



# Unleash.

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

**FY17 Environment, Social & Governance Report**

1 JULY 2016 - 30 JUNE 2017

# Long-term growth

# People & remuneration

# Community

# Environment

# Supplier code of conduct

# Governance

# Risk

This Environment, Social and Governance Report, which incorporates Spark's Corporate Governance Statement, was approved by the Board of Spark New Zealand Limited on 18 August 2017 and is accurate as at that date. The Board does not undertake any obligation to revise this Report to reflect events or circumstances after 18 August 2017 (other than in accordance with the continuous disclosure requirements of the applicable Listing Rules).

## Introduction

Spark aims to unleash the potential in all New Zealanders. To realise this ambition, we must be a good corporate citizen, which means doing the right thing by our people and customers.

We do this through:

- Focusing on long-term growth and business sustainability;
- Cultivating an inclusive workplace of diverse and engaged staff;
- Supporting Spark Foundation to encourage generosity and build a better future for New Zealanders;
- Enabling environmentally sustainable choices through ICT;
- Introducing a Supplier Code of Conduct and embedding this into supply chain management; and
- Applying best practice governance and risk management procedures.



# Welcome.

To realise our ambition to unleash the potential in all New Zealanders, we must be absolutely committed to the sustainability and wellbeing of our business and the wider community.

As we keep pace with the changes happening around us, we take a long-term view of how to stay truly useful to New Zealanders. Underpinning our strategy is sustainability, and that means doing the right thing by our customers, employees and communities.

As a digital services company operating in a digital world, we believe we can make a significant impact in the lives of New Zealanders. As a major employer and market leader, we're committed to keeping our people safe and enabling our customers to be sustainable, our partners to be ethical and our communities to thrive. We 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 unleash potential through digital learning;
- Enabling environmentally sustainable choices through ICT;
- Introducing our Supplier Code of Conduct and embedding it into supply chain management; and
- Applying best-practice governance and risk management procedures.

We believe not only in connecting people within the digital world but empowering them to do amazing things with technology. Spark is committed to making positive improvements in social, economic and environmental outcomes. In playing our part to help build a better world, we've noted relevant [United Nations Sustainable Development Goals](#) (SDGs) applicable to our sustainability programmes.



**Mark Verbiest** Chairman



**Simon Moutter** Managing Director

Handwritten signature of Mark Verbiest in black ink.

**Mark Verbiest**  
Chairman

Handwritten signature of Simon Moutter in black ink.

**Simon Moutter**  
Managing Director

18 August 2017



# Long-term growth

Committed to UN SDG goals:

9 INDUSTRY, INNOVATION  
AND INFRASTRUCTURE



11 SUSTAINABLE CITIES  
AND COMMUNITIES



# Long-term growth



Spark is committed to delivering consistent earnings growth, sustainable business performance and a rising dividend profile over the long term.

## Consistent earnings growth

Through revenue growth in Spark's core mobile and Cloud IT offerings, coupled with margin expansion via the further development of wireless broadband and the simplification and digitisation of its service experience, Spark believes it can achieve consistent growth in earnings. To reinforce this, Spark has made three big choices that will drive a further step-change in results:

- Spark will do even more to leverage the rapid advancements in wireless technology and the investment in its mobile network;
- Spark will aim to better serve price-sensitive customers by further developing its multi-brand strategy; and
- Spark will become the lowest cost operator through radically simplified and digitised processes, products and services.

Sustained growth and cost efficiencies in Spark's core services will also be complemented by selectively entering new high-growth markets to unlock additional revenue streams and business models. This acknowledges that Spark operates in a tough industry, where its customers demand access to the latest technology and digital products and services. Digital disruption continually puts pressure on existing revenue streams and new competitors challenge Spark for future revenue streams.

## Sustainable business performance

Spark has set its sights on being one of the world's leading companies with telecommunications roots through:

- Delivering outstanding customer experiences;
- Being New Zealand's lowest cost operator; and
- Holding overall market share and growing in key segments.

Spark is focused on delivering New Zealand's best wireless network to support its customers' ever-growing preferences for wireless connectivity. It is putting to work its superior re-engineered IT platforms to work to deliver outstanding digital customer experiences. It is also radically simplifying products and services through streamlined processes and digitally-enabled journeys.

Spark's multiple brands allow it to differentiate its products and services and create competitive advantage as it economically services those segments of the market that buy primarily on price. Spark's practices and actions will support a more sustainable industry structure which will allow the market to grow.

A commitment to being an environmentally aware, low-carbon business, with a strong culture of diverse and engaged talent, and maintaining a strong governance framework helps differentiate Spark's business from its competitors. It strengthens Spark's market position and aims to enhance investor confidence in the long-term sustainability of its business strategy.



**Earnings before interest, tax, depreciation and amortisation up**

# 3.0%

**FY17 earnings per share up**

# 12.9%

**Compound Average Total Shareholder Return:**

# 18.4%

**over the past three years**

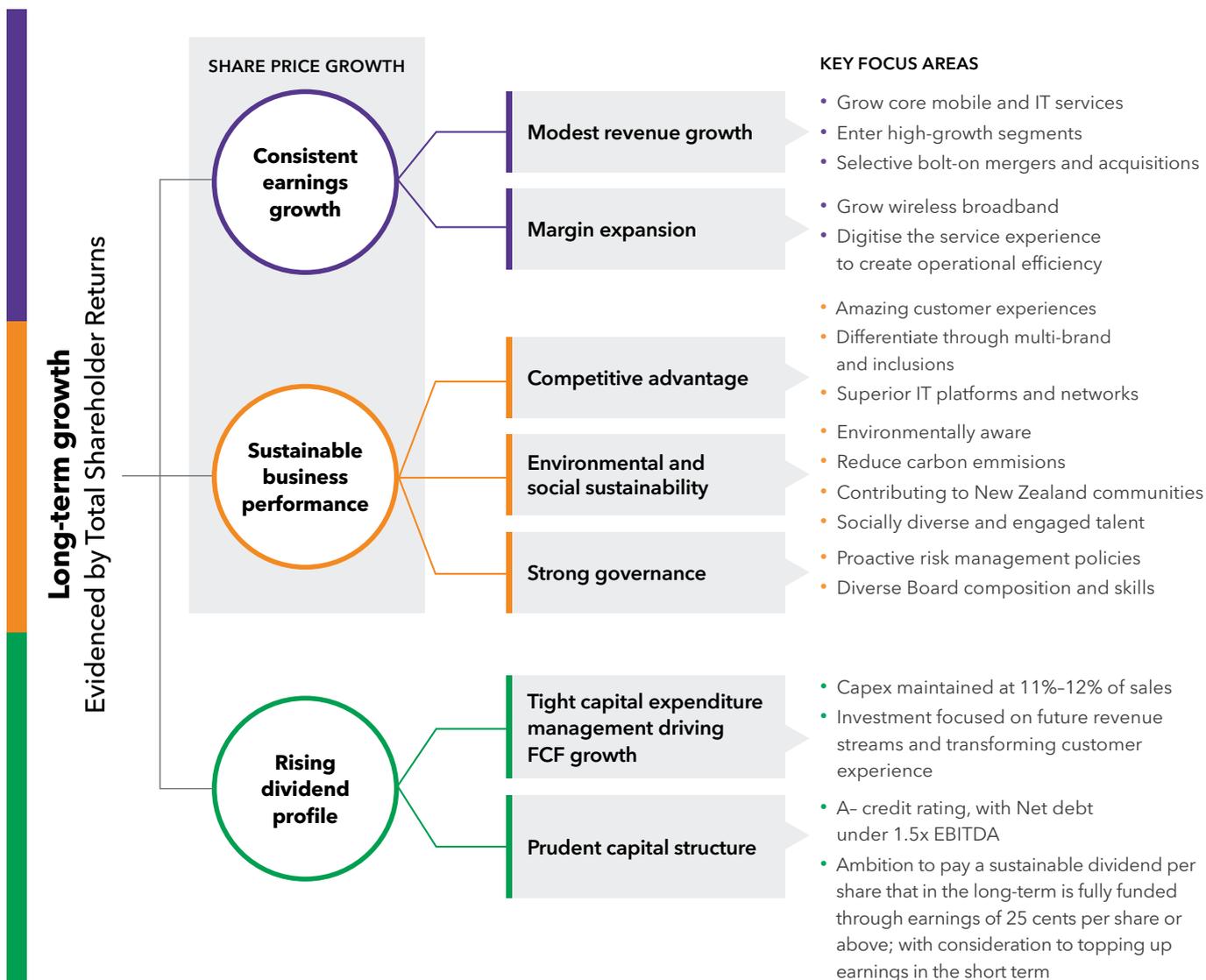


### Rising dividend profile

Spark’s distribution policy aims to deliver a rising dividend profile over the long term, in line with consistent growth in earnings. The policy 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.

Each of these areas are supported through Spark’s overarching focus on long-term and sustainable growth, as it continues on its path to be a winning business, inspired by customers to unleash the potential in all New Zealanders.

### SPARK’S MODEL FOR LONG-TERM GROWTH





# People & remuneration

Committed to UN SDG goals:



# People & remuneration



Spark actively invests in its people so that they can make more of a difference. Every day, Spark people help customers experience little victories in their lives and businesses.

Spark wants the best possible people doing great things for its customers and for New Zealand, so Spark remunerates them with competitive salaries, provides them with a wide range of benefits and uses performance incentives that include customer satisfaction as a key measure.

Spark has a powerful set of values that guide its decisions and the way it behaves. Spark invests in its talent - looking to develop their full potential quicker and bringing top talent through into leadership roles sooner rather than later.



## Our Values



### WE LISTEN

- We listen and hear our customers
- We understand their lives and business
- We act on what we hear



### WE'RE STRAIGHT UP

- We call a spade a spade - with respect
- We are jargon free, using the language of our customers
- We create value for our customers and for us
- We are up front and we front up



### WE GET STUCK IN

- We own and sort out things that need fixing
- We are brave and make it happen
- We make our time count and make a difference
- We all act like Spark is our own business and we spend wisely so we can do the cool stuff our customers want



### WE WIN TOGETHER

- We're open to new ideas
- We make it easy for others to be great
- We collaborate internally and compete externally
- We celebrate real achievement

# 3

**internal promotions to the Leadership Team**

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# 29%

**of Spark Leadership Team is female**



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

KEY GOALS	PERFORMANCE IN FY17	LONG-TERM GOALS AND ASPIRATIONS
<p><b>Create a diverse pipeline of leaders and employees, with a culture of inclusion</b></p>	<ul style="list-style-type: none"> <li>Increased female Directors from 17% to 38% of the total Board, including the Managing Director, as at 30 June 2017</li> <li>Proportion of females on the Managing Director's Leadership Team increased from 17% in FY16 to 29% in FY17</li> <li>Three internal promotions to the Spark Leadership Team</li> <li>An estimate of almost 50% of Spark employees and almost one-third of Spark people leaders identify as non-European</li> <li>Received 'Rainbow Tick' accreditation</li> <li>Introduced 'Voice of the Employee' (an online employee engagement and inclusion survey) and a digitally-enabled 'New Starter' App</li> </ul>	<ul style="list-style-type: none"> <li>&gt; 50% of Directors and leaders are female or non-New Zealand European</li> <li>&gt; 50% of people leaders are female or non-New Zealand European</li> <li>Diversity and inclusion programmes embedded in recruitment and promotion practices</li> </ul>
<p><b>Ensure Spark people are fairly remunerated and incentivised in ways that lead to better customer outcomes</b></p>	<ul style="list-style-type: none"> <li>Added medical insurance to our suite of employee benefits (including life and disability cover for all employees, career breaks, flexible summer hours and purchased leave)</li> <li>Progressed to 'Spark Pay' to ensure all Spark people are paid more than \$40,000 plus company benefits</li> <li>Embedded gender pay analytics into the annual remuneration review process</li> <li>Continued to link short-term incentive outcomes for senior managers to customer satisfaction measures</li> <li>Revised sales incentive to include customer satisfaction measures</li> </ul>	<ul style="list-style-type: none"> <li>100% of full-time equivalent employees have the opportunity to earn at least \$40,000 - the 'Spark Pay' minimum rate</li> <li>Customer satisfaction (measured through Net Promoter Score) is included in all performance measures and incentives</li> <li>Achieve 100% gender pay parity</li> </ul>
<p><b>Ensure Spark has the right skills at its Board and leadership teams for the digital future</b></p>	<ul style="list-style-type: none"> <li>Two new female Director appointments</li> <li>240+ senior leaders commenced Spark's enhanced leadership development programme</li> <li>700+ people leaders completed Spark's management fundamentals programme</li> </ul>	<ul style="list-style-type: none"> <li>&gt; 250 senior leaders completed Spark's enhanced leadership development programme</li> </ul>
<p><b>Provide a healthy and safe work environment for Spark people and those who work with the company</b></p>	<ul style="list-style-type: none"> <li>Retained ACC accreditation at tertiary level</li> <li>Zero major injuries or accidents</li> </ul>	<ul style="list-style-type: none"> <li>Zero major injuries or accidents</li> </ul>

Spark believes in building a culture where everyone has a high sense of belonging and is accepted, welcomed and valued.

### Diversity and inclusion

Spark believes in building a culture where everyone has a high sense of belonging and is accepted, welcomed and valued. As one of New Zealand's leading employers, Spark believes that if it can unleash the potential of its own employees, Spark can make a difference to its diverse customer base and the ever-changing make up of New Zealand.

Spark strives to be an inclusive company where everyone can bring their authentic selves to work. There are more than 60 nationalities across Spark's talented workforce and in FY17 it recognised and celebrated a number of events that embrace the diversity of Spark people including:

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

### Champions for Change

At Spark, diversity in leadership is encouraged at all levels of the organisation. The Board is committed to promoting women in leadership at Spark. Managing Director Simon Moutter and Chairman Mark Verbiest are both members of Champions for Change, a group of New Zealand leaders from across the public and private sectors who are committed to raising the value of diversity and inclusion within their organisations. By fully embracing the vision of Champions for Change, Spark will enjoy the benefits of unleashing the potential of all New Zealanders and creating:

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

### Women in leadership

This year Spark celebrated International Women's Day, inviting inspirational New Zealand women to speak at its major workplaces in Auckland, Hamilton, Wellington and Christchurch. Two graduates from the [Global Women Breakthrough Leadership](#) programme, General Counsel Melissa Anastasiou and General Manager Quantum Programme Hannah Walton, hosted the series, which was presented by successful female leaders, including nanotechnologist Dr Michelle Dickinson, fashion designer Annah Stretton and Director of Shared Services of the New Zealand Defence Force, Glenda Parata.



Lunar New Year celebrations at Spark City, Feb 2017



#### AWARDS

Claire Barber, #7 on CIO100 2017

Chief Digital Officer Dr Claire Barber is recognised as one of New Zealand's most innovative female ICT leaders. She was placed #7 on the CIO Top 100 list for 2017 and was the highest ranked female ICT leader in New Zealand.

# Visibility of women in leadership is encouraged through initiatives like EmpoweRED, a platform to unleash the potential of aspirational women at Spark.

Throughout the year, visibility of women in leadership is encouraged through initiatives like EmpoweRED, a platform to unleash the potential of aspirational women at Spark. The series is made up of TED-style talks and panel discussions where women and men at Spark can ask leaders the hard questions, as well as being opportunities for mentorship and networking. Speakers have included Leader of the Labour Party Jacinda Ardern and Spark leaders CEO Spark Digital Jolie Hodson, GM Marketing Clive Ormerod and Head of Consumer Performance Anna Davis.

## Pride

Spark is the first company in New Zealand's telecommunications sector to achieve the Rainbow Tick certification. Rainbow Tick is a continuous quality improvement programme designed to help an organisation ensure it is an inclusive workplace for people of diverse gender identity and sexual orientation. Spark fast-tracked its application process and achieved the accreditation in only 9 months - much faster than most other organisations. This followed the positive engagement that resulted from its first corporate entry in a Pride parade. There is more work to be done in this area but the achievement demonstrates the willingness of Spark people to create a strong culture of inclusiveness where it's easier for everyone to bring their whole selves to work.

Earlier this year Spark entered a corporate float in the 2017 Auckland Pride Parade with the support of 300 Spark people. The family-friendly affair saw Spark people celebrate the lesbian, gay, bisexual, transgender, queer and intersex community, bringing their children, partners and parents to join in. Themed 'Rio Carnival,' Spark's float paid tribute to the greater diversity of people at Spark and the importance of being inclusive.

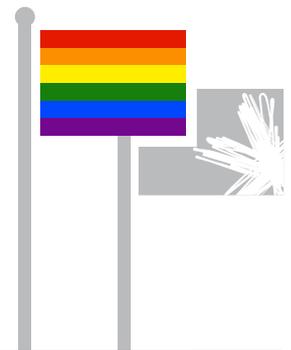
In Christchurch Spark people marked their first-ever Pride celebrations with a staff-initiated event 'Pipe for Pride,' which saw Spark people take on the physical challenge of walking up the Bridle Path on the Port Hills. The steep, uphill walk was a symbolic act of banding together.

## Health and safety

Spark is driven to guarantee that its people remain engaged and healthy. Health and safety of its people is key in Spark achieving its ambition of being a winning business which is inspired by customers to unleash the potential in all New Zealanders.

Health and safety remains at the core of Spark's values, purpose and strategy, underpinning everything Spark does. Spark maintains a strong commitment to a safe working environment by:

- Putting the health and safety of its people ahead of everything it does;
- Encouraging Spark leaders to lead by example, in all matters of health and safety, and be held accountable;
- Empowering Spark people to stop any work they feel is unsafe;
- Involving Spark people and key stakeholders in improving Spark's health and safety performance;



Spark entered its first corporate float in the 2017 Auckland Pride Parade

**RAINBOW TICK** 

Spark has recently developed and committed to a 12-month health and safety roadmap to lift its performance and capability and ensure the continuous improvement of its health and safety practices.

- Operating a health and safety programme that actively and pragmatically manages risk by priority;
- Setting clear objectives that challenge Spark's health and safety performance and striving to meet those goals;
- Providing training so that Spark people work to standards and equipping them with the tools they need to work safely;
- Encouraging timely and accurate reporting and recording of work events (hazards, incidents, injuries and near misses) and using these to learn and improve;
- Developing safe ways of working with identified fatal and critical risks and expecting Spark people to follow these;
- Aspiring to work to good practice standards and meeting compliance requirements under legislation and industry standards;
- Encouraging early and active rehabilitation and supporting the return to work of Spark people who have suffered injury or illness at work; and
- Working across the industry and partnering with other companies to move standards higher and leverage collective knowledge and tools.

Spark also sustains an emphasis on promoting health and safety leadership and the Leadership Team and Directors of Spark are committed to meeting their due diligence obligations by:

- Keeping up-to-date knowledge of work health and safety matters;
- Ensuring Spark is appropriately resourced and has processes to eliminate or minimise risks;
- Ensuring that Spark has systems to comply with its health and safety obligations;
- Understanding its operations and the hazards and risks of the business;
- Ensuring Spark has systems for receiving and considering information regarding incidents, hazards and risks and responds appropriately to that information; and
- Verifying that Spark is resourced and has processes and systems to manage health and safety and complies.

Spark has recently developed and committed to a 12-month health and safety roadmap to lift its performance and capability to ensure the continuous improvement of its health and safety practices. Integral to this plan is the implementation of a new health and safety information system that will help shape and monitor key performance health and safety indicators across the business. These key performance indicators will focus on Spark's strategic objectives, targets and managing critical hazards and risks.

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

# Remuneration

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

## Leadership Team remuneration

### Remuneration policy, strategy and governance

This section sets out Spark's remuneration policy and the principles that guide the way in which Spark designs and sets remuneration for all employees, including the Managing Director and Leadership Team. These principles are:

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

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

### PERFORMANCE EVALUATION

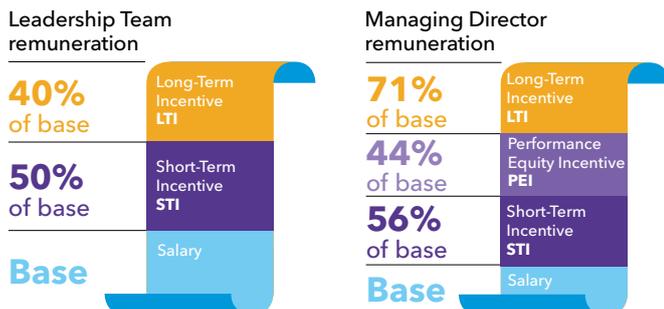
The HRCC annually reviews the performance of the Managing Director. The evaluation is undertaken using criteria set by the HRCC (and approved by the Board), including the performance of the business, the accomplishment of strategic and operational objectives and other non-quantitative objectives agreed at the beginning of each year. The last Managing Director evaluation was undertaken during August 2017 (in respect of the FY17 financial year).

The Managing Director annually reviews the performance of his direct reports. The evaluation is undertaken using criteria set by the Managing Director, including the performance of the business, the accomplishment of strategic and operational objectives and other non-quantitative objectives agreed with the HRCC at the beginning of each financial year. The last Leadership Team evaluations were undertaken during July 2017 (in respect of the FY17 financial year).

## Remuneration components

### REMUNERATION MIX

The graph below shows the FY17 remuneration mix for the Leadership Team (excluding the Chief Transformation Officer and Group HR Director roles) expressed as a percentage of Fixed Remuneration. The Short-Term Incentive (STI) scheme and Managing Director's Performance Equity Incentive (PEI), a deferred STI, are expressed at target, which is 50% of the maximum opportunity, and the Long-Term Incentive scheme (LTI) values represent the maximum LTI cash bonus.



### FIXED REMUNERATION

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

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

### SHORT-TERM INCENTIVE SCHEMES

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

For senior managers, including the Leadership Team, a component of their remuneration package is at risk in the form of an annual cash-based short-term incentive. Spark's STI scheme rewards senior managers for the achievement of annual performance objectives, with payments awarded from a fixed cash pool that is set based on overall Spark performance against financial and/or non-financial annual performance objectives. Eligibility to participate in the STI scheme is at the discretion of the company, and is targeted at individuals in senior roles who play a significant role in driving the overall performance of Spark. The FY17 performance objectives are set out in the 'FY17 remuneration outcomes' section.

The STI scheme rules contains a clawback provision that allows Spark to clawback any payments made under the STI scheme, for a period of 12 months following the payment,

in the event of a material financial misstatement or should it be found that the participant committed an act of fraud that affected the eligibility to, and amount of, the payment.

### LONG-TERM INCENTIVE SCHEMES

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

#### Spark Share Rights Scheme

Spark has operated a share rights scheme in the past, but no new grants have been made under this scheme since 2014. This scheme was developed for members of the Leadership Team whereby those participants were granted options to purchase shares in the parent company. The scheme has been discontinued and has been replaced by another long-term incentive. The share rights are nil-cost options, with no entitlement to dividends or voting rights, which can be exercised if a total shareholder return performance hurdle is met at the end of a three-year period. The scheme was running from 2012 to 2014, however, a number of options remain 'in-flight'. For the last tranche, the exercise date is September 2017 and the lapse date is 31 December 2017.

#### Spark Long-Term Incentive Scheme

In September 2015 members of the Leadership Team and selected senior managers acquired shares under the Spark Restricted Share Scheme (RSS) - introduced in FY16. The RSS delivers one scheme with the same set of rules under one long-term incentive. An interest-free employee share loan is provided by the company for the sole purpose of enabling the employee to acquire restricted shares in Spark - these shares being held in trust for a period of three years, after which, if the employee remains employed by Spark New Zealand Trading Limited, the company makes payment of a cash bonus to the employee that is used to pay off the remaining loan balance. The shares are unrestricted. Unvested shares are purchased from the employee and the proceeds are used to repay the employee share loan. A performance hurdle applies to all issues of restricted shares under the scheme, creating stronger shareholder alignment for all participants, and requiring a minimum level of performance for any value to be delivered to employees. Restricted shares carry full dividend entitlements but dividends are applied to repay the interest-free loan during the restrictive period. Participants are able to exercise any voting rights attached to the shares. The next issue of shares under this scheme is intended to be made in September 2017.

#### FY17 Long-term incentive performance measure

Vesting of the FY17 LTI grant (September 2016 grant) is contingent on: participants' continued employment with Spark through to September 2019; and the company achieving a Total Shareholder Return (TSR) performance hurdle. TSR is a measure of share price appreciation and dividends paid over the three-year period of the grant. The target for this hurdle is Spark's cost of equity plus one

percent compounding annually, with the exception of one-off exceptional grants issued in FY14 for which the hurdle is 2 times Spark's annual cost of equity compounding over three years.

#### **SPARK SHARE**

Spark established Spark Share, an employee share purchase scheme for eligible employees of Spark to buy and hold shares in Spark at a discount to the listing price. Spark Share has been approved by the Inland Revenue Department in accordance with sections DC 12 - 15 of the Income Tax Act 2007. Spark Share has a three-year vesting period on the shares purchased. Spark Share was open to eligible employees for its third year in FY17.

### **Managing Director's remuneration**

#### **Remuneration policy, strategy and governance**

The Managing Director's remuneration package reflects the scope and complexity of his role and is set by the Board with reference to the remuneration of managing directors of similarly sized organisations. For FY17 the Managing Director's remuneration package comprised of a fixed cash component, an at-risk short-term incentive (to be awarded under the terms of the Managing Director Annual Performance Incentive Scheme), an at-risk equity incentive (to be awarded under the Managing Director Performance Equity Scheme) and an at-risk long-term incentive (to be awarded under the Managing Director's Long-Term Incentive Scheme). The construct of the Managing Director's remuneration package is such that 63% of his remuneration package is at risk.

The Annual Report details the remuneration paid to the Managing Director, Mr Simon Moutter, for FY17, including short and long-term incentive outcomes.

#### **Remuneration components**

##### **MANAGING DIRECTOR ANNUAL PERFORMANCE INCENTIVE SCHEME**

The Managing Director is eligible for an annual cash-based short-term incentive, subject to the achievement of specific performance objectives set by the Board based on Spark's strategy and business plan for the respective financial year. These objectives will be a combination of financial and non-financial measures, including corporate governance, reputation and effective leadership and management of the company. The Board will assess the Managing Director's performance at the end of the financial year to determine the actual payment value of his short-term incentive, which will be in the range of 0% to 175% of his target value. For FY17, the Managing Director's performance objectives related to earnings before interest, income tax, depreciation and amortisation (EBITDA) and our measure of customer satisfaction - market Net Promoter Score (mNPS).

##### **MANAGING DIRECTOR PERFORMANCE EQUITY SCHEME**

In addition to the cash-based short-term incentive scheme, the Managing Director is also eligible for an award of redeemable shares under the Managing Director Performance Equity Scheme. This scheme essentially acts as a deferred incentive scheme - the value of the award is linked to the same performance objectives as apply to the

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

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

##### **MANAGING DIRECTOR'S LONG-TERM INCENTIVE SCHEME**

For FY17 the Managing Director's annual long-term incentive was granted as restricted shares under the Managing Director's Long-Term Incentive Scheme - the scheme established and first granted in FY16.

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

##### **MANAGING DIRECTOR PERFORMANCE RIGHTS SCHEME**

The Managing Director's Performance Rights Scheme preceded the Managing Director's current restricted share scheme. It operated as a share rights scheme and remains 'in-flight' and subject to performance hurdles. Each share right was granted for no cash consideration and provides the right to acquire one ordinary share in Spark for no cash consideration (that is, each share right has a nil exercise price). At grant the Board set the period after which the share rights are eligible to vest (that is, become exercisable). Each share right, upon exercise by the Managing Director, converts to one ordinary share. At the Board's discretion, a cash amount equivalent to the value of the shares can be paid instead.

##### **PERFORMANCE HURDLE**

A performance hurdle applies to all long-term incentives made to the Managing Director, including the existing 'in-flight' Managing Director Performance Rights Scheme, and the current Managing Director's Long-Term Incentive Scheme.

This hurdle is agreed by the Board and sets a minimum level of performance that is required to be achieved over the

period of each grant of share rights and restricted shares, for the Managing Director to be eligible to exercise some, or all, of those share rights and restricted shares. For the share rights granted in FY15, and the restricted shares granted in FY16 and FY17, a performance hurdle of Spark's TSR applies. The target for this hurdle is Spark's cost of equity plus 1% compounding annually, with the exception of one-off exceptional grants issued in FY14 for which the hurdle is 2 times Spark's annual cost of equity compounding over three years.

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

### Managing Director's termination

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

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

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

#### TREATMENT OF MANAGING DIRECTOR LONG-TERM INCENTIVES IN THE EVENT OF TERMINATION

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

##### Performance Equity Incentive Scheme

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

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

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

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

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

#### Managing Director Long-Term Incentive Scheme and Performance Rights Scheme

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

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

Share rights that have vested continue to be exercisable after termination of the Managing Director's employment for any reason for a period of three months, after which they lapse.

#### Leadership certainty - good leaver provisions

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

#### PERFORMANCE EQUITY SCHEME AND LONG-TERM INCENTIVE SCHEME

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

awards will be treated under 'good leaver' circumstances and will remain until the original vesting date as set out in the Performance Equity Incentive Scheme and Long-Term Incentive Scheme offer letters. The Performance Equity Incentive and Long-Term Incentive awards for 2019 will not, however, be granted.

## FY17 remuneration outcomes

### FY17 Short-term incentive scheme outcomes

Spark's overall performance dictated the size of the 'funding pool' for STI with the targets comprising of EBITDA and market Net Promoter Score (our measure of customer satisfaction).

The FY17 group performance outcome, as approved by the Board, for determining the size of the overall funding pool is summarised as follows:

Performance metric	%	Outcome	Result
Group EBITDA	50%	Target almost achieved	46.4%
Market Net Promoter Score (mNPS)	50%	Target almost achieved	33.0%
Board discretion for business unit overperformance			10.6%
<b>Total</b>			<b>90%</b>

The total available funding pool for all eligible STI participants across Spark for FY17 was \$12.3 million. The STI outcomes for the Managing Director, Chief Financial Officer, Chief Transformation Officer and Group HR Director were based on the overall Spark targets and performance results, ie. 90%.

The pool is allocated amongst the business units based on performance against the following FY17 targets:

- EBITDA; and
- A number of business unit-specific financial (EBITDA), customer or programme delivery measures.

This allocation resulted in a range of outcomes for the Leadership Team between 90% and 120% of their target STI.

Additional disclosure in relation to the Managing Director's FY17 STI scheme outcome and FY17 LTI vesting outcomes is included in the company's Annual Report.

## Looking forward to FY18

Key changes:

### Remuneration mix

- No changes are proposed to the Managing Director's package - it will be held at the FY17 target value and reward mix. The reward mix for the Leadership Team will also be retained.

### FY18 STI scheme

- The mechanics of the FY18 STI will be similar to FY17 - Group results will be the main determinate of the STI pool and business unit results and individual target STI values may also be taken into account in calculating the overall STI pool and allocation of it to each business unit. The FY18 Group measures will be a combination of

EBITDA and mNPS as in FY17. A substantive change in FY18 is that the whole Leadership Team will be measured against Group targets only (in FY17 only Group roles shared the Group targets). The purpose of this change is to incentivise the Leadership Team to work towards shared objectives and promote greater collaboration.

### FY18 equity-based incentive scheme

- No changes are proposed to the LTI scheme - in September 2017 the company will offer eligible employees restricted shares and vesting will be conditional on service and TSR hurdles, as in FY16 and FY17.

## Non-executive director remuneration

### Remuneration

As detailed in our Annual Report the fees payable to non-executive directors during FY17 were:

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

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

<sup>2</sup> Member fees were payable for each committee.

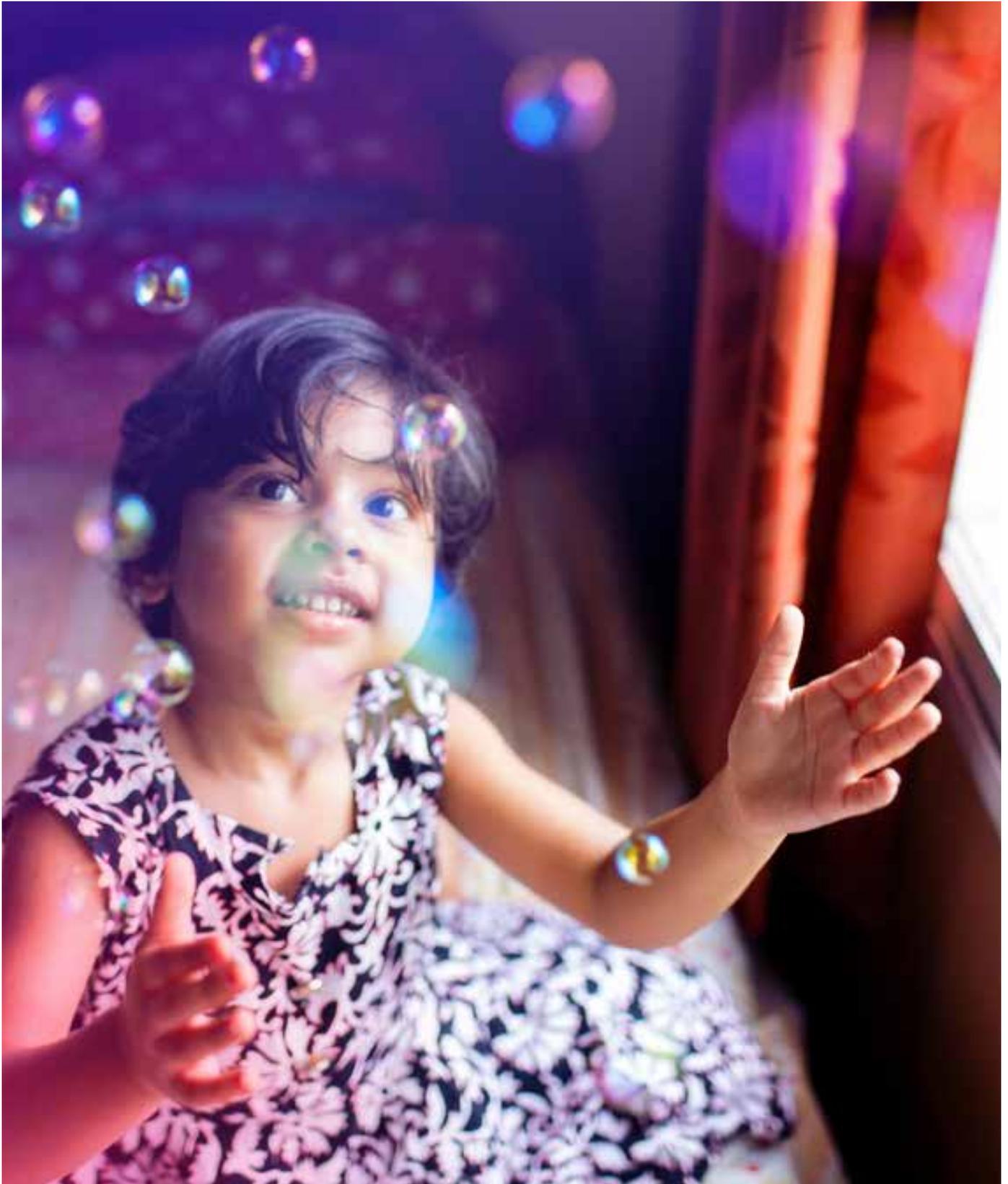
### Remuneration and strategy

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

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

### Remuneration components

Excluding the Managing Director, no superannuation or retirement allowance was paid to any Spark Director during FY17. Spark does not have service contracts with any Director (apart from the Managing Director) that provide for any benefits or remuneration in the event that a Director's service with Spark is terminated. From FY17 New Zealand-based non-executive Directors are eligible for Spark-funded medical insurance.



# Community

Committed to UN SDG goals:

4 QUALITY EDUCATION



10 REDUCED INEQUALITIES



# Community



Spark believes it has a big part to play in creating a better New Zealand. Spark’s community initiatives are targeted around education, as it seeks to ensure all young New Zealanders have the opportunity to unleash their potential and thrive in a digital economy future. Spark also uses digital technology to power a more generous society through Givealittle, New Zealand’s crowdfunding platform for social good. Spark’s activities combine the talent and passion of its people, together with corporate programmes and the work of Spark Foundation, a registered charity funded by Spark and governed independently by a board of trustees.

## Unleashing potential through learning

Spark’s education-focused community initiatives are encouraging New Zealand children to make the right choices about their learning, bridging the digital divide in low income communities and helping school leavers prepare to transition into the 21st century workforce.

### Spark Jump

Education is becoming increasingly digital-centric for both teachers and students. As classroom learning goes digital, students without broadband at home are at risk of being left behind. After a successful pilot in FY16, this year Spark launched a new initiative to help ensure children are not disadvantaged in their learning due to a lack of broadband at home. Spark Jump enables more school-aged children to go online outside of classroom hours and get on the right side of the digital divide administered by the Spark Foundation. Spark Jump offers subsidised broadband to families with school-aged children who cannot afford commercial broadband products. During FY17 the Foundation sent 1,125 modems to 19 community partners, expanding the programme around the country. Community partners select families for the programmes based on the eligibility criteria set by the Spark Foundation and the intent to support education and manage their broadband connections. Spark Jump aims to enable more New Zealanders to be active participants in the digital world.



**STRENGTHENED FOCUS ON SUPPORT FOR EDUCATION WITH SPARK JUMP**

**\$18m**

**in donations raised on Givealittle in FY17**

**572**

**schools and charitable organisations received payroll giving donations in FY17**

**\$832k**

**donated via Spark Give in FY17**

**1,292**

**volunteer days donated in FY17**





**11,000**  
**students are now learning via the Manaiakalani approach**

### Manaiakalani Education Trust

With technology increasingly an essential part of today’s learning, Spark Foundation is a major funding partner of the Manaiakalani Education Trust to bring digital learning to low-income communities. The programme transforms teaching and learning methods, significantly improving educational achievement for the students of participating schools. In FY17 Spark Foundation invested \$500,000 in the Manaiakalani programme, the bulk of which was directed to an Outreach programme spreading the methodology from its base in Tamaki, east Auckland to other school clusters around New Zealand. The success of the Outreach means 11,000 students are now learning via the Manaiakalani approach. Spark Foundation also sponsored the Manaiakalani Innovative Teachers initiative that supports Manaiakalani teachers who are introducing forward-thinking, digitally-enabled initiatives in their classrooms to accelerate students’ learning. Over one academic year, each Innovative Teacher develops a teaching inquiry that outlines a professional goal and the steps required to achieve it. Spark people also volunteer to buddy up with teachers and provide extra support as part of the teachers’ professional development.

### Network 4 Learning

Spark is also enabling digital education inside the school gate through Network for Learning (N4L). Nearly 800,000 New Zealand students and their teachers across more than 2,400 schools are now using the Spark-managed network to enhance their learning. The roll out of N4L, one of the largest technology implementations into New Zealand schools was completed in December 2016. The network, which has been up and running since February 2015, supported its biggest ever month in November 2016 with more than 645 million websites in that month blocked with N4L’s web filtering tools, keeping New Zealand students safe on the web.

### Schools Project

As a significant employer in many fields of expertise, Spark aims to help young New Zealanders become more attractive to prospective employers as they prepare to enter the workforce and address an important issue for New Zealand: a youth unemployment rate three times higher than for other age groups. Spark visited schools and presented a series of modules to teach students how to develop key skills and attributes employers are looking for, how to present themselves in a job interview and how to think better about career choices. The programme is led by Spark’s Human Resources team and involves Spark people from across the company visiting schools as volunteers to share their insights and advice. During FY17 Spark reached hundreds of high school students across the country including Dilworth School, Edgewater College, Feilding High School, Tamatea High School, Kelston Girls’ College and St Paul’s College.



### Spark Jump

Performance in FY17

**1,125**

**modems distributed to community partners**

Target for FY18

**5,000**

**modems distributed to community partners**

Spark wants New Zealand children to share its passion for technology to help shape their thinking about the jobs of tomorrow.

### Mind Lab Kids

As a business, Spark's ambition is to unleash the potential in all New Zealanders through amazing technology - and that starts with the youngest people. In FY17 Spark partnered with The Mind Lab by Unitec, to launch MindLabKids.com - a free web and mobile-based portal where children can access specially created and curated video content on science and technology. Aimed at children aged 5-12, [MindLabKids.com](http://MindLabKids.com) is a free online portal where children can create their own tech and science projects at home, making tech education accessible throughout the country.

### OMG Tech!

Spark wants to share its passion for technology with New Zealand children to help shape their thinking about the jobs of tomorrow. In FY17 Spark was a major financial supporter of OMG Tech!, a not-for-profit education initiative to open up the world of technology to young students and get them excited about studying STEM subjects (science, technology, engineering and mathematics).

### Other education initiatives

Spark also supports a range of other education focused initiatives by partnering with national not-for-profits. These include:

- First Foundation, with Spark funding the university education of 4 talented students from disadvantaged backgrounds along with paid work experience during holidays and mentoring;
- NZTech, with women at Spark hosting high school students during a ShadowTech Day to encourage the next generation of women to pursue careers in technology;
- The Lion Foundation Young Enterprise Scheme, with Spark people being business mentors to high school students during the Entrepreneurs in Action business competition weekends; and
- Springboard Trust with Spark people providing mentoring to school principals.

## 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](http://Givealittle), New Zealand's crowdfunding platform for social good. Hundreds of thousands of New Zealanders use the site to help fellow New Zealanders in need and give financial support to the causes they feel passionate about, with 78% of New Zealanders aware of Givealittle. In FY17 Givealittle causes raised a total of \$18 million in donations and reached a milestone of \$70 million in donations since the platform launched in 2008.

### Givealittle

Performance in FY17

**\$18m**

in annual donations

Also achieved in FY17

**\$70m**

in cumulative donations

During FY17 Spark Give donations totalled \$832,250, 2.7% higher than the previous year's \$810,000.

### Spark Volunteer and Spark Give

Spark employees have continued to participate in volunteering and payroll giving programmes, which allow them to generously donate time or funds to causes of their choice. Spark Foundation has a network of more than 100 Ambassadors who support staff engagement in these programmes across Spark.

In FY17 participation in the volunteering programme reached 24% (from 28% in the previous year) and 1,292 days of employee time were gifted, with a value of \$387,600. Spark Give, the payroll giving programme, enables Spark people to donate to New Zealand schools and registered charities of their choice, directly from their pay, and Spark Foundation will match on the first \$500 of giving each year. In FY17 donations made up of employee giving and matched donations from Spark totalled \$832,250, 2.7% higher than the previous year's \$810,000 and was distributed to 572 organisations. Since Spark Give launched in 2011, almost \$5 million in cumulative donations has been gifted to 938 New Zealand schools and registered charities.

### Disaster Relief

Spark believes in using its core services to do the right thing in times of need. Spark provides support to customers who were impacted by local and international disasters. In FY17 Spark offered communication support following:

- Italy Earthquake Aug 2016
  - Free calls and texts to Italy
- Kaikoura Earthquake Nov 2016
  - Free use of nationwide Wi-Fi network with more than 1000 Wi-Fi zones around the country
  - Moving and termination fees waived for residents of Kaikoura affected by earthquakes
- Edgecumbe Flooding April 2017
  - Free use of local Wi-Fi network and payphone network
  - Auto-diversion from landline to mobile services and 20GB of mobile data provided
  - Wireless broadband to residents waiting for copper network fixes

### Short Shorts

During the warmer summer months, Spark people banded together to raise money for New Zealand children. The Short Shorts campaign was an effort to support the Child Cancer Foundation and a fun excuse for Spark people to strut their favourite pair of shorts around the office. Staff across our nationwide centres, including all our offices and stores, took up the challenge of Short Shorts Day, raising \$9,000 for New Zealand children.



### Spark Volunteer

Target for FY17

**30%**  
of permanent and fixed-term Spark people

Performance in FY17

**24%**

Target for FY18

**30%**

### Spark Give

Target for FY17

**20%**  
of Spark people

Performance in FY17

**17%**

Target for FY18

**20%**

New Zealand's leading business thinkers and technologists also speak at Spark Lab events which are often livestreamed to reach an even wider audience.

### One Spark One Wish

As part of initiatives to encourage a unified sense of purpose throughout Spark, Spark people from across the country nominated their favourite charity or community group to receive a financial contribution from Spark to help them unleash their potential via the One Spark One Wish campaign, in a truly useful way. In total \$54,000 was gifted to 24 community groups dear to the hearts of Spark people, helping to make a real difference. The community grants went to a range of organisations, such as the Wellington United Junior Football Club, which gave six former refugee children the opportunity to play football this year.

### Unleashing potential through strong communities

#### Spark Lab

Spark inspires New Zealand businesses to unleash their potential with technology. One of the ways this happens is through Spark Lab, a multi-platform thought leadership programme designed to give New Zealand business people the support and resources to achieve their goals. The programme provides customers and non-customers alike with videos, articles, events, and digital business tools through [sparklab.co.nz](http://sparklab.co.nz) delivered by key leaders, such as former New Zealander of the Year Sir Ray Avery, Eat My Lunch CEO Lisa King, and Nanogirl Dr Michelle Dickinson. New Zealand's leading business thinkers and technologists also speak at Spark Lab events which are often livestreamed to reach an even wider audience. In FY17 the event series travelled around New Zealand so that more people could benefit from them. Spark Lab also facilitates a burgeoning [Facebook community group](#) where almost 3,000 business owners share ideas and advice.

#### WeChat

With over 200 ethnicities and 160 different languages now spoken in New Zealand, it's important that Spark connects with our diverse population. Increasing Spark's presence in the Auckland market is a key priority and the Chinese population is the fastest growing in New Zealand's biggest city. In FY17 Spark joined WeChat, becoming the first telecommunications company in New Zealand to have a verified account on the Chinese social networking platform. WeChat is an app created by Chinese company Tencent, which has 800 million users globally and more than 200,000 in New Zealand. The Spark WeChat account is dual-lingual, meaning both English and Chinese speakers can securely access key information like store locations, product and service information and business support.

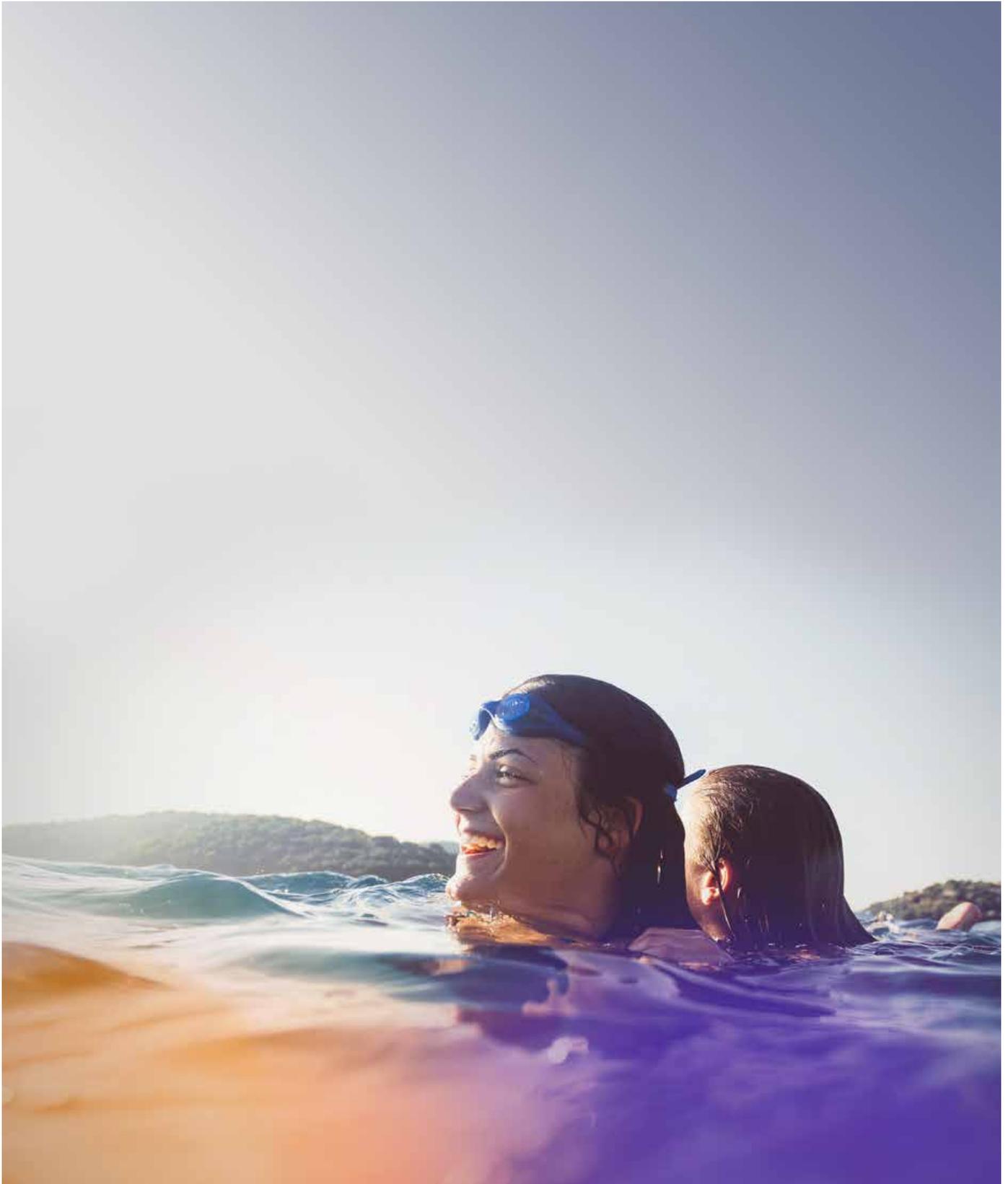


How Business can have  
a Social Change - Lisa King

WATCH [sparklab.co.nz](http://sparklab.co.nz)



Spark Lab, a multi-platform thought leadership programme designed to give New Zealand business people the support and resources to help achieve their goals.



# Environment

Committed to UN SDG goals:



# Environment



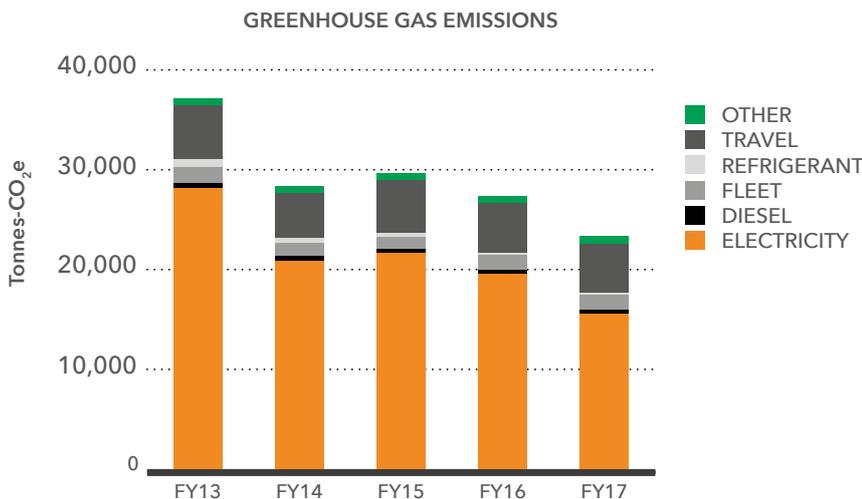
Environmental sustainability is key when it comes to Spark driving innovation in New Zealand. Spark believes that sustainable business practices mean greater competitive advantage in the long term. With a low-carbon future in mind, Spark is working to reduce its emissions by 25% by 2025 from FY16 levels. The target, which was set last year, formalises Spark’s existing commitment to environmental responsibility and recognises how passionate New Zealanders are about a clean, green environment.

## Leading sustainable operations

### Carbon target for 2025

Last year Spark set an ambition to reduce carbon emissions by 25% by 2025 from FY16 levels. In FY17 Spark reduced emissions by 15% owing largely to a more renewable electricity supply. This level of performance in the first year gives us confidence that Spark can achieve the goal. Spark began measuring its carbon emissions in FY06 and since then, has achieved on-going reductions at world-class rates. Spark is endeavouring to embed these improvements for sustainability.

### Reduction in greenhouse gas emissions



Spark’s annual greenhouse gas (GHG) emissions continue a downward trend. Spark’s emissions have more than halved in the past decade, around twice the rate required by science-based targets.



**15%**

**Decrease in annual greenhouse gas emissions in FY17**

**Spark has an ambition to reduce emissions by**

**25%**

**by 2025 from FY16 levels**

**33,263**

**mobile phones recycled in FY17 through the RE:MOBILE programme benefiting charity partner Sustainable Coastlines**



The table below shows FY17 emissions compared with the prior year.

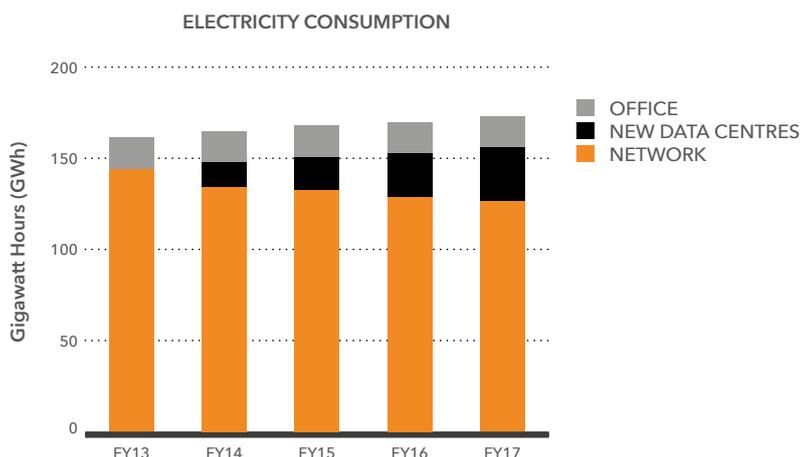
Kilotonnes-CO <sub>2</sub> -equivalents	FY17	FY16	FY17/FY16 INCREASE/ (DECREASE)
Direct & Electricity Emissions (Scope 1 & 2)	15	19	(20%)
Value Chain Emissions (Scope 3)	9	9	(2%)
<b>Total Emissions</b>	<b>24</b>	<b>28</b>	<b>(15%)</b>

In FY17 annual GHG emissions were 15% lower than in the prior year owing primarily to a reduction in electricity emissions. Spark’s largest emission source is electricity, and this combined with direct emissions (including the vehicle fleet, diesel for backup generators, natural gas, and refrigerant) reduced by 20% this year. Included in this was higher fuel consumption and related emissions following the acquisition of Computer Concepts Limited (CCL), which increased the size of the vehicle fleet. Air travel is the largest indirect Scope 3 emission source in the value chain and travel emissions decreased by 2% in FY17 as there was less international and trans-Tasman travel.

Electricity accounts for two-thirds of Spark’s emissions. Spark sources electricity from the national grid and New Zealand has one of the least carbon intensive electricity grids in the world. The grid’s carbon intensity is improving and this year it was 85% renewable. New Zealand is well on the way to meeting its renewable electricity target of 90% by 2025. The greening of the grid is driving our emissions down.

With greener electricity, Spark’s electricity emissions decreased by 20% this year even though power consumption increased 2%. The increase was due to 23% growth in electricity consumption for our data centres. The graph below shows how Spark has managed to constrain the overall growth in power through various energy efficiency initiatives. Network electricity is reducing, and these reductions help embed carbon emission reductions into the future.

With greener electricity, Spark’s electricity emissions decreased by 20% this year even though power consumption increased 2%. The increase was due to 23% growth in electricity consumption for our data centres.



## Spark aims to reduce the impact of unwanted mobile phones by encouraging customers and employees to recycle handsets.

Spark continually invests in energy efficiency improvements which reduce electricity consumption. These investments will be critical in achieving our 2025 carbon reduction target. Spark closely manages the technology lifecycle; deploying new technologies, replacing equipment and retiring end-of-life legacy equipment. The expansion of Spark's services, such as data centre, mobile and fibre services, drives electricity consumption up.

Offsetting these increases and to manage overall consumption and costs, Spark has a range of initiatives planned and underway to reduce electricity and related emissions. These include: smart metering, new network cooling technologies, free-cooling for mobile towers, roll-out of Single Radio Access Network (SRAN) tower upgrades, installing more efficient batteries operable at higher temperatures, removing redundant equipment from network exchange buildings, and rationalising office space. This year Spark announced the Converged Communications Network (CCN), a five year programme that involves decommissioning the Public Switched Telephone Network (PSTN). By year-end Spark had already consolidated and decommissioned 22 exchanges.

### Carbon offsets

Since FY12 Spark volunteers have planted 12,860 native trees to help restore Motuihe Island in Auckland. Although carbon is sequestered in these trees, the carbon offsets generated have not been quantified. Over the lifetime of the trees planted, carbon offsets achieved may be material to Spark's carbon footprint.

### Network recycling

Spark's waste management strategy proactively manages and coordinates removal and recycling in an efficient and cost-effective manner. The programme utilises a concept of four "R" priorities: recovering, reusing, reselling and recycling. The waste management strategy ensures standardised waste stream processes, transparency in waste recovery activities, adoption of best practice sourcing and compliance with New Zealand's current and future waste legislation. Waste is allocated into different waste streams including mobile phones, printed circuit boards copper cables, lead batteries and all types of metals. After sorting, they are processed appropriately with some components exported overseas for reselling, recycling or reusing. About three to four containers of equipment are sold offshore each year. In FY17 Spark announced that the ageing PSTN would be decommissioned and replaced by a next-generation IP-based network. The migration is expected to provide 1,366 tonnes of materials for recycling over the next 6 years.

### Network recycling

Target for FY17

**\$390k**

in revenue

Performance in FY17

**\$370k**

Target for FY18

**\$360k**

## Building design

Spark announced that it will lease a new high-profile 5000 sqm office in Christchurch overlooking Cathedral Square. The building is set to be completed in July 2019 and will help relocate around 450 people who are currently spread across four locations as a result of the 2011 earthquake. The purpose-built facility comes with a base isolation system to protect people should there be an earthquake and displays key sustainability technologies including:

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

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

## Enabling sustainability in New Zealand

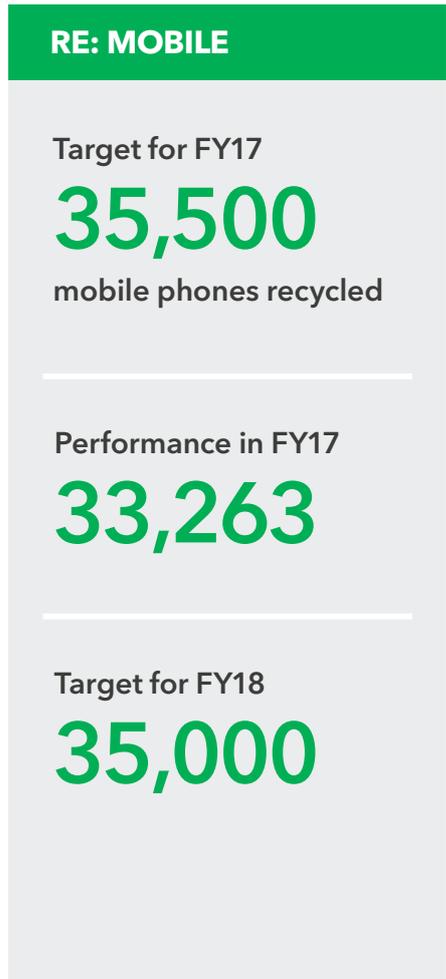
Spark enables people and businesses to be more sustainable every day. Through digital services, Spark reduces the need for travel and transport and increases productivity and communication, helping to reduce emissions. Spark is committed to providing energy and carbon efficient IT solutions for customers through the Cloud. By providing a more sustainable alternative to on-premise data servers, Spark enables customers to significantly cut down on their energy consumption. Spark works towards a more sustainable future by supporting Spark people and customers to better manage New Zealand’s resources.

## RE: MOBILE

Unwanted mobile handsets, especially those directed to landfill, can have undesirable environmental outcomes. 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 FY17, 33,263 mobile phones were recycled through the RE:MOBILE programme. Spark’s Recycling Stations accept mobile phones, chargers, home phones, modems and tablets.

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

Working collectively with other telecommunications providers who also participate in the RE:MOBILE scheme, Spark works to meet the programme’s targets and ensure its success. Continuing to grow the awareness of RE:MOBILE through internal and external promotion will be a focus for FY18.



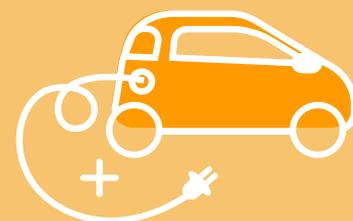
### Energy-efficient vehicles

Smart transport plays a key part in sustainability and during FY17 Spark continued to roll out the Spark Plugs electric vehicle charging programme to more areas around New Zealand. Spark Plugs utilises lower-voltage chargers to provide people with a 'top-up' to their range, up to 40km off a single 30 minute charge, depending on the car. In addition to the four plugs rolled out during the trial in FY16, this year Spark partnered with Kapiti Coast District Council and Wellington City Council to roll out more plugs. Four phone boxes in Kapiti have been fitted with chargers, with more planned for Wellington City during FY18. The Spark Plugs charging stations extends the work Spark has done to convert more than 1,000 phone boxes into Wi-Fi hot spots.

Thirty of New Zealand's largest companies, including Spark, have committed to at least 30% of their corporate fleets being electric by 2019. Spark is endeavouring to shift to electric vehicles, starting with corporate pool cars with the view to expand to the entire fleet. Of Spark's corporate pool, 2 are electric vehicles (EV), 14 are hybrid and 35 are equipped with stop/start hybrid technology, bringing energy-efficient cars to 58% of the fleet.

### Smart Bikes

With a number of city councils reviewing public transport options, Spark is giving low-carbon biking some 'street smarts'. Back in 2014, Spark began supporting the bike-share scheme of Christchurch entrepreneur Rob Henderson which has taken another leap with the introduction of new technology. Two brand new "smart bikes" from Germany were introduced in FY17 which have been purpose-built to integrate with Christchurch City's Metrocard. They have been equipped with an on-board computer on the back, along with a mobile data connection and GPS. As well as being a more convenient way to use the bikes, the technology helps cement the bikes as a viable public transport option. The two smart bikes are currently being trialled by the Christchurch City Council as a public transport of the future.



### Energy-efficient vehicles

Target for FY17

**40%**

of corporate pool comprised of hybrid vehicles

Performance in FY17

**58%**

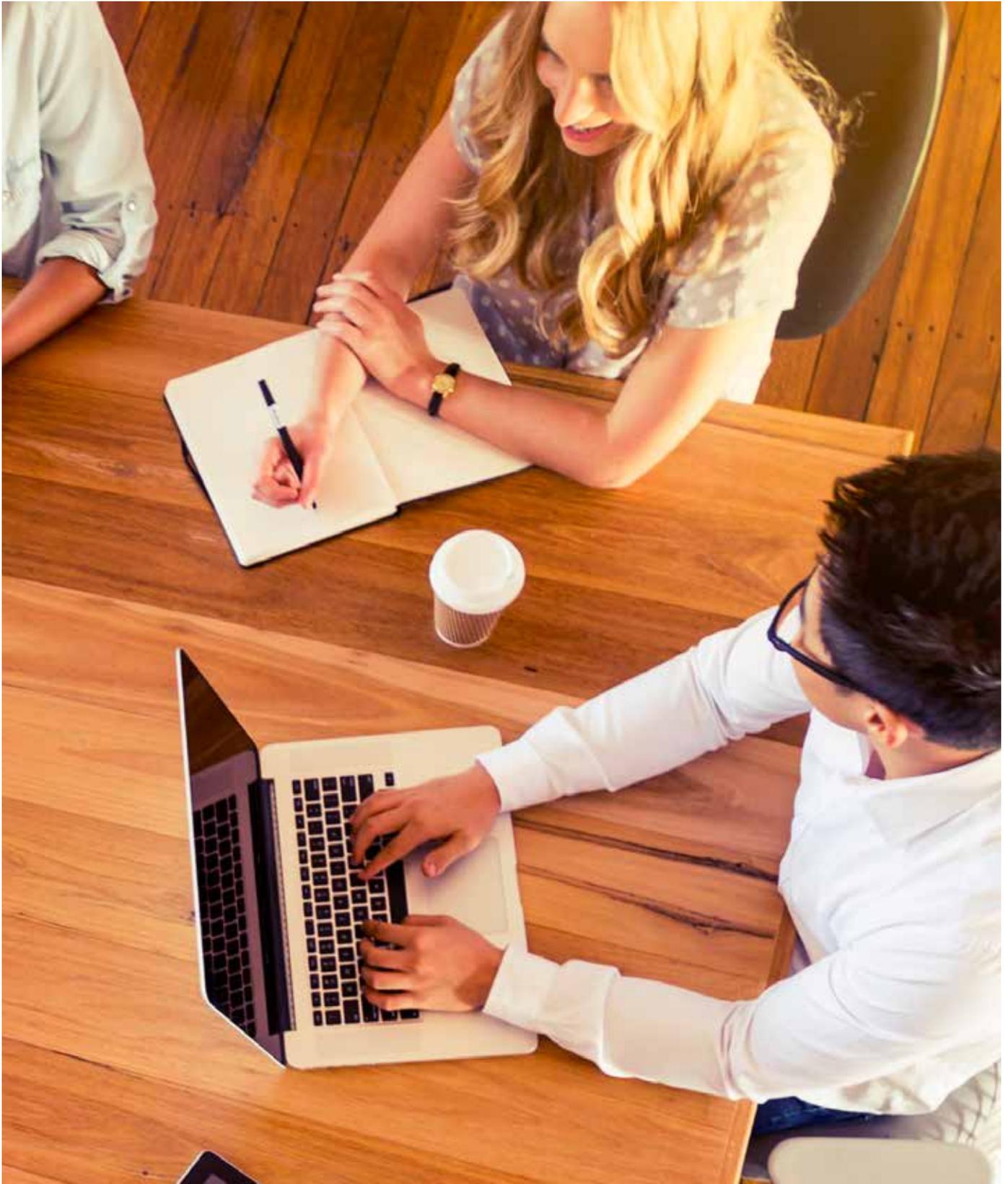
of corporate pool comprised of hybrid vehicles

Ambition:

**30%**

of fleet electric by 2019

Spark is endeavouring to shift to electric vehicles, starting with corporate pool cars with the view to expand to the entire fleet.



# Supplier code of conduct

Committed to UN SDG goals:



# Supplier code of conduct



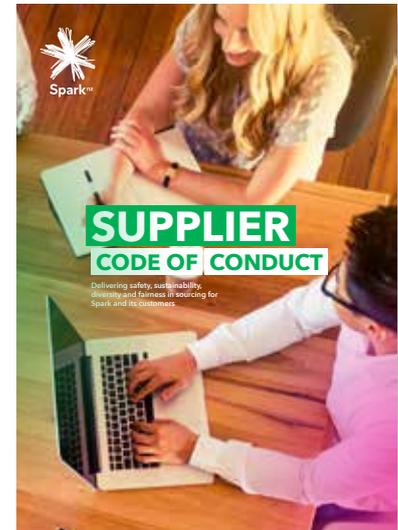
Spark is committed to being ethically, environmentally and socially responsible and believes in engaging with like-minded businesses. This year Spark formalised its Supplier Code of Conduct, which will be implemented in FY18 as a way to ensure sustainability through its supply chain. All suppliers who provide products or services to Spark are expected to meet or exceed standards set out in this code.

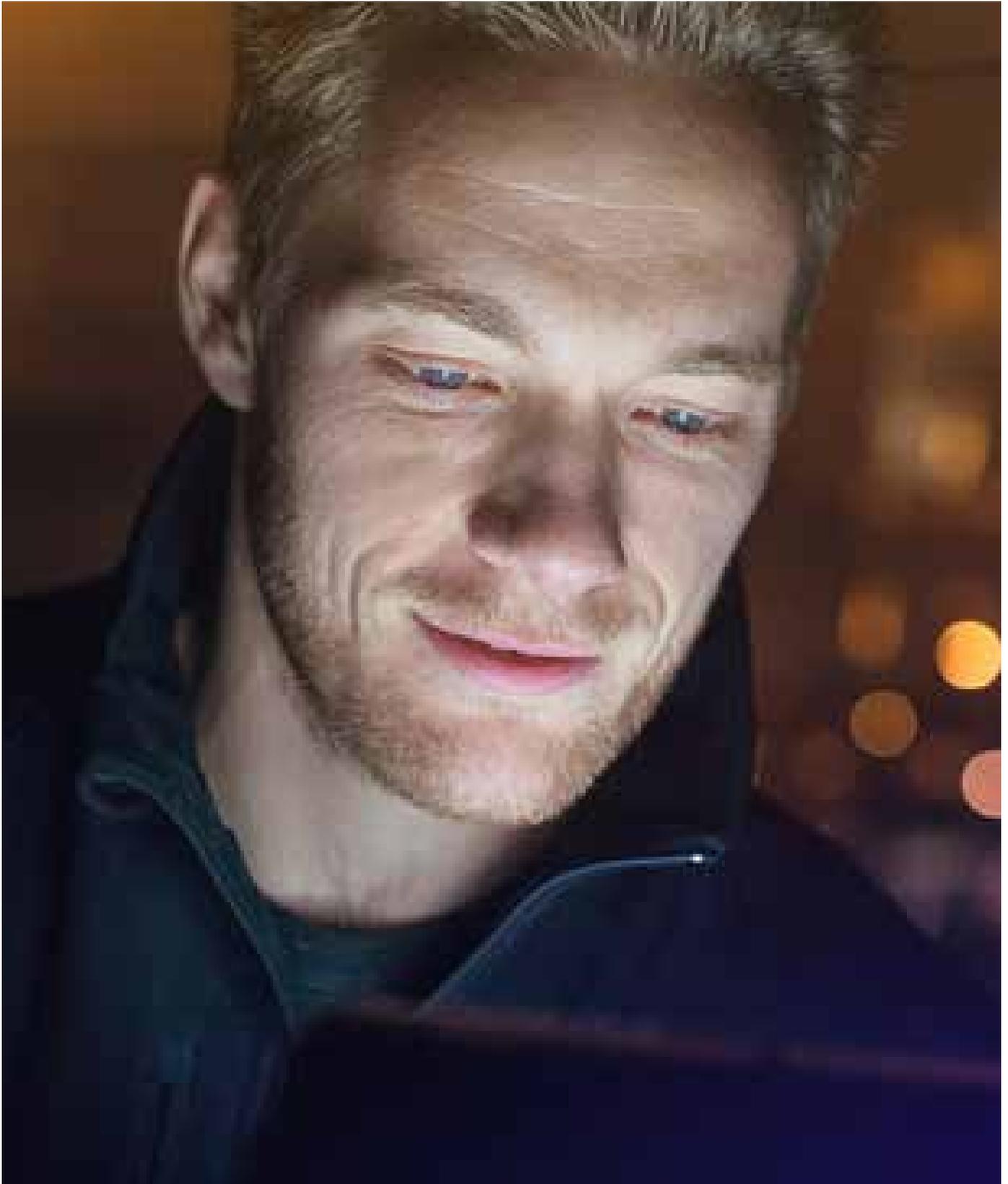
## The standards cover:

- Labour and human rights;
- Health and safety;
- Environmental sustainability; and
- Ethical business practice.

The full Supplier Code of Conduct can be found on the Spark website at the following address:

<http://bit.ly/SparkSupplier>





# Governance

Committed to UN SDG goals:



# Governance



**Alison Gerry** Non-executive Director



**DIVERSE BOARD WITH  
STRATEGIC FOCUS**

**38%**

**of Board is female**

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

The Board recognises that building diversity across Spark is critical for delivering enhanced business performance, including building diversity of thought within the Board and its various sub-committees. As illustrated by the Board skills matrix later in this section, the Board has an appropriate mix of skills, diversity and experience to be ambitious and deliver on those ambitions, enabling Spark to tackle the challenges and opportunities of the digital era.

## The Board - committees, Directors and skills

### Role of the Board

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

The Board of Directors is elected by shareholders to protect and enhance the value of the assets of Spark in the interests of Spark and 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. The Managing Director has, in some cases, formally delegated certain authorities to his direct reports and has established a formal delegated authority framework that sub-delegates certain authorities within set limits.

More information regarding the respective roles and responsibilities of the Board and management is set out in the Board Charter, which can be found at: [www.sparknz.co.nz/about/governance](http://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 the 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 the Recommendations of the NZX Corporate Governance Code for part of the FY17 reporting period after it was published by NZX on 10 May 2017;
- Voluntary reporting on Environment, Social and Governance matters generally; and
- Spark's inclusion in the FTSE4Good Index.

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



The Board is responsible for the approval of appropriate corporate strategies with particular regard to portfolio composition and return expectations. It is also engaged actively and continuously in:

- Strategic planning, including Spark's strategic transformation from a Telco to a digital services provider; and
- The ongoing assessment of business opportunities and risks.

## Board Meetings

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

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

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

## Board committees

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

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

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

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

**Justine Smyth** Non-executive Director



COMMITTEE CHARTERS:  
[www.sparknz.co.nz/about/governance](http://www.sparknz.co.nz/about/governance)

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

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

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

### Chair

The Chair is elected by the Board from the non-executive Directors. The Board supports the separation of the roles of Chair and Managing Director. The Chair's role is to manage and provide leadership to the Board and to facilitate the Board's interface with the Managing Director. The current Chair, Mark Verbiest, has indicated that he intends to retire from the Board at the 2017 Annual Meeting and the Board has decided to appoint Justine Smyth to succeed Mr Verbiest as the new Chair. Both Mr Verbiest and Ms Smyth are non-executive Directors and, as required by the Board Charter, are independent. For their director biographies, see [www.sparknz.co.nz/about](http://www.sparknz.co.nz/about). The Board does not have a Deputy Chair.

### Company Secretary

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

**Mark Verbiest** Chairman



BOARD PROFILES:  
[www.sparknz.co.nz/about](http://www.sparknz.co.nz/about)

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

## Board access to advice

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

## Director independence

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

At its 17 August 2017 Board meeting, the Board resolved, based on information provided by Directors regarding their interests, that each non-executive Director on the Board at 30 June 2017, and at the date of the meeting, was independent.

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

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

## Board diversity and skillset

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

The Board skills matrix on the following page outlines the qualifications, geographical location, tenure and gender of each member of the Board. For further details of individual Directors see [www.sparknz.co.nz/about](http://www.sparknz.co.nz/about)

The Board recognises that building diversity across Spark is critical for delivering enhanced business performance, including building diversity of thought within the Board.

**Alison Barrass** Non-executive Director



BOARD PROFILES:  
[www.sparknz.co.nz/about](http://www.sparknz.co.nz/about)

## Board skills matrix

	Mark Verbiest	Justine Smyth	Ido Leffler	Charles Sitch	Paul Berriman	Alison Gerry	Alison Barrass	Simon Moutter
<b>Qualifications</b>	LLB	BCom, FCA	BBS	MBA, LLB, BCom	MBA, BSc, CEng	BMS (HONS), MAppFin	BSc, Political Science, Dip Bus, Marketing	ME, BE (HONS), BSc
<b>Spark-specific Skills</b>								
Telco Experience	●			●	●			●
Retailing and Marketing		●	●	●			●	●
Digital/Technology/ Innovation	●		●		●			●
Operations	●	●	●	●	●	●	●	●
<b>Generic Skills</b>								
Executive Leadership and Strategy	●	●	●	●	●		●	●
Governance	●	●		●		●	●	
Financial		●		●		●		
Risk and Compliance	●	●			●	●		
Legal and Regulation	●	●		●	●			●
People	●	●	●		●	●	●	●
Capital Markets	●	●				●		●
<b>Geographical location</b>	NZ	NZ	Australia	Australia	Hong Kong	NZ	NZ	NZ
<b>Tenure years</b>	<b>5.7</b>	<b>5.7</b>	<b>3</b>	<b>5.7</b>	<b>5.7</b>	<b>1</b>	<b>&lt;1</b>	<b>5</b>
Date of appointment	1 December 2011	1 December 2011	9 June 2014	1 December 2011	1 December 2011	1 July 2016	1 September 2016	13 August 2012
Date last (re-)elected	2014 Annual Meeting	2016 Annual Meeting	2016 Annual Meeting	2015 Annual Meeting	2015 Annual Meeting	2016 Annual Meeting	2016 Annual Meeting	2016 Annual Meeting
<b>Gender</b>	<b>M</b>	<b>F</b>	<b>M</b>	<b>M</b>	<b>M</b>	<b>F</b>	<b>F</b>	<b>M</b>

## NOMs, Director nomination and appointment

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

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

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

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

- Makes recommendations to the Board as to its size;
- Regularly reviews the criteria for the selection of Directors and recommends to the Board any necessary alterations;

**Charles Sitch** Non-executive Director



- Recommends appropriate candidates to the Board based on the criteria set out in the Board Charter; and
- Ensures that potential candidates understand the role of the Board and the time commitment involved when acting as a member of the Board.

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

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

### Terms of appointment

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

### Director induction and education

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

### Succession

The NOMs is also responsible for reviewing Board succession planning including active involvement in succession planning for the Chair.

To this end the Board has decided to appoint Justine Smyth to succeed Mark Verbiest as the new Chair following his retirement from the Board at the 2017 Annual Meeting. Ms Smyth has extensive governance experience, including as the Chair of the ARMC and the Chair of the HRCC.

There is an ongoing Board succession programme, which is focused on finding new Directors with relevant skills and experience that complement the diverse perspectives already represented around the table. This programme identified two new Directors to join the Spark Board in the past financial year. Alison Gerry joined the Board from 1 July 2016 and Alison Barrass joined the Board from 1 September 2016.

Ms Gerry has extensive governance experience and more than 20 years' experience working for corporates and financial institutions in Auckland, Sydney, Hong Kong and London in trading, finance and risk roles.

Ms Barrass has a background in marketing-led innovation and brand development and considerable experience in the fast-moving consumer goods sector and in governance and leadership.

### Board and committee performance

The Board regularly discusses governance and performance issues and annually reviews its own performance as a whole against the Board Charter and each committee's performance against its charter. Further, Board evaluations are undertaken annually to seek Director and Leadership Team feedback on a range of matters relating to Board performance, including its role and composition and

Paul Berriman Non-executive Director



The Board expects all Directors to undertake continuous education so that they may appropriately and effectively perform their duties.

engagement with management, shareholders and stakeholders. The collective results of the evaluation are then reported to the Board by the Chair and discussed individually with Directors. The Board evaluation survey for FY17 was undertaken during August 2017.

## Risk Management and reporting

### ARMC and external audit independence

The ARMC is responsible for the appointment of Spark's external auditor and their terms of engagement. KPMG was automatically re-appointed as Spark's auditor for the upcoming year at Spark's annual meeting in November 2016. Shareholders also approved the Board setting the remuneration of the auditor at the annual meeting in November 2016. The committee regularly meets with the external auditor without management being present and meets management without the external auditor being present. Committee members may contact the external auditor directly at any time.

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

Under Spark's External Audit Independence Policy, the ARMC must pre-approve all audit (including all statutory and regulatory audit services) and related assurance services provided by the auditor. The ARMC has delegated pre-approval authority to the committee Chair up to an agreed limit. All services approved by the committee Chair are reported to the ARMC on a quarterly basis. All audit and audit-related assurance services for the past financial year were approved in accordance with Spark's policy. The External Audit Independence Policy requires rotation of audit partners every five years and places restrictions on an audit partner or audit manager being employed by Spark in another role and on the external auditor employing Spark's Managing Director, Chief Financial Officer (CFO), GM Financial Control or any other member of Spark management who has acted in a financial oversight role (which includes the Managing Director, CFO, GM Financial Control, GM Finance and Performance and the Heads of Finance for various business units). The policy prohibits the auditor from providing certain specified services and is designed to ensure that related assurance services provided by Spark's auditor are not perceived as conflicting with the independent role of the auditor.

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

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

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

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

**Ido Leffler** Non-executive Director



READ POLICY:

[www.sparknz.co.nz/about/governance](http://www.sparknz.co.nz/about/governance)

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

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

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

The External Audit Independence Policy can be found at: [www.sparknz.co.nz/about/governance](http://www.sparknz.co.nz/about/governance). It is a requirement of the ARMC charter that the committee annually assesses and confirms to the Board the independence of the external auditor after consideration of the External Audit Independence Policy criteria. This includes assessing whether the independence of the external audit process has been maintained in light of the performance of any other assurance services. The ARMC undertook this assessment at its meeting in August 2017 and confirmed to the Board that it had complied in all respects with the External Audit Independence Policy and that the committee was satisfied as to the external auditor's (KPMG's) independence. As part of this assessment, KPMG confirmed in writing that it has complied with all aspects of the External Audit Independence Policy.

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

## ARMC and risk management

The ARMC is also responsible for ensuring that management has established a risk management framework, including policies and procedures that effectively identify, treat and monitor principal business risks. The Board of Director's Managing Risk Policy mandates the design and operation of Spark's risk management framework. The Policy requires Spark's business and corporate groups to:

- Identify risks relating to the achievement of their business objectives;
- Assess those risks and determine whether they are acceptable under existing controls or whether additional treatment is required;
- Respond appropriately to the risks, based on that assessment; and
- Monitor and report on their status including their management.

The Managing Risk Policy is reinforced by other Spark policies that combine to provide a framework for the management of specific pan-Spark risks. These arise from a combination of the company's business direction and the environments it operates in. For example, to manage financial risks around treasury transactions, the Board has approved principles and policies that specify who may authorise transactions and segregates the duties of those carrying them out.

Management regularly reports to the Board on the effectiveness of Spark's management of its material business risks. Risk management takes place in the context of normal business processes.

**Simon Moutter** Managing Director



The ARMC reviews management's principal risk profile quarterly. It also receives reports on the effectiveness of the implementation of the policies and processes designed to manage risk. Internal Audit provides the ARMC with quarterly reporting summarising the findings from its reviews. These test the effectiveness of the design and operation of key controls managing Spark's principal and other risks. The committee regularly reports the information it receives to the Board.

Spark's risk management framework ensures that risks affecting its business are systematically identified, assessed, managed and reported. It is implemented through top-down governance processes, such as risk profiling and reporting, business planning, technology architecture and roadmap development, investment management and business performance management. It is also integrated into bottom-up management activities, such as programme and project management, opportunity evaluation, procurement and supplier management and day-to-day operations.

### Annual review of risk management framework

Spark conducts an annual assessment of the effectiveness of its risk management systems. The findings from this review are reported to the Managing Director and CFO. The review for FY17 found that Spark's risk management system operated effectively and efficiently in all material respects. The scope of this review included risk management governance arrangements, the management of risk in core areas such as technology, business strategy, planning and performance, financial management and external reporting, customers and markets, climate risk, regulation and industry and investment.

### Internal audit

Spark has an Internal Audit group. The internal audit charter defines the group's objectives, scope, independence, responsibilities and authority. Their primary objective is to assist the Board and Managing Director to exercise good governance by providing independent assurance on Spark's control and risk management processes. The ARMC approves the appointment and replacement of Spark's Audit Officer who leads the Group Risk and Audit team. The Audit Officer reports directly to the Board through the Chair of the ARMC. Internal Audit is independent from the activities and operations it audits, including risk management systems, and has unrestricted access to Spark's records and employees. Internal Audit regularly performs audits across Spark business units. It works to an internal audit plan that outlines the audit and risk engagements it intends to complete over the plan year. The ARMC approves this plan and ensures that the internal audit group is appropriately staffed and that its scope of work is appropriate for the key risks facing Spark.

### External reporting assurance

In the interests of best practice corporate governance, Spark requires that its Managing Director and CFO make an annual declaration in relation to Spark's financial statements in accordance with Recommendation 4.2 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition). Recommendation 4.2 provides that the board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively. Prior to approving Spark's financial statements, the Board receives such a declaration from the Managing Director and CFO.



READ POLICY:  
[www.sparknz.co.nz/about/governance](http://www.sparknz.co.nz/about/governance)

## Policies and procedures

### Spark policies

Spark has a number of core internal policies and procedures, including:

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

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

### Code of Ethics

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

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

The Code of Ethics covers:

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

Spark employees are responsible for ensuring that Spark carries out its business activities in a way that maximises business opportunities, has due regard to all applicable legal and regulatory requirements and minimises Spark's exposure to unacceptable legal and regulatory risk. Managers are responsible for making sure that Spark people are given appropriate information and training to assist them in complying with legal, regulatory and policy compliance obligations. The Spark Compliance and Privacy Team supports employees and managers in these roles by providing comprehensive compliance frameworks, tools, training and advice which

Spark employees are responsible for ensuring that Spark carries out its business activities in a way that maximises business opportunities, has due regard to all applicable legal and regulatory requirements and minimises Spark's exposure to unacceptable legal and regulatory risk.



CODE OF ETHICS:  
[www.sparknz.co.nz/about/governance](http://www.sparknz.co.nz/about/governance)

includes provision of online, interactive training modules. An online training module designed to regularly refresh employee knowledge of the Code of Ethics is currently being developed.

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

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

## Market disclosure

Spark's Disclosure Policy governs communications with shareholders and other stakeholders. Spark is committed to providing comprehensive continuous disclosure to shareholders and other stakeholders and complying with the applicable Listing Rules. A copy of the Disclosure Policy can be found at: [www.sparknz.co.nz/about/governance](http://www.sparknz.co.nz/about/governance).

Spark requires appropriate senior people (for example, the Managing Director, CFO, Company Secretary and the Disclosure Officer) and, in some cases, the Chair, to discuss whether information is material prior to its release.

Spark has an appointed Disclosure Officer who, together with the Company Secretary, is responsible for ensuring that all material information is lodged promptly and without delay with the NZX and ASX. The Disclosure Officer ensures that such information is published on Spark's website where appropriate, with further dissemination through broadcast emails to news agencies and other market commentators. Disclosure practices are monitored by the Disclosure Officer. Spark has also appointed certain Leadership Team members as authorised spokespeople who are required to ensure that all proposed public comments contain information already in the public domain or information that is not materially price sensitive. Management is responsible for ensuring compliance with the Disclosure Policy.

## Trading in Spark securities

Directors and employees are subject to restrictions under the law relating to trading in Spark securities and other related Spark derivatives if they are in possession of inside information. Inside information is information in respect of which a person is an information insider of Spark. An information insider is a very broad term that captures any person that has material information that is not generally available to the market; and knows or ought to reasonably know the information is material information and not generally available to the market. Information is material information if it is information a reasonable person would expect, if it were generally available to the market, to have a material effect on the price of Spark securities; and relates to a particular financial product or particular listed issuer, rather than to financial products or listed issuers generally. To help ensure compliance with these legal requirements, the Insider Trading Policy specifies that no Director or Spark employee may buy or sell Spark shares while in possession of inside information. The policy also states that Directors and Spark employees in possession of inside information cannot directly or indirectly advise or encourage any person to trade in Spark shares. The policy sets out additional rules for Directors, Leadership Team members, direct reports to the Leadership Team and certain other Spark employees and includes the requirement to seek company consent before trading and mandatory trading black-out periods. Compliance with the Insider Trading Policy is monitored through the consent process and by education and notification by Spark's share registrar when any Director or senior manager engages in trading activities. Any breach of the Insider Trading Policy would be regarded very seriously. In addition, as required by the Financial Markets Conduct Act 2013, all trading by Directors and senior managers is reported to NZX.

Spark has an appointed Disclosure Officer who, together with the Company Secretary, is responsible for ensuring that all material information is lodged promptly and without delay with the NZX and ASX.

## Investor relations

Spark's investor relations programme includes:

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

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

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

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

Further information for investors is also available at [investors.sparknz.co.nz](http://investors.sparknz.co.nz) or by contacting the Investor Relations Team at [investor-info@spark.co.nz](mailto:investor-info@spark.co.nz).

## HRCC and Diversity Policy

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

## Takeover Response Guidelines

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

## Shareholder rights

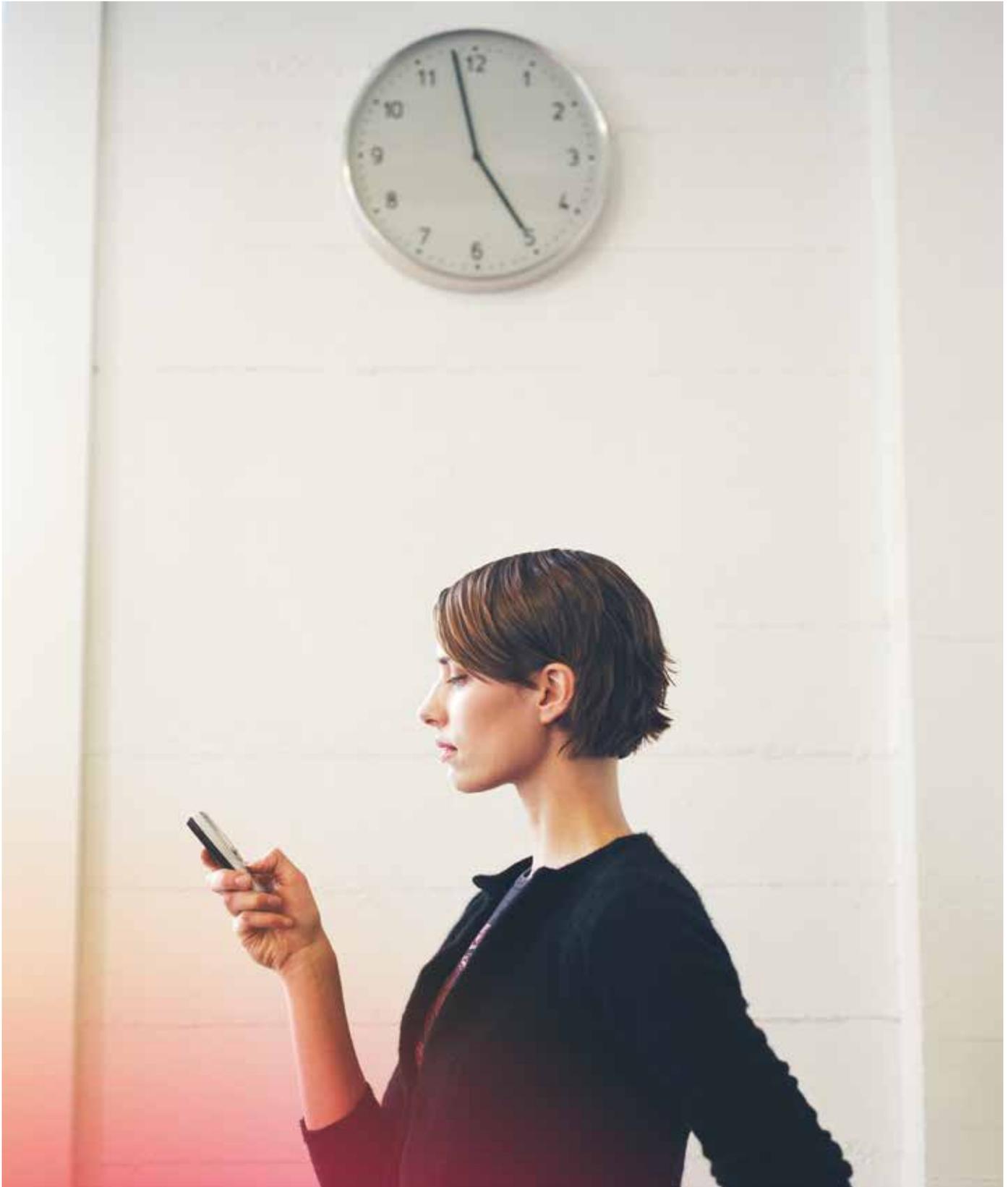
Spark is committed to ensuring that each shareholder that invests in Spark has the right to vote on major decisions that may change the nature of the company. All of Spark's shareholders have the right to one vote per share.

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

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



DEDICATED INVESTOR SITE:  
[investors.sparknz.co.nz](http://investors.sparknz.co.nz)



# Risk

Committed to UN SDG goals:



# Risk



## Why does Spark manage risk?

Spark helps to unleash the potential in all New Zealanders by offering its customers the best data network and digital services capability. To achieve this, Spark must successfully execute its business strategies and plans, while maintaining high standards of operational performance. Strong corporate governance, including a highly effective and integrated risk management framework helps Spark to successfully manage the risks associated with operating in a complex and challenging environment.

## An overview of Spark's Risk Management framework

Spark's risk management framework exists to improve its underlying business performance and strengthen its corporate governance. It comprises an integrated set of responsibilities spanning our Board of Directors, Leadership Team, Line Managers and Group Functions.

These are implemented through Spark's policies and guidelines, organisational design, operating procedures and individual accountabilities. Specialist support groups and monitoring and reporting processes underpin its operation.

The system is mandated by the Audit and Risk Management Committee's (ARMC) Managing Risk Policy. The Policy defines the options available to management to manage risks.

## Spark's Managing Risk Policy

Spark's policy combines two leading practice approaches to maximise the effectiveness of its risk management implementation.

The first of these is a 'lines of defence' type risk management approach. It defines and embeds risk management responsibilities across a range of control spans within the company. It recognises the primacy of Leadership Team governance and line management implementation of business plan objectives as leading organisational risk mitigants.

See Table One on page 51 for more detail on responsibilities by group.

Its second approach is an implementation of the risk management standard, ISO 31000. The policy refers to this as formal risk management. It involves Spark's Leadership Team identifying, analysing, mitigating and reporting Spark's principal business performance risks. A quarterly cadence enables Spark to dynamically adjust its business strategies and plan implementation to optimise business performance under volatile market conditions. It also improves transparency of Spark's material risks and their mitigation for the Board.



**Spark's new business planning and plan execution processes improve business performance in competitive markets.**

**In FY17 Spark migrated fixed broadband customers onto wireless broadband to improve service quality and experience.**



Line management also uses formal risk management approaches, where appropriate. Examples include preparing for major technology releases, during annual and longer-term business planning and in business performance management. Spark also operates other standards-based compliance risk and IT security regimes as a condition of its large customer contracts.

Further risk management guidance is provided by other behavioural and functional policies that provide direction for the management of specific risks.

Two examples include:

- Diversity and Inclusion Policy which recognises that attracting, recruiting, developing and retaining diverse and talented individuals. This helps Spark to enhance customer experiences and business performance; and
- Market Disclosure Policy which describes the arrangements that ensures Spark provides timely and credible information to the market.

### **How Spark measures the effectiveness of its Risk Management system's operation**

Spark's Audit and Risk Management Committee is responsible for exercising due care, diligence and skill in relation to Spark's risk management framework and for monitoring compliance with that framework.

To fulfil this responsibility, it relies on sources of information such as:

- The Managing Director and CFO's annual assertion report describing the processes and capabilities relied on to evidence that a sound system of risk management, internal control and compliance exists that implements the policies adopted by the Board; and
- A structured, quarterly ARMC meeting schedule comprising:
  1. A standing agenda containing the risk, internal audit and fraud updates, the operational report, CFO's external reporting update and the treasury compliance and directors' certificates; and
  2. Oversight of the findings from a series of long-term reviews. These have review cycles ranging between annual to five yearly. Examples of these reviews include the cyber security assessment, tax strategy, fraud risk assessment, risk management framework and internal audit practices.

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

### CUSTOMER EXPERIENCE

If Spark is unable to offer its customers the standard of customer care they expect, Spark risks churn to competitors, reducing revenues and gross margins. Spark has three major initiatives under way to uplift customer service quality.

These involve:

1. Simplifying product and service portfolios;
2. Introducing new digitised propositions (self-service); and
3. Moving customers onto mobile and fibre networks to improve service performance and reliability.

### MOBILE

Intensifying competition may further proliferate value-destructive market offers. These commoditise New Zealand's mobile markets and put pressure on margins. Spark is re-balancing its multi-brand strategy to allow it to compete more effectively in price-sensitive markets. Business simplification and digitisation programmes reduce our operating costs. This allows it to meet market pricing trends while still investing in the mobile spectrum and network technology necessary for network leadership. The Net Promoter Score (NPS) system allows Spark to measure brand strength and match services to customer preferences.

### BROADBAND

Spark's market scale and margins may be eroded by aggressive competition from other providers operating in a largely commoditised market. To preserve scale and margin, Spark is better leveraging all of its brands, so it can succeed in price-sensitive markets. Spark is also migrating many customers onto fibre and wireless access technologies, to improve customer experience and service economics.

### IT SERVICES

Spark Digital's ability to improve IT services delivery and margin is critical to achieving sustainable earnings. Simplifying its product and solution portfolios, service propositions and implementing the new Spark Digital game plan, positions the company to better achieve these aims. Digital is also implementing its Cloud Wise strategy which adapts its Cloud businesses for future earnings growth. Its customer outcomes teams continue to maintain their strong focus on service delivery improvement and financial performance.

### FIXED MARGIN DECLINE

Spark's earnings performance is becoming less sensitive to declining demand for legacy fixed network products despite their higher margins. In 2016 the combined earnings from its mobile and IT businesses were higher than from fixed voice for the first time. With broadband, Spark is migrating many of its fixed customers off legacy copper onto fibre and wireless access technologies to realise similar benefits.

### TECHNOLOGY PERFORMANCE (NETWORK AND IT)

Spark operates large integrated networks and IT platforms. Service incidents with these that impact customers damage Spark's reputation and reduce its ability to attract and retain customers. Spark continues to heavily invest in new mobile and fixed network platforms to improve customer experience, service resilience, capacity and network economics.

#### LOWEST COST OPERATOR

Spark may be unable to adjust its operating costs in pace with falling prices associated with the commoditisation of its key markets. Any delta between these may impair its earnings potential.

Accelerating technology change shortens product lifecycles and pressures technology platform investment choices.

Recognising that benefits available from tactical cost out initiatives are reducing, Spark is simplifying its market products and offers. This enables it to rationalise the technology and people resources required to support these. Simpler products supported by digital self-serve channels trim operating costs and improve business efficiency.

#### MONETISING INCREMENTAL BROADBAND DATA GROWTH

Unlimited broadband offers and price-led competition may prevent economically sustainable operation of Spark's network assets. To avoid this, Spark continues to invest in technology that lowers the per unit cost of data carriage. These investments include building out the Optical Transport and Carrier Ethernet networks, and the core and edge mobile networks. Once completed, the Converged Communications Network will integrate voice, data and media traffic over all access mediums at lower costs than the legacy platforms.

#### 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 'three lines of defence' security operating model and uses its privacy compliance framework to keep networks and customer information secure.

#### REGULATORY

Regulatory changes have potential to affect the level of earnings Spark achieves for its shareholders. The Government's 2015 review of the Telecommunications Act has called for a Commerce Commission review of mobile wholesale markets and signalled an intention to give the commission wide ranging powers to monitor and enforce minimum customer service standards. Additionally, it recommends significant changes to the fixed line regulatory access framework but these are not due to come into force until 2020. Spark mitigates regulatory risks through proactive engagement with government, the regulator and industry stakeholders and develops strategies to mitigate these risks as they emerge.

#### COMPLIANCE OBLIGATIONS

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

**Table One: Spark's Risk Management Framework Roles and Responsibilities**

RISK MANAGEMENT FRAMEWORK RESPONSIBILITIES					
Internal Stakeholders					
		BOARD OF DIRECTORS	AUDIT AND RISK MANAGEMENT COMMITTEE	LEADERSHIP TEAM AND CORPORATE GROUPS	LEADERSHIP TEAM AND BUSINESS GROUPS
GOVERN	Governance Policy	✓			
	Authority delegated to management	✓			
	Board sub-committees charters	✓			
MONITOR	Managing Risk Policy		✓		
	Principal risk, fraud and internal control dashboards		✓		
	Annual and half-year reports		✓		
	External auditors appointment		✓		
	External audit strategy and plan		✓		
	Annual internal audit plan		✓		
	Quarterly internal audit and legal compliance updates		✓		
	Treasury compliance and Directors' certificates		✓		
	CFO's quarterly update		✓		
	External peer reviews of key functions e.g. risk management, internal audit, fraud management		✓		
	DEPLOY	Strategy and business planning			✓
Core Policies and frameworks to manage specific areas of risk				✓	
Specialist support provided to the business units to help them manage specific risk areas				✓	
Execution focused, business performance management				✓	
Centrally held decision rights exercised				✓	
OPERATE	Changes in risk and control environment monitored and reported			✓	✓
	Risk management outputs used by management during business decision-making			✓	✓
	Risks managed implicitly by business-as-usual operation and accountabilities				✓
	Risk managed explicitly with a formal standards-based approach			✓	✓
	Key risk or other performance indicators			✓	✓

# United Nations Sustainable Development Goals

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



## Spark's focus on UN Sustainability Goals



## Spark Sustainability Wheel

