was distributed alongside the 2017 Notice of Annual Meeting.

Committee membership as at 30 June 2018 was as follows:

HUMAN RESOURCES AND COMPENSATION COMMITTEE	AUDIT AND RISK MANAGEMENT COMMITTEE	NOMINATIONS AND CORPORATE GOVERNANCE COMMITTEE
Alison Barrass (Chair)	Alison Gerry (Chair)	Justine Smyth (Chair)
Ido Leffler	Paul Berriman	Alison Barrass
Justine Smyth	Pip Greenwood	Paul Berriman
	Charles Sitch	Alison Gerry
		Pip Greenwood
		Ido Leffler
		Charles Sitch

The total remuneration received by non-executive directors of Spark during FY18 was as follows:[1]

NAME OF DIRECTOR	BOARD FEES	AUDIT & RISK MANAGEMENT COMMITTEE FEES	NOMINATION & CORPORATE GOVERNANCE COMMITTEE FEES	HUMAN RESOURCES AND COMPENSATION COMMITTEE FEES	SHARES AND OTHER PAYMENTS OR BENEFITS[2]	TOTAL REMUNERATION
Justine Smyth	$282,997	$12,968	–	$11,115	$1,019	$308,100[3]
Alison Barrass	$140,675	–	–	$26,906[4]	$1,019	$168,600
Paul Berriman	$140,675	$18,396	–	–	–	$159,071
Alison Gerry	$140,675	$31,205[5]	–	–	–	$171,880
Pip Greenwood	$35,169	$4,599	–	–	–	$39,768[6]
Ido Leffler	$140,675	–	–	10,674[7]	–	$151,349
Charles Sitch	$140,675	$18,396	–	–	–	$159,071
Mark Verbiest	$122,268[8]	-	–	–	–	$122,268
Total	**$1,143,810**	**$85,564**		**$48,695**	**$2,038**	**$1,280,108**

1 The figures shown are gross amounts and exclude GST (where applicable) and rounded to nearest dollar.

2 In addition to the contributions towards health insurance amounts shown in this table, Spark meets costs incurred by directors that are incidental to the performance of their duties. This includes providing New Zealand-based directors with mobile phones and a $120 per month home phone account credit and overseas-based directors with a $400 per month telephone allowance. Spark also meets the costs of directors' Spark-related travel. As these costs are incurred by Spark to enable directors to perform their duties, no value is attributable to them as benefits to directors for the purposes of the above table.

3 Ms Smyth received fees as a member of the Board and Chair of the HRCC and ARMC from 1 July 2017 to 3 November 2017. Following her appointment as Chair of the Board she ceased to receive fees from any committee from 4 November 2017.

4 Ms Barrass received fees as a member of the HRCC from 1 July 2017 to 3 November 2017 and Chair of the HRCC from 4 November 2017.

5 Ms Gerry received fees as a member of the ARMC from 1 July 2017 to 3 November 2017 and Chair of the ARMC from 4 November 2017.

6 Ms Greenwood was appointed as a member of the Board and the ARMC from 1 April 2018.

7 Mr Leffler received fees as a member of the HRCC from 4 November 2017.

8 Mr Verbiest ceased to receive fees as Chair of the Board from 4 November 2017.

The total remuneration earned by, or paid to, the Managing Director Mr Simon Moutter, for FY18 and the total anticipated target remuneration expected to be earned or paid in FY19 is as follows:

PERIOD	BASE SALARY[1]	SHORT-TERM INCENTIVE[2]	EQUITY INCENTIVE[3]	LONG-TERM INCENTIVE[4]
FY18 actual remuneration	$1,417,500	$779,625	$623,700	$1,000,000 in the form of 172,481 restricted ordinary shares
FY19 anticipated target remuneration	$1,417,500	$787,500	$630,000	$1,000,000 in the form of restricted ordinary shares

1 Base salary includes employer contributions towards KiwiSaver and is not at risk. Mr Moutter does not receive any directors' fees.

2 FY18 actual short-term incentive was earned in FY18 and will be paid in FY19, as further described in Managing Director Annual Performance Incentive Scheme on www.sparknz.co.nz/about/governance. The gross amount earned in FY17 and paid in FY18 was $708,750. FY19 anticipated target short-term incentive will be earned in FY19 and paid in FY20.

3 FY18 actual equity incentive was earned in FY18 and will be awarded in FY19 in the form of redeemable ordinary shares that will reclassify as ordinary shares in September 2020, as further described in Managing Director Performance Equity Scheme on **www.sparknz.co.nz/about/governance**. The gross amount earned in FY17 and awarded in FY18 was $567,000. FY19 anticipated target equity incentive will be earned in FY19 and awarded in FY20 in the form of redeemable ordinary shares that will reclassify as ordinary shares in September 2021.

4 FY18 actual long-term incentive was granted in FY18 and, subject to specific performance hurdles, will vest in September 2020, as further described in Managing Director Long-Term Incentive Scheme on **www.sparknz.co.nz/about/governance**. FY19 anticipated target long-term incentive will be granted in FY19 and, subject to performance hurdles, will vest in September 2021.

The following Managing Director long-term incentives vested in FY18:

GRANT YEAR	SECURITIES	PERFORMANCE PERIOD	PERFORMANCE MEASURE	VESTING OUTCOME	SHARES TRANSFERRED	VALUE TRANSFERRED[1]
FY14	Share rights, Exceptional LTI	November 2013 – November 2016 (plus one year deferral of 40%)	Absolute TSR, max. hurdle – 2 x Spark's annual cost of equity compounding	100% – 3 year TSR result was 85% compared with a 74% target	171,440 (the final deferred 40% instalment)	$629,185
FY15	Share rights	September 2014 – September 2017	Absolute TSR, hurdle – Spark's annual cost of equity + 1% compounding	100% – 3 year TSR result was 62% compared with a 37% target	333,123	$1,192,580
Total						**$1,821,765**

1 Represents the NZSX listed price of Spark shares on the exercise/transfer date x number of shares transferred.

Additionally, Mr Moutter's FY15 Equity Incentive (essentially a deferred STI) vested on 21 September 2017, as the service condition was satisfied. Accordingly, 128,461 redeemable ordinary shares converted to ordinary shares.

The total remuneration earned by, or paid to, key management personnel, being the directors and members of the Leadership Team, is set out in note 6.4 of the financial statements.

Employees do not receive any additional remuneration or other benefits from Spark for acting as directors of subsidiary companies.

Mr Quince received a director's fee of NZ$10,000 (excluding GST) for acting as a director of Teleco Insurance (NZ) Limited. From 1 July 2017 to 31 December 2017, Estera Services (Bermuda) Limited received directors' fees of US$2,750 in relation to Ms Dyer-Fagundo acting as a director of TCNZ (Bermuda) Limited and US$2,750 in relation to Ms Dyer-Fagundo acting as a director of Teleco Insurance Limited. These directors' fees increased to US$2,805 effective 1 January 2018.

Board and committee meeting attendance for FY18

The Board held seven formal meetings and two special meetings during FY18. The table below shows director attendance at these Board meetings and committee member attendance at committee meetings. Sub-committees of the Board also met regularly throughout the year to consider matters of special importance.

	BOARD	SPECIAL BOARD MEETING	ARMC	HRCC	NOMS
Total number of meetings held	7	2	6	6	2
Alison Barrass	7	2	–	6	2
Paul Berriman	7	1	6	–	2
Alison Gerry	7	2	6	–	2
Pip Greenwood[1]	3	1	2	–	1
Ido Leffler	7	1	–	3[5]	2
Simon Moutter	7	2	–	–	–
Charles Sitch	6	2	6	–	1
Justine Smyth	7	2	6[3]	6	2
Mark Verbiest[2]	1	–	3[4]	2	1

1 Ms Greenwood was appointed a director on 1 April 2018.
2 Mr Verbiest ceased to be a director on 3 November 2017.
3 Ms Smyth attended ARMC meetings in an ex officio capacity from 4 November 2017.
4 Mr Verbiest attended ARMC meetings in an ex officio capacity until 3 November 2017.
5 Mr Leffler was appointed a member of the HRCC from 3 November 2017.

Director independence and interests

The Board has determined, based on information provided by directors regarding their interests, that at 30 June 2018: Ms Barrass, Mr Berriman, Ms Gerry, Ms Greenwood, Mr Leffler, Mr Sitch and Ms Smyth were independent.

The position in respect of Ms 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, Ms Greenwood 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 determined that Mr Moutter was not independent due to his position as Managing Director. Further information regarding director independence independence and conflict of interest may be found at: **www.sparknz.co.nz/about/governance**.

Directors made the following entries in the interests register for FY18:

- Directors disclosed, pursuant to section 140 of the Companies Act 1993, interests in the following entities during FY18:

DIRECTOR	ENTITY	RELATIONSHIP
Alison Barrass	Lewis Road Creamery Limited	Director
	Callaghan Innovation	Ceased to be a director
	Methven Limited	Appointed Chair
Paul Berriman	Multisource Telecoms Proprietary Limited	Director
Alison Gerry	Sharesies Limited	Director and Chair
	Sharesies Nominee Limited	Director
Pip Greenwood	Russell McVeagh	Partner
	Fisher & Paykel Healthcare Limited	Director
	Auckland Writers Festival	Trustee
Ido Leffler	Yes To Inc	Ceased to be a board member
	Vestergaard	Board member

- Directors disclosed, pursuant to section 148 of the Companies Act 1993, the following acquisitions and disposals of relevant interests in Spark shares during FY18:

NAME	DATE	NATURE OF TRANSACTION	CONSIDERATION	NUMBER OF SHARES
Alison Barrass	31 August 2017	Purchase of ordinary shares	$39,991	10,200
	7 November 2017	Purchase of ordinary shares	$98,247	27,000
Alison Gerry	30 August 2017	Purchase of ordinary shares	$97,621	25,000
Ido Leffler	3 October 2017	Purchase of ordinary shares	$33,212	10,000
Simon Moutter	19 September 2017	Grant of restricted ordinary shares	Services to Spark	172,481
	19 September 2017	Grant of redeemable ordinary shares	Services to Spark	91,958
	21 September 2017	Reclassification of redeemable ordinary shares to ordinary shares	Services to Spark	128,461
	2 October 2017	Issue of ordinary shares upon exercise of share rights	Services to Spark	333,123
	18 October 2017	Sale of ordinary shares	$182,077	50,000
	16 November 2017	Issue of ordinary shares upon exercise of share rights	Services to Spark	171,440
	1 December 2017	Sale of ordinary shares	$180,322	50,000
	16 April 2018	Unrestricting of restricted ordinary shares	$2,338	844
Justine Smyth[1]	17 October 2017	Purchase of ordinary shares	$183,240	50,000
	5 December 2017	Purchase of ordinary shares	$252,918	70,000
Mark Verbiest[2]	30 August 2017	Purchase of ordinary shares	$57,975	15,000
	8 March 2018	Purchase of ordinary shares	$51,300	15,000

1. Relevant interest in beneficial ownership held by Miksha Trust.
2. Relevant interest in beneficial ownership held by Bear Fund NZ Limited.

- Directors disclosed, for the purposes of section 162 of the Companies Act 1993, insurance effected for Spark's directors and senior managers for the 12-month period from 1 June 2018 and deeds of indemnity provided to all directors and specified senior managers of Spark.

Gender composition of our workforce

The following table sets out the numbers of men and women at different levels of Spark's workforce as at 30 June 2017 and 30 June 2018.[1]

	FEMALE				MALE			
	2017		2018		2017		2018	
	NO.	%	NO.	%	NO.	%	NO.	%
Directors[2]	3	38%	4	50%	5	62%	4	50%
Leadership Team[3]	2	29%	2	33%	5	71%	4	67%
Other leadership roles[4]	14	23%	16	23%	47	77%	54	77%
Overall workforce	**2,059**	**36%**	**2,157**	**39%**	**3,674**	**64%**	**3,354**	**61%**

1 The table includes details of permanent and fixed-term employees of Spark and its directors.
2 Mr Verbiest ceased as a director of Spark on 3 November 2017 and Ms Greenwood was appointed as a director of Spark on 1 April 2018.
3 Excludes the Managing Director as he is already included as a director in the figures above. The Leadership Squad is considered 'senior managers' for the purposes of the Financial Markets Conduct Act 2013 and 'senior executives' for the purposes of the ASX Corporate Governance Council's Principles and Recommendations.
4 Substantive roles that report directly to members of the Leadership Squad (including the Managing Director) or to their direct reports.

Employee remuneration

The table below shows the number of employees and former employees, not being directors of Spark, who, in their capacity as employees, received remuneration and other benefits during FY18 totalling NZ$100,000 or more.[1]

RANGE	CURRENT	FORMER	TOTAL		RANGE	CURRENT	FORMER	TOTAL	
$100,000–$110,000	351	49	400		$380,001–$390,000	0	1	1	
$110,001–$120,000	321	27	348		$390,001–$400,000	1	2	3	
$120,001–$130,000	252	20	272	*	$400,001–$410,000	1	2	3	
$130,001–$140,000	213	12	225		$410,001–$420,000	1	0	1	
$140,001–$150,000	151	24	175		$420,001–$430,000	2	1	3	*
$150,001–$160,000	92	16	108		$430,001–$440,000	1	0	1	
$160,001–$170,000	61	12	73		$440,001–$450,000	2	0	2	
$170,001–$180,000	58	6	64		$450,001–$460,000	2	0	2	
$180,001–$190,000	37	9	46		$460,001–$470,000	2	0	2	
$190,001–$200,000	46	8	54		$480,001–$490,000	1	0	1	
$200,001–$210,000	24	7	31		$490,001–$500,000	1	0	1	
$210,001–$220,000	27	6	33		$500,001–$510,000	3	0	3	
$220,001–$230,000	15	2	17		$510,001–$520,000	3	0	3	*
$230,001–$240,000	10	5	15		$580,001–$590,000	0	1	1	
$240,001–$250,000	14	4	18		$590,001–$600,000	1	0	1	
$250,001–$260,000	7	4	11		$600,001–$610,000	1	0	1	
$260,001–$270,000	12	3	15		$660,001–$670,000	1	0	1	
$270,001–$280,000	4	4	8		$670,001–$680,000	1	0	1	
$280,001–$290,000	4	3	7	*	$680,001–$690,000	1	0	1	*
$290,001–$300,000	4	0	4		$820,001–$830,000	1	0	1	
$300,001–$310,000	3	1	4		$840,001–$850,000	1	0	1	*
$310,001–$320,000	4	2	6		$970,001–$980,000	1	0	1	*
$320,001–$330,000	4	4	8		$1,000,001–$1,010,000	0	1	1	*
$330,001–$340,000	2	1	3	*	$1,100,001–$1,110,000	0	1	1	*
$340,001–$350,000	2	2	4	**	$1,110,001–$1,120,000	0	1	1	
$350,001–$360,000	3	1	4	*	$1,670,001–$1,680,000	1	0	1	
$360,001–$370,000	3	1	4	*	$2,580,001–$2,590,000	1	0	1	
$370,001–$380,000	3	1	4	*					
Total						**1,757**	**244**	**2,001**	

1 The table includes base salaries, short-term incentives and vested or exercised long-term incentives (including FY14 Exceptional LTI vesting outcomes – see further details below). The table does not include: amounts paid after 30 June 2018 relating to FY18; long-term incentives that have been granted and have yet to vest (based on grant values, the total value of which was NZ$9.03 million as at 30 June 2018); product and service concessions received by employees; contributions paid to the Government Superannuation Fund (a legacy benefit provided to a small number of employees); and, if the individual is a KiwiSaver member, contributions of 3% of gross earnings towards that individual's KiwiSaver scheme.

* Denotes number of employees who received benefits from the one-off FY14 Exceptional LTI, i.e. *is one employee and ** is two employees.

FY14 Exceptional LTI Grant

The employee remuneration information in the table above includes the value of 40% of the FY14 Exceptional LTI vesting outcomes, which totalled $5.4 million across 27 employees (excluding the Managing Director). The remaining 60% vested in FY17.

As noted in the FY14 annual report, the FY14 Exceptional LTI was granted in November 2013. Vesting of these awards was conditional on the achievement of a TSR hurdle of 74%, being 2 x Spark's annual cost of equity compounding over the three years to 30 November 2016. Spark's actual TSR over the same period was 85%, which resulted in 100% vesting.

Shareholdings

As at 30 June 2018 there were 1,835,390,783 Spark ordinary shares on issue, each conferring to the registered holder the right to one vote on a poll at a meeting of shareholders on any resolution, held as follows:

SIZE OF HOLDING	NUMBER OF HOLDERS[1]	%	NUMBER OF SHARES	%
1–1,000	12,477	31.15	6,595,032	0.36
1,001–5,000	17,207	42.95	44,593,176	2.43
5,001–10,000	5,603	13.99	41,729,516	2.27
10,001–100,000	4,593	11.46	105,913,763	5.77
100,001 and over	179	0.45	1,636,559,296	89.17
Total	**40,059**	**100.00**	**1,835,390,783**	**100.00**

1 Includes 1,657,306 shares on issue held by Spark Trustee Limited on behalf of 39 holders for the Spark Long-Term Incentive Plan (as further described in note 6.3 of the financial statements). There are 773,404 shares on issue held by Spark Trustee Limited on behalf of 1,131 holders for Spark Share.

As at 30 June 2018 there were 190,904 redeemable ordinary shares on issue held by the Managing Director. Redeemable ordinary shares and shares held under Spark Share have the same voting rights as ordinary shares (but are subject to restrictions regarding disposal). Restricted ordinary shares are issued to Spark employees as part of Spark's long-term incentive schemes. Further information on these schemes is contained in note 6.3 of the financial statements and at **www.sparknz.co.nz/about/governance**.

As at 30 June 2018 there were 569 shareholders holding between 1 and 99 ordinary shares (a minimum holding under the NZX listing rules).

The 20 largest registered holders of Spark shares at 30 June 2018 were:

NAME[1]	NUMBER OF SHARES	%
1. HSBC Nominees (New Zealand) Limited[2]	428,428,610	23.34
2. HSBC Nominees (New Zealand) Limited[2]	277,739,354	15.13
3. JP Morgan Chase Bank	256,799,352	13.99
4. Citibank Nominees (NZ) Limited	113,804,246	6.20
5. HSBC Custody Nominees (Australia) Limited	66,231,180	3.61
6. Accident Compensation Corporation	47,100,286	2.57
7. National Nominees New Zealand Limited	40,160,135	2.19
8. New Zealand Superannuation Fund Nominees Limited	36,697,821	2.00
9. Cogent Nominees Limited	36,210,250	1.97
10. JP Morgan Nominees Australia Limited	28,210,958	1.54
11. Citicorp Nominees Pty Limited	26,524,482	1.45
12. Tea Custodians Limited	24,975,393	1.36
13. BNP Paribas Nominees NZ Limited[3]	23,420,975	1.28
14. Premier Nominees Limited	22,249,709	1.21
15. National Nominees Limited	17,371,819	0.95
16. BNP Paribas Nominees NZ Limited[3]	16,920,765	0.92
17. FNZ Custodians Limited	15,028,142	0.82
18. JB Were (NZ) Nominees NZ Limited	11,733,390	0.64
19. New Zealand Depository Nominee Limited	9,740,527	0.53
20. Cogent Nominees (NZ) Limited	7,920,329	0.43

1 The shareholding of New Zealand Central Securities Depository Limited (custodian for members trading through NZClear) has been re-allocated to the applicable members.

2 Has a different holder identification number to the other HSBC Nominees (New Zealand) Limited entry.

3 Has a different holder identification number to the other BNP Paribas Nominees NZ Limited entry.

According to substantial holder notices, as at 30 June 2018 the substantial holders in Spark were as follows:

NAME	NUMBER OF ORDINARY SHARES	% OF ORDINARY SHARES ON ISSUE[1]
Blackrock Investment Management (Australia) Limited	137,946,771	7.52%
The Capital Group Companies Inc	127,610,613	6.95%

1 Based on issued share capital of 1,835,390,783 as at 30 June 2018.

As at 30 June 2018 directors, or entities related to them, held relevant interests (as defined in the Financial Markets Conduct Act 2013) in Spark shares as follows:

	RELEVANT INTEREST IN SPARK SHARES AT 30 JUNE 2018	
NAME	NUMBER	%[1]
Alison Barrass	37,200	0.002
Paul Berriman	20,000	0.0011
Alison Gerry	25,000	0.0014
Pip Greenwood	–	–
Ido Leffler	10,000	0.0005
Simon Moutter	2,423,154[2]	0.1320
Charles Sitch	13,934	0.0008
Justine Smyth	350,201[3]	0.0191

1 Each percentage stated has been rounded to the nearest 1/1000th of a percent.

2 Includes 1,675,338 ordinary shares, 190,904 redeemable ordinary shares and 552,743 restricted ordinary shares and 4,169 ordinary shares held in custody for the M J Taylor Family Trust.

3 Relevant interest in beneficial ownership of 350,201 ordinary shares held by Miksha Trust.

All non-executive directors are expected to hold Spark shares. Subject to personal circumstances (that should be discussed with the Chair, or in the case of personal circumstances of the Chair, with the Chair of the ARMC, as appropriate), there is an expectation that each non-executive director will purchase and hold an amount of shares that are at least equivalent in value to the non-executive director base member fee as at the date of their appointment, or in the case of directors appointed before 1 July 2017, as at 1 July 2017. Shares are to be purchased within a three year period from the date of appointment, or in the case of directors appointed before 1 July 2017, within a three-year period from that date. To assess whether this expectation has been met, the aggregate purchase price for all shares acquired, less the aggregate sale price for all shares disposed (if any), is used to calculate value.

Subsidiary company directors

The following people held office as directors of subsidiary companies at 30 June 2018. Alternate directors are indicated with an (A).

SUBSIDIARY COMPANY	CURRENT DIRECTORS	DIRECTORS WHO RETIRED DURING THE YEAR
Computer Concepts Limited	M Anastasiou, D Chalmers, J Hodson,	
Digilife New Zealand Limited	D Werder, M Stribling	E Hyde
Digital Island Limited	D Chalmers, J Hodson	
Gen-i Australia Pty Limited	F Evett, I Hopkins	M Pryke
Gen-i Limited	M Anastasiou, J Hodson	
Lightbox New Zealand Limited	D Chalmers, G McBeath	J Paris
Qrious Limited	D Chalmers, N Morris	E Hyde
Revera Limited	M Anastasiou, D Chalmers, J Hodson	
Spark Finance Limited	M Anastasiou, D Chalmers, M Sheppard, D Werder	
Spark New Zealand Cables Limited	M Sheppard, C Fraser	L Cowley
Spark New Zealand LS Limited	D Chalmers, J Hodson	
Spark New Zealand Trading Limited	C Barber, M Beder, D Chalmers, J Hodson,	E Hyde, J Paris
Spark Retail Holdings Limited	M Anastasiou, D Chalmers	
Spark Trustee Limited	M Anastasiou, D Chalmers	
TCNZ Australia Investments Pty Limited	F Evett, I Hopkins	M Pryke
TCNZ (Bermuda) Limited	D Havercroft, A Dyer-Fagundo, J Wesley-Smith, A Pirie (A), M Stribling (A)	L Cowley
TCNZ Financial Services Limited	M Anastasiou, F Evett	
TCNZ (United Kingdom) Securities Limited	F Evett, M Palmer, J Reader	
Teleco Insurance Limited	M Beder, A Dyer-Fagundo, D Werder, M Anastasiou (A), J Burke (A), S Demerling (A), F Evett (A)	
Teleco Insurance (NZ) Limited	D Werder, R Quince	
Telecom Capacity Limited	D Chalmers, J Wong	
Telecom Enterprises Limited	M Anastasiou, D Chalmers	
Telecom New Zealand (UK) Enterprises Limited	F Evett, M Sheppard	
Telecom New Zealand USA Limited	M Laing, J Wong	L Cowley
Telecom Pacific Limited	M Anastasiou, M Sheppard	
Telecom Southern Cross Limited	M Anastasiou, D Chalmers	
Telecom Wellington Investments Limited	M Anastasiou, F Evett	
Telegistics Repair Limited	R Morris, R Singh, S Titherington	M Laing

Glossary

3G	means third-generation mobile network as defined by the International Telecommunications Union.
4G	means fourth-generation mobile network as defined by the International Telecommunications Union.
4.5G	means an evolution of the 4G mobile network which enables network features such as multiple carrier aggregation and increases theoretical maximum data speeds.
5G	means fifth-generation mobile network as defined by the International Telecommunications Union.
ADR	means an American Depositary Receipt.
ARMC	means the Audit and Risk Management Committee.
ASX	means the Australian Securities Exchange.
CCL	means Computer Concepts Limited.
CCN	means Converged Communications Network.
Company	means Spark New Zealand Limited.
EBITDA	means Earnings before Interest, Income Tax Expense, Depreciation and Amortisation and is a non-GAAP measure used by management.
ESG Report	means Spark's separate Environment, Social & Governance Report available at www.sparknz.co.nz/what-matters.
FCF	means Free Cash Flow.
Group	means the Group in relation to these financial statements, which are prepared for Spark New Zealand Limited (the company) and its subsidiaries (together the Group).
HRCC	means the Human Resources and Compensation Committee.
ICT	means Information and Communications Technologies.
IFRS	means International Financial Reporting Standards.
LTE	means Long-Term Evolution.
LTI	means Long-Term Incentive, which is part of Spark Leadership Team and Managing Director remuneration.
mNPS	means market Net Promoter Score and is our measure of customer satisfaction.
Net debt	means a non-GAAP measure of debt used by management that includes long-term debt at the value of hedged cash flows due to arise on maturity, plus short-term debt, less any cash.
NM	means not meaningful.
NOMs	means the Nominations and Corporate Governance Committee.
NPS	means Net Promoter Score.
NZ GAAP	means Generally Accepted Accounting Practice in New Zealand.
NZ IAS	means New Zealand International Accounting Standard.
NZ IFRS	means New Zealand Equivalent to International Financial Reporting Standards.
NZSX	means the main board equity security market operated by NZX.
NZX	means NZX Limited.
OTN	means Optical Transport Network.
PRS	means Performance Rights Scheme.
PSTN	means Public Switched Telephone Network.
Southern Cross	means Southern Cross Cables group of companies, which consists of two sister companies, Southern Cross Cables Holdings Limited and Pacific Carriage Holdings Limited and their subsidiaries.
SRAN	means Single Radio Access Network.
SRS	means Share Rights Scheme.
STI	means Short-Term Incentive, which is part of Spark Leadership Team and Managing Director remuneration.
TaaS	means Telecommunications-as-a-Service, which is a Government programme that delivers a range of cross-government telecommunications and managed security services.
TSR	means Total Shareholder Return and is a measure of share price appreciation and dividends paid over a given period.
UFB	means Ultra Fast Broadband.
WACC	means Weighted Average Cost of Capital.

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Acting company secretary

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For more information

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