Active...

Spark nz

ANNUAL REPORT 2016

Contents

This report is dated 18 August 2016 and is signed on behalf of the Board of Spark New Zealand Limited by Mark Verbiest, Chairman, and Simon Moutter, Managing Director.

Mark Verbiest
Chairman

Simon Moutter
Managing Director

Key Dates

Annual Meeting
04.11.16

Half-year results announcement
16.02.17

Financial year-end
30.06.17

Determined to be an active agent for New Zealand

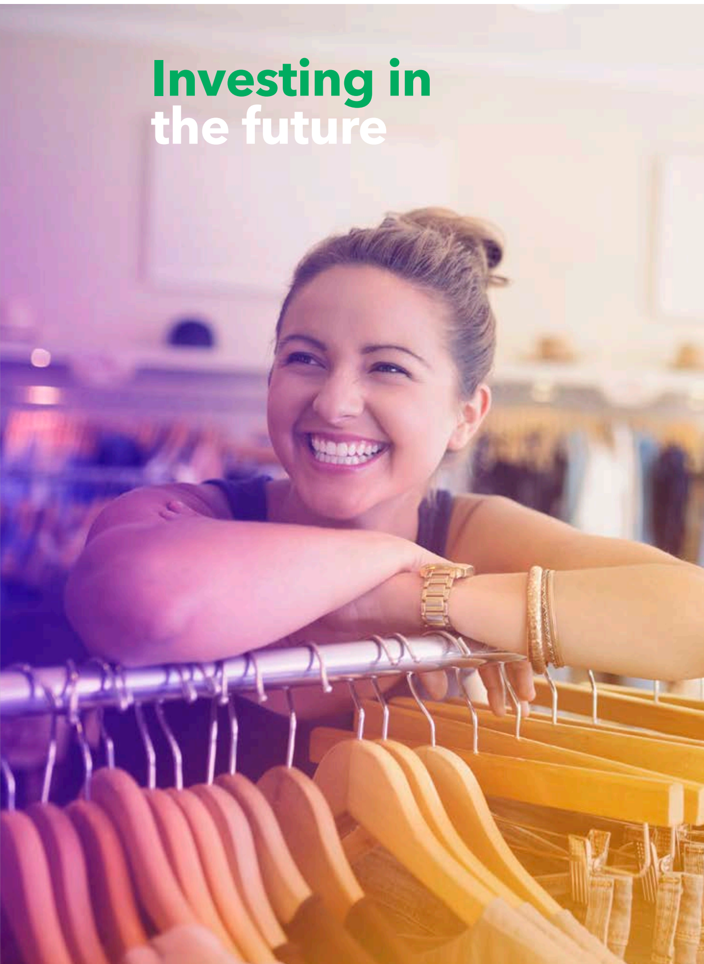
Every day we seek to help millions of New Zealanders and businesses successfully connect with the people and things that matter to them. And we're determined to do all we can to play an even bigger role in New Zealand's digital future. New and emerging technologies offer exciting possibilities for the country as it faces up to social, environmental and economic challenges in the years ahead. That's inspiring. We have an important part to play in helping New Zealand succeed globally.

That's empowering. And we can help unleash the potential in all New Zealanders. That's transformative. We're stepping up to take an even more active role in New Zealand's future. As a truly New Zealand technology company, we want to play our part in shaping the direction and the stories of tomorrow. The reason is simple. If we help New Zealanders and New Zealand businesses succeed, Spark will also succeed.

Active.

We take pride in the change we help create. Yet while we are doing many things well, we haven't been getting it right for everyone. We want to stand out even further from the competition through the delivery of amazing customer experiences. And for those customers who have had long call-centre wait times, that's simply not been the case. Regardless of the cause, the customer experience is up to us. So delivering on the big actions already under way to get this right is our number one priority.

Investing in the future



Investing more in New Zealand's future by growing as a business.

Millions of New Zealanders and businesses trust us to help connect to what matters most to them. That is a privilege and an obligation. It's why we're investing more than anyone else in new technologies and innovation to help take New Zealand into the future. It's important that we keep growing as a business so that we can continue to invest in our country's future and in the digital services that are the fuel of a modern economy. To do that, we have a long-term plan for growth. It's a plan that encompasses revenue and margin growth across our products and services. It also includes the development of a competitive, sustainable and well-led business that has a strong financial and capital foundation to underpin it. To get a better understanding of how we intend to keep growing so we can keep investing, see page 20 or refer to our full Environment, Social & Governance (ESG) Report at www.sparknz.co.nz/what-matters.

Growing our people

Making more of a difference to customers by growing our people.

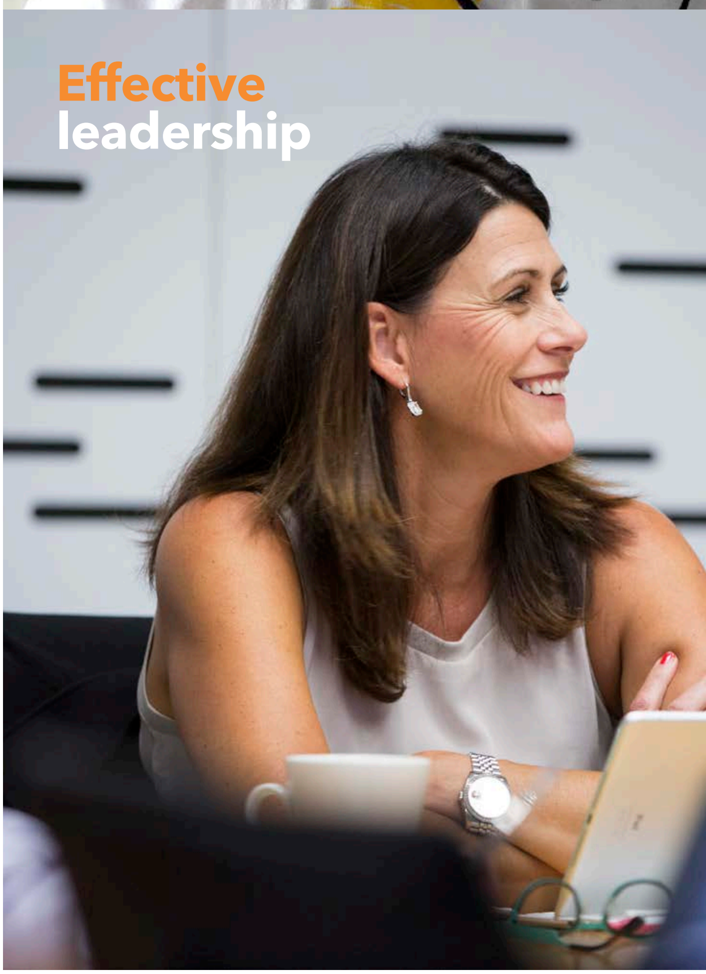
Our people are a reflection of New Zealand. They want the best for their country. They strive to delight our customers and to create and sell the products and services that put Spark at the heart of New Zealanders' digital lives and our digital future. Our people – all 5000+ of them from Whangarei to Invercargill – are a diverse bunch and that's how we like it. Diversity and inclusion matter to us. We work to ensure Spark looks and feels like our customers, and New Zealand in general, and believe that diversity of thought across the company brings with it better business performance. We want our people to deliver the best possible outcomes for our customers and for New Zealand, so we reward them with competitive salaries and a range of benefits with performance incentives that put customers first. We have a powerful set of values that guide our decisions and the way we behave. We invest in our talent – looking to develop their full potential quicker and bring top talent through into leadership roles sooner rather than later. To better understand how we grow our people, see page 22 or refer to our full ESG Report at www.sparknz.co.nz/what-matters.

Helping our community

Helping communities do amazing things with technology.

Every day more and more New Zealanders are using technology as a powerful force for positive change. Technology will have an increasingly important role to play for our country and Spark is committed to enabling more New Zealanders make the most of it. All New Zealanders deserve the opportunity to participate in the digital future and we want to help everyone along the journey. This means using our services and skills for good and helping communities around the country thrive and learn. It means empowering New Zealanders, young and old, with the tools and skills to make the most of a digital world. To better understand our wide range of community initiatives, see page 24, or refer to our full ESG Report at www.sparknz.co.nz/what-matters or get to know the Spark Foundation.

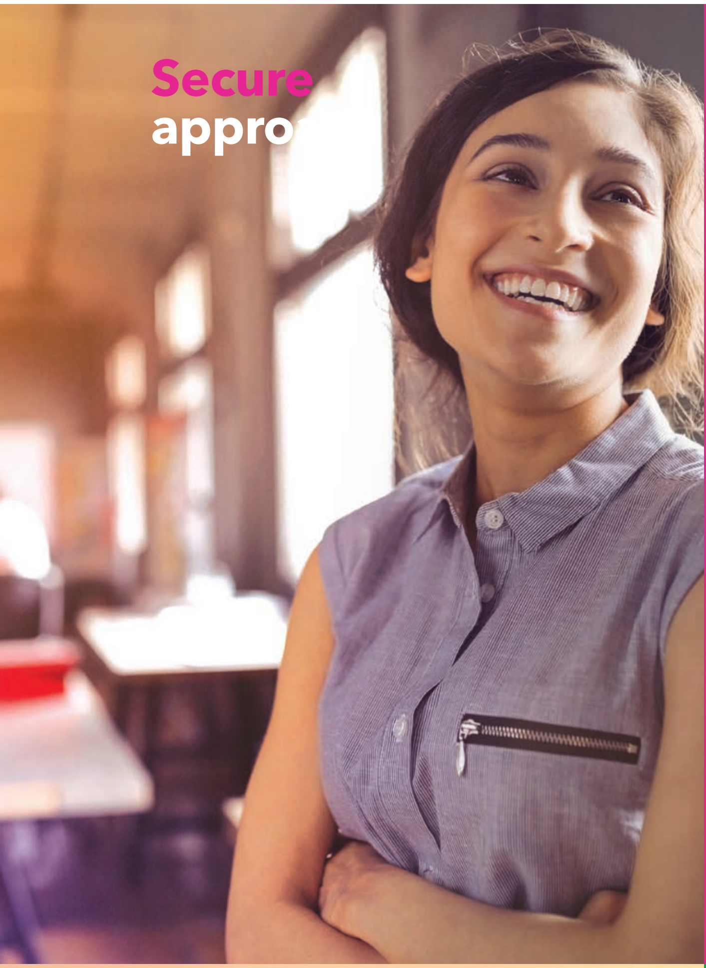
Effective leadership



Showing leadership on the things that matter.

To enable better outcomes for customers and for New Zealanders, we need to have the right leadership and governance in place, in order to set strategic direction and make the best possible decisions on where we focus time and energy. It's a rapidly changing world out there, with enormous and far-reaching change being driven by connected technologies. Spark needs to continually ensure it has the optimal mix of skills, leadership and governance on our Board, Board sub-committees and Leadership Team to understand evolving market forces and make the right decisions. This year we've appointed two new female directors as part of sound ongoing Board succession planning. We've also refreshed our Leadership Team, promoting rising and diverse talent from within to join our senior leadership group. To better understand our approach to leadership and governance, see page 26, or refer to our full ESG Report at www.sparknz.co.nz/what-matters.

Secure appro



Protecting the things that enable success for Spark customers and New Zealand.

New Zealanders and New Zealand businesses depend on our networks and our digital services for work, home and play. So it's critical we take all possible steps to manage risk and protect Spark's networks, services and the customer data that runs across them. Spark employs world-class cyber-security measures, as well as comprehensive and tested risk-management, crisis-management and business continuity practices. Given we have a large number of employees, suppliers and partners, and the critical importance of people safety, we have a proactive health and safety programme in place. Spark has a large number of buildings used to run the networks that connect New Zealanders to each other and to the rest of the world, so we have a proactive asset maintenance and property management programme in place to ensure they are safe, secure and fit for purpose. You can read more on page 28 or in our full ESG report at www.sparknz.co.nz/what-matters.

Helping to sustain

Playing our part in protecting New Zealand's environment.

Our core services enable people and businesses to be more sustainable day to day. From Cloud services to Wireless Broadband to video conferencing, we connect people to the world – without leaving their locations. As a digital services company, we keep innovating. And innovation for us means creating products, services and technology with a sustainable future in mind. That's why we're adopting low-carbon practices now to create solutions for the future. A good example of this is retrofitting Spark phone booths with electric vehicle chargers, which we are successfully trialling. This year we confirmed environmental targets for the long-term, ensuring our commitment to sustainability. It's the right thing to do. To see how we're reducing our impact on the environment, see page 30 or our full ESG Report at www.sparknz.co.nz/what-matters.

Spark Performance 2016

Operating revenues and other gains $

3,497M

▼ 1.0%, ▲ 2.5% re-based*

EBITDA $

986M

▲ 2.5%

Net earnings before income tax $

512M

▲ 6.2%

Net earnings after tax $

370M

▼ 1.3 %

CAPEX $ excluding spectrum

381M

▼ 8.9%

CAPEX $ including spectrum

390M

▼ 32.3%

Mobile revenues $

1,134M

▲ 11.3%

IT services revenue $

658M

▲ 11.1%

Ordinary dividends per share

22 cents

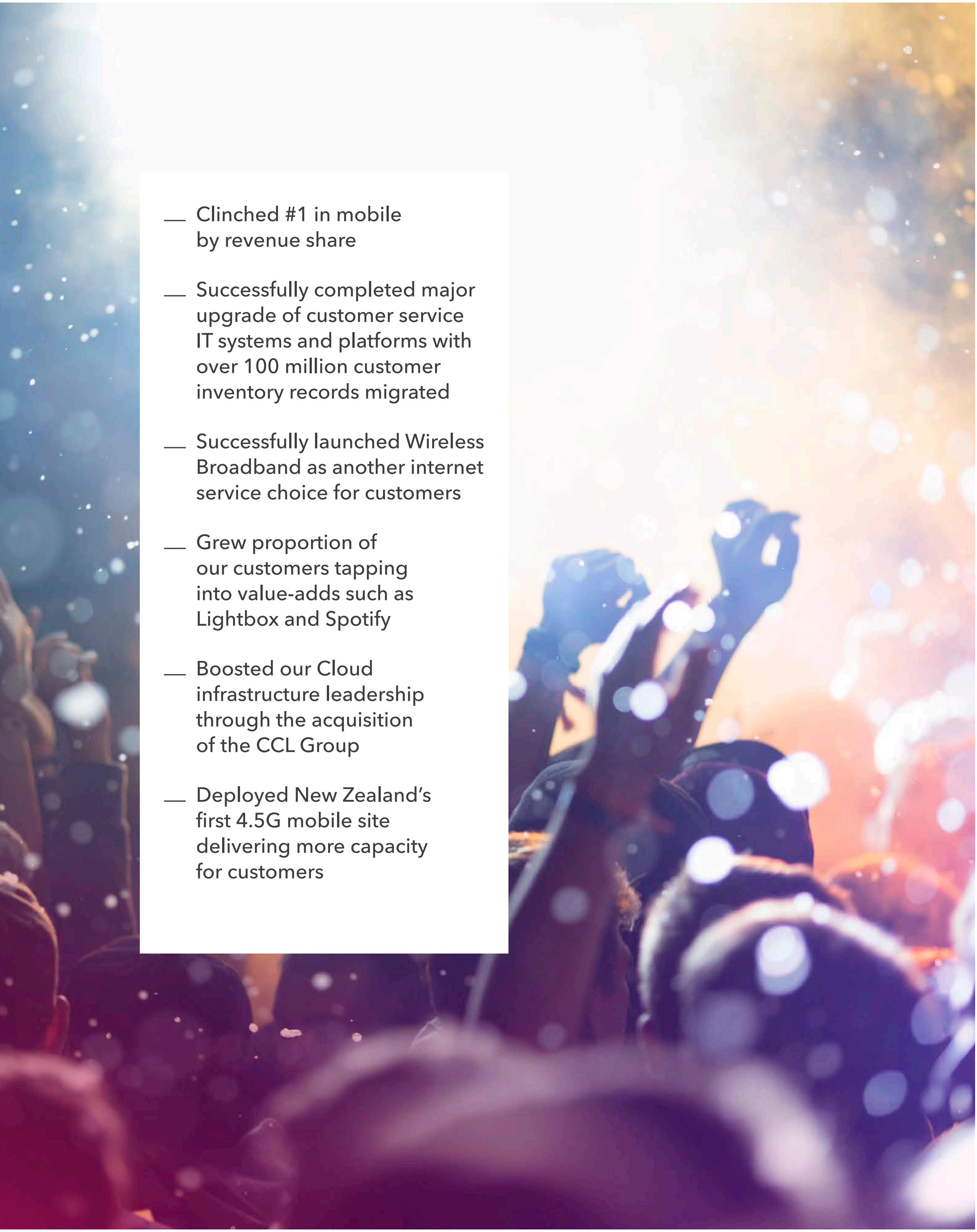
▲ 10.0%

Mobile connections

2.293M

▲ 5.3%

* Re-based for divestments and regulatory changes, reducing FY15 re-based operating revenues by $148 million, and the acquisition of the CCL Group, reducing FY16 re-based operating revenues by $31 million. Re-based operating revenues and other gains is reconciled to reported operating revenues and other gains on page 37.



- Clinched #1 in mobile by revenue share
- Successfully completed major upgrade of customer service IT systems and platforms with over 100 million customer inventory records migrated
- Successfully launched Wireless Broadband as another internet service choice for customers
- Grew proportion of our customers tapping into value-adds such as Lightbox and Spotify
- Boosted our Cloud infrastructure leadership through the acquisition of the CCL Group
- Deployed New Zealand's first 4.5G mobile site delivering more capacity for customers

HERE TO SUCCEED. FOR SPARK. FOR NEW ZEALAND.

Mark Verbiest
Chairman

Simon Moutter
Managing Director

We are very pleased with the progress made by Spark in the financial year ended 30 June 2016.

Pleasing results

We are now well into the next phase of our ongoing business transformation, shifting focus from building the solid foundation of digital capabilities needed for future growth, to delivering on the opportunity provided by that foundation.

Notably, the growing areas of our business, such as mobile and platform IT services now outweigh the declining areas such as traditional fixed line voice and legacy data services, signalling a successful repositioning and a notable turning point.

While total operating revenues and other gains of $3.497 billion were down slightly, once these are re-based for prior year divestments, changes to regulated access charges in Wholesale and the acquisition of the Computer Concepts Limited Group (CCL Group) in the current year, the total operating revenues and other gains were up 2.5% on the previous year, a growth fuelled largely by solid growth in mobile and platform IT services.

This improved top-line performance, combined with continued tight cost management resulted in earnings before interest, income tax, depreciation and amortisation (EBITDA) lifting by 2.5% to $986 million and net earnings before taxation increasing by 6.2% to $512 million. Net earnings were slightly down 1.3% to $370 million with our contribution to New Zealand's tax base increasing by $35 million to $142 million, on the back of higher current year earnings, prior year non-taxable gains on divestments and prior period adjustments.

Winning in the market

We are clearly winning in the mobile market. Spark has clinched the leading market share in mobile revenue this year, achieving $1.134 billion revenues for FY16, up 11.3% for the full year, compared with Vodafone's recently published estimate of $1.065 billion in revenues.

In broadband, our focus on higher-value plans and adding customer value through digital services, such as Lightbox and smart living solution Morepork, has helped a 5.4% growth in revenues. The take up of Lightbox has doubled to over 150,000 customers and is accelerating towards the next milestone of 200,000 customers. Importantly, our share of new fibre orders has been strong, at or above our share of the overall broadband market over the last six months.

There has been excellent growth in IT services revenue, up 11.1%. Our acquisition of the CCL Group in December 2015 is, alongside Revera and Appserv, providing us with real Cloud infrastructure leadership in New Zealand. This has helped the Spark Digital business unit differentiate in a highly competitive market, winning a significant number of new customers in FY16.

Market dynamics

We've seen plenty of market consolidation this year, with, we believe, more to come. Sky TV seeking to merge with Vodafone wasn't a surprise given convergence trends in our sector and the competitive pressures going on in the market. We are taking this market development seriously and honing our market strategies to retain our competitive edge. While we're generally supportive of market consolidation where it leads to better outcomes for consumers, Sky's monopoly in premium sports content – and the lack of a viable and credible wholesale market that provides better online, on-demand choices for New Zealanders to watch their sports – is a key concern. We believe a merged Sky/Vodafone will be able to leverage its monopoly power in the sports market, to the detriment of consumers. We have therefore opposed the merger in its current form in our submission to the Commerce Commission. If it is approved, a merger would offer the benefit of greater competitor transparency, with a new merged entity to be listed on the NZSX and subject to disclosure requirements for publicly listed companies.

Customer service challenges

Our most immediate issue is customers experiencing unacceptable delays when contacting our call centres. This is largely due to the growing demand for new and more complex technologies, resource constraints within fibre network companies for fibre installation, as well as weather-related fault resolution on the legacy copper networks owned and maintained by Chorus. These factors have increased the number and complexity of calls to Spark – the average length of the half a million calls we receive every month into our traditional service channels has increased by close to 30% over the year. While supply constraints and the timeline and visibility of fault restorations are beyond the control of ISPs like Spark, we do not shy away from the fact that, as their digital service provider, we are responsible for the experiences of our customers.

This is our highest priority right now and we are moving fast on a number of fronts. We are working hard to get our fixed access network providers to provide us better service during the process of fibre installation or fault repairs. We have hired almost 300 new staff to address the immediate call centre workload, as well as being more transparent than any other ISP through the publishing of call-centre performance – giving customers real-time information on the best ways to reach us. We have committed more resources to our digital service roadmap and we are working to educate customers on all the digital customer service options available to them. Another initiative being explored takes advantage of new system capabilities delivered by a major IT systems upgrade known as the 'Re-engineering Programme', proactively offering alternative mobile voice and data connectivity to customers experiencing certain types of line faults. Early trials have shown significant promise. While we have a long way to go to achieve the levels of outstanding service we aspire to, wait time performance has been improving markedly in recent weeks as a result of the work to date.

Reinforcing network leadership

Spark has also reinforced its network leadership for customers, including the ongoing roll out of Single Radio Area Network (SRAN) technology that provides better mobile network efficiency, as well as the launching of 4.5G mobile in May 2016. 4.5G technology uses new software to aggregate and more efficiently use all of our mobile spectrum holdings. This will enable existing cellsites to offer higher data speeds, up to 1 Gbps, and serve around five times the number of customers streaming data at high speed simultaneously. As a result our customers can expect to be able to use their data enabled services in more places at higher speeds and lower cost per GB. In April 2016 Spark acquired the management rights for, and immediately commenced deployment of, significant unused 2.3GHz radio spectrum. This is suitable for the expansion of Wireless Broadband as an option for more New Zealanders. In international connectivity, construction of the new trans-Tasman cable, in partnership with Vodafone and Telstra, has commenced, with completion on course for the end of the year. When complete it will give New Zealand significantly more resilient digital connectivity to the rest of the world.

In June 2016 Spark completed its four-year, $238 million Re-engineering Programme. One of the largest upgrades of its type in New Zealand corporate history, the programme saw 52 legacy IT systems retired, 41 systems consolidated and over 100 million customer inventory records migrated. Completed on time and on budget, it gives us a fully integrated and modern customer management system providing a single view of the customer. This has led directly to the formation in July 2016 of a new team, Spark Platforms, which provides tools and capabilities to deliver new digital services.

Leadership and people

Spark has listened carefully to the views of investors and shareholder groups on emerging reporting trends. As a result, we have enhanced the structure of our Annual Report to reflect a forward-looking view on our business performance and ambitions along key dimensions. These include long-term growth, diversity, remuneration, governance, risks, environment and community initiatives.

In April 2016, we announced several changes to the Leadership Team to take place over a six month transition period, reflecting a commitment to building capabilities for future growth and to sound succession planning.

There were several changes to the Board during the year as part of an ongoing Board succession programme, delivering more diversity to the Board composition and skill-sets. In May 2016 Dr Murray Horn retired from the Board after having served with distinction for nine years, including playing key roles in the demerger from Chorus and the significant digital repositioning of Spark, and departs with the thanks of the Board. At the same time, Alison Gerry was appointed to the Board, effective 1 July 2016. Alison is an experienced professional director with extensive Governance experience. Spark has also appointed Alison Barrass as an independent non-executive director to the Board, effective 1 September 2016. Alison brings a strong background in marketing-led innovation and brand development. From 1 September 2016 the Board will be back to eight directors, the same number it comprised up until February 2015.

In April 2016 we announced several changes to the Leadership Team to take place over a six-month transition period, reflecting a commitment to building capabilities for future growth and to sound succession planning. Towards the end of 2016, Tim Miles, currently Chief Executive for Spark Digital, will move on to pursue opportunities in corporate governance. Tim will continue as non-executive Chairman of both the CCL Group and Revera. Tim has led Spark Digital through a period of tremendous repositioning, resulting in the gaining of market leadership in platform IT services – an area the company wasn't really a player in when Tim arrived at the beginning of 2013.

Jolie Hodson, currently the Chief Financial Officer, will replace Tim as the Chief Executive of Spark Digital. A very commercial, customer focused and pragmatic executive, Jolie has done a terrific job as the Chief Financial Officer since joining Spark in 2013. David Chalmers was appointed as the incoming Chief Financial Officer for Spark in early August 2016 and will commence later in the year. David joins Spark from Mediaworks where he held the Chief Financial Officer role and was acting Chief Executive for some months.

Rod Snodgrass, currently Chief Executive of Spark Ventures, will also depart Spark before the end of 2016. Rod has held many roles with Spark, including running Xtra and leading the old fixed line business. At Spark Ventures Rod launched a number of start-up businesses and brands, innovated with new products and business models, developed new digital versions of existing products and brought a sharper digital edge to what we do. Rod's efforts have helped drive significant innovations and growth for Spark.
A new Chief Executive for Spark Ventures, Ed Hyde was appointed on 16 August 2016 to start 1 October 2016, another internal promotion and a sign of good succession planning.

Effective July 2016 we split the Spark Connect business into two; Spark Connect, responsible for core connectivity, and Spark Platforms, responsible for best-practice digital platforms and the core products and services enabled by them. As part of our leadership refresh, two internal promotions were made. Mark Beder was promoted to the position of Chief Operating Officer for Spark Connect, while Dr Claire Barber is now the Chief Digital Officer for Spark Platforms. These are in addition to the appointment in July 2015 of Jason Paris to the position of Chief Executive, Spark Home, Mobile & Business.

The former Chief Operating Officer, David Havercroft, is now the Chief Transformation Officer and will play a key role in guiding our business simplification choices and leveraging the industry infrastructure and technology pathway opportunities ahead.

We have also continued to invest in our people through a range of leadership and diversity initiatives. We now have significantly more diversity in our leadership ranks, from the Board level down. We're promoting more from within, bringing more diversity through to senior roles. We're also investing in innovation through Spark Ventures and our support of start-up sector programmes. And we continue to invest in New Zealand's future through the Spark Foundation and through our support of community initiatives, particularly in technology education for young New Zealanders.

We expect to see ongoing market developments in FY17 as digital technologies increasingly disrupt business models and consumer influence increases. From our perspective, we are ready. We have the systems, the products and the assets. We have nationwide reach. We have the agility to respond to market changes and evolving consumer product needs as and when they occur.

Well positioned for the future

We expect to see ongoing market developments in FY17 as digital technologies increasingly disrupt business models and consumer influence increases. From our perspective, we are ready. We have the systems, the products and the assets. We have nationwide reach. We have the agility to respond to market changes and evolving consumer product needs as and when they occur.

Spark is well positioned for long-term success. We've transformed Spark from the ground up. More customers are choosing us. We've got great brands. We're investing in our people. We've rebuilt our IT systems engine to power digital services. We've re-earned the trust of investors through consistent delivery on targets. We've established a powerful network leadership position and we have the spectrum and assets to execute our medium-term plans.

We have a sound long-term strategy in place, a strong FY17 game plan and proven execution skills. We have a track record in delivering innovations and digital services. We have a clear pathway in terms of relative freedom from regulatory approvals and the integration challenges faced by our larger competitors. The next phase of our strategy is concentrated on delivering market-leading customer experiences, which will underpin the development of a competitive, sustainableand well-led business with a strong financial performance and capital foundation.

It's important we keep growing as a business so we can continue to invest in our country's future and in the digital services that are the fuel of a modern economy. We're determined to do all we can to play an even bigger role in New Zealand's digital future and be truly useful for our customers and for New Zealand. The reason is simple. If we help New Zealanders and New Zealand businesses succeed, Spark will also succeed.

We won't be slowing down over the coming 12 months. We want to continue to make an active contribution to our country in the years ahead. For shareholders, we are looking forward to the 2017 financial year and to raising our game again. The financial results for this past year support the Board's view that a return to long-term, sustainable growth is realistic and achievable.

Mark Verbiest
Chairman

Simon Moutter
Managing Director

18 August 2016

Our Board remains focused on delivering better outcomes for our customers, for New Zealand and for our shareholders.

.1 **Mark Verbiest** CHAIRMAN Non-executive Director

.2 **Paul Berriman** Non-executive Director

.3 **Alison Gerry** Non-executive Director (appointed July 2016)

.4 **Murray Horn** Non-executive Director (resigned May 2016)

.5 **Ido Leffler** Non-executive Director

.6 **Charles Sitch** Non-executive Director

.7 **Justine Smyth** Non-executive Director

.8 **Simon Moutter** Executive Director

Leading.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Mark Verbiest CHAIRMAN
Non-executive Director

TERM OF OFFICE: Appointed director 1 December 2011 and last re-elected at the 2014 Annual Meeting.

BOARD COMMITTEES: Chair of the Nominations and Corporate Governance Committee and a member of the Human Resources and Compensation Committee. Attends Audit Committee meetings ex officio.

Mark's experience in the telecommunications sector extends over more than a decade, including 7 ½ years on the company's senior executive team from 2000. Mark is an experienced company director, also serving as Chairman of Transpower New Zealand Limited, a director of ANZ Bank New Zealand Limited and Freightways Limited, Chairman of Willis Bond Capital Partners Limited and Willis Bond General Partner Limited, a director of MyCare Limited, a new digital company operating in the health space and a member of the Commercial Operations Advisory Board of the New Zealand Treasury. He is a former Board member of the Financial Markets Authority. He is also a trustee of the Southern Lakes Arts Festival Trust and a consultant to national law firm Simpson Grierson. Mark has a law degree from Victoria University of Wellington.

Paul Berriman
Non-executive Director

TERM OF OFFICE: Appointed director 1 December 2011 and last re-elected at the 2015 Annual Meeting.

BOARD COMMITTEES: Member of the Audit and Risk Management Committee, the Human Resources and Compensation Committee and the Nominations and Corporate Governance Committee.

Paul joined the Board of Directors in December 2011, bringing over 25 years of international experience in telecommunications, media and convergence. Paul is the Group Chief Technology Officer of the HKT Trust, the listed telecommunications arm of PCCW in Hong Kong. He is primarily responsible for leading the group's product and technology roadmap and strategic development. In 2009 Paul was recognised by the IPTV World Forum with its Special Merit Award for Outstanding Industry Contribution and in 2008 he was listed as one of the Global Telecoms Business Magazine's top 100 "most influential persons in telecoms". Before joining PCCW in 2002, Paul was Managing Director of management consultancy Arthur D. Little in Hong Kong and also held roles in Reuters and several major Hong Kong service providers. Paul holds a Bachelor of Science degree in electro-acoustics from the University of Salford in the United Kingdom and a Master of Business Administration degree from the University of Hong Kong. A Chartered Engineer, he is a current or former member of a number of industry working groups and advisory Boards.

Alison Gerry
Non-executive Director

TERM OF OFFICE: Appointed director 1 July 2016.

BOARD COMMITTEES: A member of the Nominations and Corporate Governance Committee and Audit and Risk Management Committee.

Alison has more than 20 years of experience working for both corporates and for financial institutions in Auckland, Sydney, Hong Kong, Tokyo and London in trading, finance and risk roles. Alison was a Visiting Fellow at Macquarie University for 12 years until 2011. From 2007 Alison has been a professional company director and is currently also a director of Infratil, NZX and Vero. Alison is also Deputy Chair of Kiwibank and a director of TVNZ but will be retiring from these Boards towards the end of 2016. Alison has an honours degree in Management Studies from Waikato University and a Masters of Applied Finance from Macquarie University.

Murray Horn
Non-executive Director (resigned in May 2016)

TERM OF OFFICE: Appointed director 1July 2007 and resigned from the Board in May 2016.

BOARD COMMITTEES: Chair of the Audit and Risk Management Committee and a member of the Nominations and Corporate Governance Committee.

Murray's extensive governance experience spans both the corporate and public sectors. He is on the Beijing Board of the China Construction Bank. Murray previously held a number of senior executive roles with ANZ Banking Group, including leading the group's New Zealand operations. He was secretary to the New Zealand Treasury and has served on a number of Boards, including the Government's National Health Board and the New Zealand Tourism Board. He has represented New Zealand at the OECD, as a governor at the World Bank and as an alternate director at the International Monetary Fund. Murray received his doctorate from Harvard University in 1989 and has been awarded a number of academic honours in both New Zealand and the United States. Murray was awarded a Companion of the New Zealand Order of Merit (CNZM) in the 2013 Queen's Birthday Honours.

Ido Leffler

Non-executive Director

TERM OF OFFICE: Appointed director 1 July 2014 and elected at the 2014 Annual Meeting.

BOARD COMMITTEES: A member of the Nominations and Corporate Governance Committee.

Ido is a West Coast United States-based entrepreneur with experience in developing digital brands and has extensive networks in the start-up communities of Silicon Valley and Australasia. Ido is the co-founder and Chief Executive Officer at Yoobi, a new school supplies company that engages kids through bright colours, cool designs and, most importantly, cause. He is also co-founder of Yes To Inc., a leading natural beauty brand with distribution in over 27,700 stores. Ido is also Co-founder of Cheeky, a tableware company. Ido sits on numerous corporate/advisory Boards, including The United Nations Foundation Global Entrepreneur Council and The Dell Global EIR Advisory Board. Ido was recently honoured by his university, UTS Business School in Sydney, with both the Chancellor's Award for Excellence 2015 and the Alumni Award for Excellence. Lastly, Ido received the Innovator Award by the Starlight Children's Foundation, which recognises individuals and corporations who have made significant contributions to communities with the goal of promoting positive social impact. Ido attended the University of Technology in Sydney where he earned his Bachelor of Business in Marketing & International Business.

Charles Sitch

Non-executive Director

TERM OF OFFICE: Appointed director 1 December 2011 and last re-elected at the 2013 Annual Meeting.

BOARD COMMITTEES: Member of the Audit and Risk Management Committee and the Nominations and Corporate Governance Committee.

Charles joined McKinsey & company in 1987 and in 2000 became a senior director, primarily working with CEOs and Boards on strategy and operations turnarounds, before retiring in 2010. Since 2006 he has been involved in various new business ventures. A director since December 2011, Charles is also a director of Bellamy's Australia and Apaim Animal Health, a member of the Board of Trinity College at the University of Melbourne, Chairman of the colleges Foundation Studies Program and Chairman of the Robin Boyd Foundation and a committee member of the Melbourne Cricket Club. Charles holds an MBA from Columbia Business School and an LLB and BCom from Melbourne University.

Justine Smyth

Non-executive Director

TERM OF OFFICE: Appointed director 1 December 2011 and last re-elected at the 2013 Annual Meeting.

BOARD COMMITTEES: Chair of the Human Resources and Compensation Committee and Chair of the Audit and Risk Management Committee and a member of the Nominations and Corporate Governance Committee.

Justine joined the Board of Spark in December 2011. Her background is in finance and business management, being a former partner at Deloitte and Group Finance Director at Lion Nathan Limited. She is currently a director of Auckland International Airport Limited, Chair of the New Zealand Breast Cancer Foundation and a former Board member of the Financial Markets Authority and a former Deputy Chair of New Zealand Post Limited. Justine's experience in governance, mergers and acquisitions, taxation and financial performance of large corporate enterprises, as well as the acquisition, ownership and management of small and medium enterprises underpins her contribution as a director. Justine has a Bachelor of Commerce from Auckland University and is a Fellow of the New Zealand Institute of Chartered Accountants.

Simon Moutter

Executive Director

TERM OF OFFICE: Appointed Executive Director and Managing Director 13 August 2012 and elected at the 2012 Annual Meeting.

BOARD COMMITTEES: None.

As Managing Director, Simon is responsible for the overall leadership, strategic direction and management of Spark, through its various business divisions and the brands that provide digital services to millions of New Zealanders and thousands of New Zealand businesses. Simon led the reinvention of Telecom to Spark New Zealand, to better reflect the new world of digital services in which the business now operates. Simon returned to the business in mid-2012. He has a deep understanding of the industry, having managed most parts of Telecom in previous roles, most recently as Chief Operating Officer during the years 2003–2008. In the intervening years, he led Auckland International Airport for a period of four years in which he transformed the customer experience and delivered a significant uplift in its share price. Simon spent 13 years in the electricity and gas industry including as chief executive of Powerco (1992 to 1999). Simon has a Master's degree in Engineering from the University of Canterbury and a Bachelor's degree in Science from Massey University.

The Leadership of Spark is committed to achieving ambitious goals and to playing an active part in New Zealand's future success.

.1 **Claire Barber** Chief Digital Officer, Spark Platforms

.2 **Mark Beder** Chief Operating Officer, Spark Connect

.3 **David Havercroft** Chief Transformation Officer, Spark New Zealand

.4 **Jolie Hodson** Chief Financial Officer, Spark New Zealand

.5 **Joe McCollum** Group Human Resources (HR) Director, Spark New Zealand

.6 **Tim Miles** Chief Executive, Spark Digital

.7 **Jason Paris** Chief Executive, Spark Home, Mobile & Business

.8 **Rod Snodgrass** Chief Executive, Spark Ventures

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Claire Barber

Chief Digital Officer, Spark Platforms (effective 1 July 2016)

Dr Claire Barber leads Spark Platforms, a new business unit that develops best-practice digital platforms. A key partner to Spark Home, Mobile & Business, Spark Digital and Spark Ventures, and drawing on expertise from across the company, Spark Platforms is responsible for ensuring that our products and services are truly digital and that our customers' needs are at the centre of everything we do. Claire joined Spark in July 2011 as General Manager of Change and Technology, where she led strategic initiatives that include IT in-sourcing, developing new operating models and simplifying processes and products. Her team was responsible for a four-year, multi-million dollar re-engineering programme that has successfully modernised Spark's legacy IT systems and migrated millions of customer records to those systems, resulting in faster delivery of customer services. Claire's team was also critical in managing Spark's rebrand in 2014. Claire brings to the role more than 20 years of experience in international technology and telecommunications, having held sales and management roles at IBM, working with clients in China and India and the Asia Pacific region. Prior to that, she was a lecturer and Assistant Dean at the University of Auckland and has a PhD from University of Northumbria in the UK.

Mark Beder

Chief Operating Officer, Spark Connect (effective 1 July 2016)

Mark Beder is the Chief Operating Officer of Spark New Zealand and leads Spark Connect, which designs, builds and maintains Spark's core networks, IT and physical infrastructure, including property and data centres. Mark is responsible for building the best network experience and optimising the huge investments in data networks, mobile and IT to set Spark up for success and growth and enable New Zealand's digital future. Since joining the company in 2003 Mark has held several senior roles, most recently as General Manager Value Management with responsibility for Group Procurement, IT and network investment, management of the Chorus relationship, and mobile capacity. Mark successfully drove major technology initiatives and innovation, such as Spark's 4G network and the Optical Transport Network. Prior to that Mark was the General Manager responsible for the demerger of the operations of Telecom from Chorus in 2011. Before joining Spark Mark worked as a Senior Manager for Ernst and Young Consulting in Auckland. He has a Bachelor's Degree in Commerce from the University of Auckland.

David Havercroft

Chief Transformation Officer, Spark New Zealand

David Havercroft is the Chief Transformation Officer of Spark New Zealand, helping to oversee the moving parts of the next phase of the Spark New Zealand strategic transformation. David plays a key role in guiding our business simplification choices, leveraging the industry infrastructure and technology pathway opportunities that lie ahead and maximising associated business expansion and revenue growth.

David joined the company in October 2009 and has over 30 years of international telecommunications industry experience. He has held executive roles in business and technology functions in British Telecom, Cable & Wireless, IBM and PwC. David has a proven track record in designing and leading large-scale, complex business and information technology transformation programmes, with a particular focus on strategic partnerships. As a very capable and experienced senior executive and leader, David also plays a valuable role mentoring and supporting other members of the Spark New Zealand Leadership Team.

Jolie Hodson

Chief Financial Officer, Spark New Zealand

Jolie is the Chief Financial Officer for Spark New Zealand. Jolie understands the critical role of the finance function in dynamic, competitive markets and during a massive organisational transformation. Jolie focuses on developing clear insight into what customers value, what makes the business more competitive and what delivers value for Spark New Zealand. Jolie is also responsible for the Skinny mobile and Bigpipe broadband businesses. Prior to joining the company, Jolie worked for 12 years with the Lion group, Australasia's largest beverages group, in a range of senior financial roles. Most recently she was Finance Director of the Beer, Spirits & Wine Australia division. Before joining Lion in 2000, Jolie spent eight years with Deloitte's audit division based in Auckland. She gained a Bachelor of Commerce degree from the University of Auckland and has attended the Strategic Management Programme at Sydney's Macquarie Graduate School of Management. Jolie will transition to Chief Executive, Spark Digital later in the 2016 year.

Joe McCollum

Group HR Director, Spark New Zealand

Joe McCollum joined Spark New Zealand in November 2012 as Group HR Director, bringing over 30 years of global experience in leading transformational HR initiatives at companies undergoing significant change and operating in rapidly changing markets. Joe understands the critical importance of organisational culture on success and is influencing the cultural shift underway within Spark New Zealand. Prior to joining the company, he worked in the music and media businesses – initially with EMI in 2004, managing the sale of EMI to a private-equity company, before joining news media group DMGT in 2008. He remained with DMGT until returning in 2012 to New Zealand, where he had previously worked in the hospitality industry as HR Director for Lion Nathan between 1989 and 1996. At the end of 1997 he returned to the UK to take up the role of worldwide HR Director for ICI, a global chemical company with 65,000 employees. He joined Misys in 1999 – a global software company recognised as a world leader in various segments. Joe also worked in Saudi Arabia for five years in the 1970s as the HR Director for a 4,500-staff hospital company before joining Pepsi initially in Cyprus and then in the headquarters in New York. He obtained his MSc in Business Studies from Columbia University.

Tim Miles

Chief Executive, Spark Digital

Tim leads Spark Digital, which provides converged ICT solutions for the rapidly evolving needs of business, enterprise and government customers, as they meet the demands of an increasingly globalised, connected and mobile customer base. Spark Digital's unique capability in delivering the best ICT solutions in New Zealand, inspired and fully supported by the power of Spark New Zealand, makes it possible for its customers to contribute to the overall economic success of New Zealand. Tim joined Spark Digital (formerly Gen-i) as Chief Executive in February 2013 after previously being the Managing Director of PGG Wrightson, the Group Chief Technology Officer of Vodafone PLC and the CEO of Vodafone UK and Vodafone NZ. Tim has spent much of his professional life working in New Zealand and offshore in senior leadership roles, including at IBM, Data General Corporation and Unisys. From 1994 until 2001, he was with Unisys Corporation in various senior executive roles, including Managing Director New Zealand and Vice President responsible for Unisys' worldwide telecommunications business. Tim has also been involved in a number of industry and not-for-profit organisations in leadership roles. Tim has a Bachelor of Arts degree from Victoria University. Towards the end of 2016 Tim will be leaving Spark Digital to pursue opportunities in corporate governance.

Jason Paris

Chief Executive, Spark Home, Mobile & Business

Jason Paris became Chief Executive of Spark Home, Mobile & Business (HMB) on 1 July 2015, after four years as General Manager Marketing for Spark HMB. He leads the team that provides more than two million New Zealand consumers and Small Medium Enterprises (SMEs) with access to the technology and digital services they need to succeed and thrive. As General Manager Marketing, Jason was pivotal in the transformation from Telecom to Spark New Zealand and he is passionate about building a customer-inspired Spark Home, Mobile & Business Team, which helps more New Zealanders and New Zealand businesses achieve their potential. He has a strong commercial, strategy and marketing background, particularly in the media, technology and retail sectors. In previous roles he was CEO of TV3 and Four and also held executive positions in New Zealand and Europe with TVNZ, Nokia and McDonalds.

Rod Snodgrass

Chief Executive, Spark Ventures

Rod leads Spark Ventures, a business unit formed in early 2013 to nurture the company's pace of innovation and to deliver connected digital experiences that customers love. Spark Ventures acts as an internal incubator and accelerator, adopting disruptive digital approaches and start-up methods, such as Lean and Agile, for a portfolio of ventures that include Lightbox TV, Qrious, Morepork and investments in New Zealand start-ups Vigil and Putti. Rod was responsible for the repositioning of Skinny mobile, the rapid expansion of Spark New Zealand's WiFi hot spot network and the development of Bigpipe broadband. Rod has a huge amount of experience, sitting on local and international Boards, and is involved in a number of innovation sector initiatives. Prior to joining the company in 1998, Rod was the Financial Controller at Ericsson Cellular and before that Group Controller at Fletcher Energy. Originally part of the Xtra team, then rising to become its General Manager, Rod has also spent time since Xtra leading the company's fixed line division, leading Group Strategy and then as Chief Product Officer.
Rod has a BCA from Victoria University and is a New Zealand Chartered Accountant.

FY16 EBITDA UP

2.5%

ORDINARY DIVIDENDS PER SHARE UP

10%

Long-term growth

We are committed to delivering sustainable growth for our business within New Zealand. In light of this the Board has endorsed a long-term growth framework that outlines our focus for the future and how we will aim to achieve sustainable long-term growth. Executing on this growth framework will enable higher total shareholder returns over time, underpinned by the targeted delivery of consistent earnings growth and a rising dividend profile.

Consistent earnings growth

Through revenue growth in our core mobile and IT and Cloud offerings, coupled with margin expansion via the further development of our Wireless Broadband offering and the digitisation of our service experience, we believe we can achieve consistent growth in earnings. Sustained growth in our core services will also be complemented by selectively entering new high-growth markets to develop future earnings streams. This also acknowledges that we operate in a tough industry, where digital disruption continually pressures existing revenue streams and new competitors challenge us for future revenue streams.

Sustainable business performance

To ensure growth is sustainable we are actively investing in superior IT platforms and networks to improve our customer experience, while differentiating our products and services and multiple brands to create competitive advantage. This differentiation will set us apart from more commoditised providers and reduce focus on price-based competition. In turn this supports a more sustainable industry structure, which allows the market to grow. A commitment to being an environmentally aware business, having a diverse and engaged talent base and maintaining a strong governance framework, helps differentiate our business from our competitors. It strengthens our market position and will enhance investor confidence in the long-term sustainability of our business strategy.

Rising dividend profile

Our distribution policy aims to deliver a rising dividend profile over the long-term in line with consistent growth in earnings and 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.

Compound Average Total Shareholder Return

22.4%

over the past three years

Our model for long-term returns

Long-term growth

Evidenced by Total Shareholder Returns

SHARE PRICE GROWTH

Consistent earnings growth

- **Modest revenue growth**
  - Grow core Mobile and IT
  - Enter high-growth segments
  - Selective bolt-on mergers and acquisitions
- **Margin expansion**
  - Grow Wireless Broadband
  - Digitise the service experience to create operational efficiency

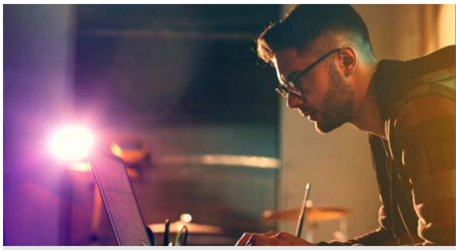
Sustainable business performance

- **Competitive advantage**
  - Amazing customer experience
  - Differentiate through multi-brand and inclusions
  - Superior IT platforms and networks
- **Environmental and social sustainability**
  - Environmentally aware
  - Contributing to New Zealand communities
  - Socially diverse and engaged talent
- **Strong governance**
  - Pro-active risk management policies
  - Diverse Board composition and skills

Rising dividend profile

- **Tight capex management driving FCF growth**
  - Capex maintained at 11–12% of sales
  - Investment focused on future revenue streams and transforming customer experience
- **Prudent capital structure**
  - A– credit rating, with net debt under 1.5x EBITDA
  - Special dividends used to reset capital structure

KEY FOCUS AREAS



3 INTERNAL PROMOTIONS TO THE LEADERSHIP TEAM ANNOUNCED

25% OF SPARK LEADERSHIP TEAM IS FEMALE (EFFECTIVE FROM 1 JULY 2016)

People

We actively invest in our people so that they can make more of a difference. Every day they strive to deliver little victories for our customers.

We want the best possible people doing great things for our customers and for New Zealand, so we remunerate them with competitive salaries, provide them with a wide range of benefits and use performance incentives that Include customer satisfaction as a key measure.

We are committed to contributing towards a higher wage economy and have introduced a 'Spark Pay' benchmark that ensures all staff at Spark are paid a fair, competitive salary above minimum pay levels. 'Spark Pay' means all non-commission based full-time employees will earn at least $40,000 salary – plus company benefits that equate to over $2,500 value annually. Front-line commission roles that earn a lower base salary will have the ability to earn an average of $42,000 (more if they outperform their targets) plus company benefits.

We work hard to develop our talent, bringing rising and diverse talent through into senior leadership roles sooner rather than later. We are also committed to providing a safe and secure work environment for all our people, through effective health and safety practices.

We want our people to feel good about where they work – with Spark and Spark Foundation helping to unleash New Zealand potential through learning, through generosity and through innovation.

Our key People goals can be summarised as follows:

KEY GOALS	PERFORMANCE IN FY16	LONG-TERM GOALS AND ASPIRATIONS
Create a diverse pipeline of leaders and employees, with a culture of inclusion	• At 30 June 2016 one out of seven female directors, increasing to three out of eight in FY17 • Proportion of female Spark Leadership Team members will increase from 17% to 25% from 1 July 2016 • Three internal promotions to the Spark Leadership Team from 1 July 2016 • 50% of employees non-NZ European	• > 50% of our directors and leaders are female or non-NZ European • > 50% of our people leaders are female or non-NZ European • Diversity and inclusion programmes embedded in our recruitment and promotion practices
Ensure our people are fairly remunerated and incentivised in ways that lead to better customer outcomes	• Introduced Spark life and disability cover for all employees, career breaks, flexible summer hours and purchased leave • Confirmed intention to introduce 'Spark Pay' above minimum wage • Short-term incentive scheme for senior managers linked to key EBITDA and growth metrics • Long-term schemes with performance hurdles linked to Total Absolute Shareholder Returns	• 100% of employees paid at least the 'Spark Pay' rate for FY17 ($40,000 for non-commission based full-time roles) • Customer satisfaction (measured through Net Promoter Score) is included in all performance measures and incentives • Achieve 100% gender pay parity • Continue the expansion of employee benefits to improve the wellbeing of Spark people
Ensure we have the right skills at our Board and Leadership tables for the digital future	• Two new director appointments made • >150 senior leaders commenced our enhanced leadership development programme • >600 people leaders completed our management fundamentals programme	• > 250 senior leaders completed our enhanced leadership development programme
Provide a healthy and safe work environment for our people and those who work with us	• Retained our ACC accreditation at tertiary level • Zero major injuries or accidents	• Zero major injuries or accidents

Diversity and Inclusion

Diversity is a topic talked about more and more in today's corporate world. We believe diversity is greater than simply bringing more women into the workforce and leadership roles. We believe true diversity recognises that every one of us is unique – each with our individual differences, whether they be race, ethnicity, sexual orientation, socio-economic status, age, physical abilities or other life experiences – as well as gender. We believe inclusion is equally important. Inclusion is when people feel they belong – irrespective of their differences. We want Spark to be an organisation where everyone has a high sense of belonging – accepted, welcomed and valued. We also believe it's not about quotas: it's about changing mindsets. To achieve this we want to be an inclusive company where everyone can be themselves at work.

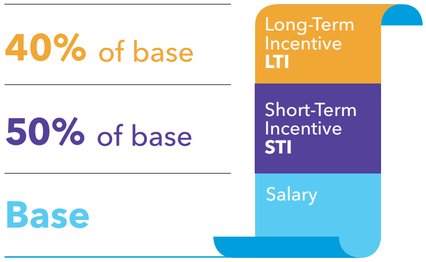
We want to unleash the potential in all New Zealanders. As one of New Zealand's leading companies, if we can unleash the potential of our own employees, we can make a difference and be a 'diversity and inclusion' leader and role model. New Zealand now has 213 different ethnic groups, with Auckland, in particular, being identified as one of the most diverse cities on earth. We believe greater diversity and inclusiveness allows us to better understand our diverse customer base, which leads to better decision-making and in turn, better financial performance. While we already have great initiatives in place, we know we can do much more and we are certain that Spark will look very different in five years than it does today.

In FY17 we will be turning our minds and efforts to attracting and engaging an even more diverse and inclusive workforce, where New Zealand's very best see Spark as the best place to work, where they can be at their best every day, being truly useful to our customers.

Remuneration

Remuneration that fairly rewards our people and provides the right sort of incentives that lead to great customer outcomes and business performance, is critical to the future success of Spark.

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

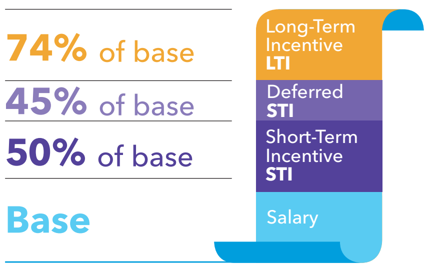


ELEMENT 1: A market competitive base salary, benchmarked against similar roles externally and recognising the role's contribution to Spark.

ELEMENT 2: Short-Term Incentive (STI) – At Spark we believe it's about setting two – three targets that will improve the performance of the business.

ELEMENT 3: Long-Term Incentive (LTI) – For Spark executives a key part of their roles are to effectively balance the short-term and long-term success of Spark for its people, customers and shareholders. LTI is set over three years, with an Absolute Total Shareholder Return target.

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



In addition to the three factors applied to the Leadership Team, the Managing Director has a further STI set at 45% of his base deferred for two years, with the same performance criteria as the STI scheme. All incentive targets and outcomes for the Managing Director and his Leadership Team are reviewed and approved by the Spark Board.

FY16 SHORT-TERM INCENTIVES PERFORMANCE OUTCOME

Spark's overall performance dictated the size of the 'funding pool' for STI with the targets comprising EBITDA and cumulative 'cash benefits' delivered under the Accelerate Programme (our business improvement programme).

The FY16 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	60%	Target achieved	60%
Accelerate Programme cumulative cash benefits	40%	Target almost achieved	39%
Total	**100%**		**99%**

The total available funding pool for all eligible STI participants across Spark for FY16 was $12.2 million, therefore the size of the STI funding pool for distribution was $12.1 million, being 99% of $12.2 million. The STI outcomes for the Managing Director, Chief Financial Officer and Group Human Resources Director were based on the overall Spark targets and performance results, i.e. 99%.

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

- EBITDA;
- Cumulative 'cash benefits' delivered under the Accelerate Programme; and
- A number of business unit specific market, customer or programme delivery measures (e.g. growth in mobile revenue).

This allocation resulted in a range of outcomes for the Leadership Team between 50% and 130% of their target STIs.

FY17 INCENTIVES

The FY17 performance metrics set by the Board are:

Incentive Scheme	Metric
Short-Term Incentives	• Group EBITDA; and • Net Promoter Score
Long-Term Incentives	• Spark Absolute Total Shareholder Return > cost of equity plus 1% per annum compounded

For FY17 the Managing Director and the Corporate Leadership Team members' measures are in-year earnings (EBITDA) and customer satisfaction measured by Net Promoter Scores. In addition to those metrics the remaining members of the Leadership Team will have an additional targeted measure around execution of our strategic programmes. The STI outcomes for the Managing Director can be in the range of 0–175% of target value and 0–200% for the Spark Leadership Team.

STRENGTHENED FOCUS ON SUPPORT FOR EDUCATION

$21.4m

IN DONATIONS RAISED ON GIVEALITTLE PLATFORM IN FY16, $2.2M OF WHICH WAS RAISED FOR THE ABEL TASMAN BEACH CAMPAIGN

Community

We believe Spark has a big part to play in creating a better New Zealand. Our community initiatives are targeted around education – as we seek to ensure all young New Zealanders have opportunity to unleash their potential and thrive in a digital economy future. We also use digital technology to power a more generous society through New Zealand's crowdfunding platform for social good, Givealittle. Our activities combine the talent and passion of our people together with corporate programmes and the work of Spark Foundation, a registered charity funded by Spark and governed independently by a Board of Trustees.

Unleashing potential through learning

Spark's education-focused community initiatives encourage young New Zealanders to make the right choices about their learning, bridge the digital divide in low-income communities and help school-leavers transition into the workforce.

OMG TECH!

We want young New Zealanders to share our passion for technology, to help shape their thinking about the jobs of tomorrow. In FY16 we were a major 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). As well as financial support, Spark people volunteer at OMG Tech! events where school children experiment with software coding and robotics.

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 FY16 Spark Foundation contributed $550,000 to 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 programme means 11,000 students are now learning via the Manaiakalani approach.

Our successful partnership with the Manaiakalani Education Trust has encouraged us to look at other opportunities where we can use our technology and capabilities to help bridge the digital divide in New Zealand. This includes a new pilot scheme that offers a low cost broadband solution to families who cannot afford commercial broadband products – ensuring children are not disadvantaged in their learning by the lack of broadband at home. Working with Spark Foundation, we are looking to expand this programme during FY17.

OTHER EDUCATION INITIATIVES

In late FY16 we piloted a new Spark-driven initiative to help address an important issue for New Zealand: a youth unemployment rate three times higher than for other age groups. The programme aims to help young New Zealanders become more attractive to prospective employers as they enter the world of work. We want to share what we know as a significant employer of many thousands of New Zealanders across the country, in many fields of expertise, from technical roles through to the many sales and support functions that it takes to make Spark hum. Through a series of modules, we 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 going into schools as volunteers to share their insights and advice. During FY17 we will scale up the initiative to reach thousands of high school students across the country.

$810k

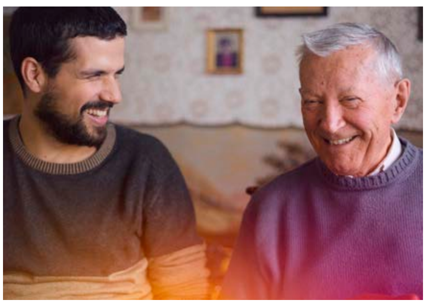
DONATED TO SCHOOLS AND COMMUNITY CAUSES VIA PAYROLL GIVING IN FY16

1,390

VOLUNTEER DAYS DONATED IN FY16

We also support a range of other education-focused initiatives by partnering with national not-for-profits. These include the First Foundation, with Spark funding the university education of 10 talented students from disadvantaged backgrounds, along with paid work experience during holidays and mentoring; the Sir Peter Blake Trust, with Spark people going into schools to share thought leadership and inspire the next generation of leaders; and the Springboard Trust, with Spark people providing mentoring to school principals.

In the spirit of lifelong learning, Spark is also helping senior New Zealanders come to grips with the complexities of modern technology. In FY16 we launched the Age Hackers, a programme that involves a group of tech-savvy seniors inspiring and educating their peers on technology. We have partnered with GrownUps, an online community for New Zealand's 50+ demographic to carry out this initiative.



Unleashing potential through generosity

The internet and the 'power of the crowd' can be powerful enablers of social good. Spark Foundation owns and operates Givealittle, New Zealand's crowdfunding platform through which many thousands of New Zealanders help fellow New Zealanders in need and give financial support to the causes they feel passionate about. In FY16 Givealittle causes raised a total of $21.4 million in donations and reached a milestone of $50 million in donations since the platform launched in 2008. A Givealittle campaign of note this year raised more than $2.2 million – New Zealand's largest crowdfunding campaign to date – to buy a picturesque beach in the Abel Tasman region that may have otherwise been sold into private hands. Spark also contributed $20,000 to the campaign and encouraged other businesses to get involved. Following the successful purchase, the beach obtained national park status to ensure ongoing public use and access.

Spark employees have continued to participate in volunteering and payroll giving programmes, which allows them to generously donate time or funds to causes of their choice. In FY16 participation in the volunteering programme reached 28% (from 26% in the previous year) and 1,390 days of employee time were gifted with a value of $417,000. The payroll giving programme reached a milestone of $4 million in cumulative donations, made up of employee giving and matching donations to New Zealand schools and registered charities. During FY16 donations totalled $810,000, marginally higher than the previous year's $809,000.

Unleashing potential through innovation

As New Zealand's leading digital services company, we want to encourage talent, innovative ideas and entrepreneurship. In FY16 Spark supported programmes for students and local small and medium-sized enterprises, including Colab (part of AUT University in Auckland) and Lightning Lab (which targets start-up ventures in Auckland, Wellington and Christchurch).

Through Spark Lab, Spark exchanges innovative ideas with Spark customers and the New Zealand public. Located in downtown Auckland, Spark Lab is a space dedicated to a series of curated events. On a monthly basis, Spark Lab hosts a series of events inviting dynamic industry leaders and influencers from New Zealand and beyond, with more than 145 talks presented to date. Designed to educate, inspire and motivate, all the events are free of charge and accessible through live-stream. The shared thinking space also facilitates business networking and sharing peer-to-peer insights.

In May-June 2016 Spark Managing Director Simon Moutter led a mission of business leaders to Israel. The aim was to explore learnings from Israel's widely recognised success in technology innovation, which has seen it dubbed the 'Start-up Nation.' Mission delegates are now formulating a series of recommendations and actions for New Zealand to lift its innovation performance.

DIVERSE BOARD WITH STRATEGIC FOCUS

29%

OF BOARD IS FEMALE AS AT 1 JULY 2016[1]

Governance

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

The Board recognises that building diversity across Spark is critical for delivering enhanced business performance, including building diversity of thought within the Board. As illustrated by the Board skills matrix on the following page, the Board has an appropriate mix of skills, diversity and experience to be ambitious and to deliver on those ambitions and to enable Spark to tackle the challenges and opportunities of the digital era.

1 This percentage will increase to 38% as at 1 September 2016 with the appointment of Alison Barrass to the Board.

Role of the Board

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

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.

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's decision to continue to follow the requirements of the ASX Corporate Governance Council notwithstanding the change from a full ASX Listing to a Foreign Exempt Listing in October 2015;
- Voluntary reporting on Environment, Social and Governance matters generally; and
- Spark's inclusion in the FTSE4Good index.

Strategy

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 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 appointments

The Board recognises that building diversity across Spark is critical for delivering enhanced business performance, including building diversity of thought within the Board. The Board has an appropriate mix of skills, diversity and experience 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 is assisted by a number of committees, including the Nominations and Corporate Governance Committee (NOMs) whose responsibilities include:

- Recommendations to the Board as to its size;
- Regularly reviewing the criteria for the selection of directors and recommending to the Board any necessary alterations;
- Recommending appropriate candidates to the Board based on the criteria set out in the Board Charter; and
- Ensuring that potential candidates understand the role of the Board and the time commitment involved when acting as a member of the Board.

Criteria for the selection of directors include a range of factors such as the perceived needs of the Board at the time, diversity, independence, qualifications and a broad range of experience and skills to meet Spark's objectives.

This includes skills and experience in a number of areas as set out in the Board's current skills matrix on the following page. The Board skills matrix also outlines the qualifications, geographical location, tenure and gender of each member of the Board.

Board skills matrix

	Mark Verbiest	Justine Smyth	Ido Leffler	Charles Sitch	Paul Berriman	Alison Gerry	Simon Moutter
Qualifications	LLB	BCom, FCA	BBS	MBA, LLB, BCom	MBA, BSc, CEng	BMS (HONS), MAppFin	ME, BE(HONS), BSc
Skills							
Executive Leadership and Strategy	●	●	●	●	●		●
Governance	●	●		●		●	
Telco Experience	●			●	●		●
Retailing and Marketing		●	●	●			●
Financial		●		●		●	
Risk and Compliance	●	●			●	●	
Legal and Regulation	●			●	●		●
People	●	●	●		●	●	●
Digital/Technology/ Innovation	●		●		●		●
Operations		●	●	●	●		●
Capital Markets	●	●				●	●
Geographical location	NZ	NZ	USA	Australia	Hong Kong	NZ	NZ
Tenure	4.7 YEARS	4.7 YEARS	2 YEARS	4.7 YEARS	4.7 YEARS	<1 YEAR	4 YEARS
Gender	M	F	M	M	M	F	M

Represents the Board skills matrix as at 1 July 2016 after the retirement of Murray Horn and the appointment of Alison Gerry.

Succession

In addition, the NOMs is responsible for reviewing Board succession planning, including active involvement in succession planning for the Chairperson.

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 recently identified two new directors to join the Spark Board. Alison Gerry joined the Board from 1 July 2016 and Alison Barrass will join the Board from 1 September 2016. During FY16 Murray Horn retired from the Board after serving with distinction for nine years.

Alison 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.

Alison 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.

Alison Barrass
joining the Board from 1 September 2016

EFFECTIVELY MANAGED DELIVERY RISKS AND COMPLETED THE RE-ENGINEERING PROGRAMME

SUCCESSFULLY MANAGED RISKS IN THE MOBILE MARKET

Risk

Spark must actively manage risk in a highly dynamic environment to ensure the ongoing security and protection of networks, digital services and data. Spark's framework for managing risk comprises an integrated set of responsibilities for our Board, Leadership Team, corporate functions and business units. The framework exists to strengthen corporate governance and enable management to manage their risks using the most appropriate approach.

The framework is implemented through a holistic combination of policy and guidelines, organisational design and function, appropriate accountabilities, support from specialist groups, and oversight processes. The Audit and Risk Management Committee (ARMC) mandates the framework and its operation through its Managing Risk policy, which combines two leading risk management approaches to identify and manage risks.

The first of these is our embedded risk management approach. It explicitly defines and segregates the risk management responsibilities of our internal people, similar to a 'three lines of defence' model. Here are some examples of our main risk management roles and responsibilities:

AUDIT AND RISK MANAGEMENT COMMITTEE

- Establish the Managing Risk policy.
- Review the Leadership Team's principal risk profile.
- Review the Leadership Team's regular performance reporting.
- Approve external and internal audits Assurance Plans and monitor their implementation.
- Review external peer reviews of the effectiveness of Spark's main assurance functions.

LEADERSHIP TEAM AND BUSINESS UNITS

- Prepare the Principal Risk profile.
- Develop and deploy core policies to manage specific risks.
- Manage risks using embedded and formal approaches as appropriate.
- Monitor and report on changes in the risk and control environment.

Our second approach is an implementation of the best practice risk management standard, ISO 31000, which we call formal risk management. It involves Spark's Leadership Team comprehensively profiling Spark's material business risks and the mitigants in place or planned to manage these. The profile is reported to, and monitored by, the ARMC and is reviewed at least annually.

A summary of the current key risks are set out below.

Customer experience

Customers may churn to competitors when we provide poor service. This reduces our revenue and gross margins. To improve service we have re-engineered our IT stacks and created the Platforms business unit to transform customer care capabilities. We have also increased staff numbers in our call centres to improve response times.

Winning key markets

MOBILE

Competitors may introduce value destructive offers that Spark must match to preserve scale. Introducing net promoter score (NPS) allows us to measure brand strength and match services to customer preferences. Our mobile plans are competitively priced and include value-added services (e.g. Spotify and WiFi). We also create differentiation by using a multi-brand strategy. To maintain network leadership we invest heavily in mobile spectrum and network technology.

BROADBAND

Spark's market share may be eroded by aggressive competition from other providers bundling content or energy with their broadband or simply lowering prices. The Ultra-Fast Broadband roll out creates new reasons for customers to churn. Spark's broadband plans are competitively priced and now include value-added services (e.g. Lightbox and WiFi). We create differentiation by using a multi-brand strategy.

IT SERVICES

Spark Digital's ability to improve IT services delivery and margin is critical to achieving the anticipated growth in this market segment. Replacing bespoke IT products with platform-based IT solutions, standardising product and service management catalogues and data centre investments lead our mitigations. New customer outcome management teams provide end-to-end accountability for service and financial performance.

FIXED MARGIN DECLINE

Spark's earnings performance is sensitive to fixed network product decline due to the high relative margins of these services. Spark is migrating fixed customers on to new products to utilise lower cost inputs, price discounting through a robust approval process and bundling fixed products to extend their in-market life.

Technology performance (Network and IT)

Spark operates large integrated networks and IT platforms. Service incidents that impact customers may impact our reputation and reduce our ability to attract and retain customers. Spark's service performance and capacity management groups monitor the network and IT platforms 24/7 and investigate and resolve any service incidents. To ensure long-term health, our network planning and IT architecture teams augment and evolve our technology to meet our customer and business objectives.

Best run and most efficient business

BUSINESS EFFICIENCY AND COST MANAGEMENT

Future business efficiency opportunities may not reduce costs to adjust for reducing margins. Spark is leveraging its network assets in new ways (e.g. Wireless Broadband), digitising service delivery channels and streamlining business operations.

MONETISING INCREMENTAL BROADBAND DATA GROWTH

Unlimited broadband offers and price-led competition may prevent monetisation of network capacity investment. Spark continues to invest in projects aimed at delivering the lowest cost per unit data network and creating new products that increase the monetisation of increased data consumption.

Environment and stakeholder risks

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 our 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. To mitigate this risk we proactively engage with government, the regulator and industry stakeholders and develop strategies to mitigate these risks as they emerge.

COMPLIANCE OBLIGATIONS

Spark must comply with legislative, regulatory and telecommunications service obligations (TSO). It is also subject to the NZSX and applicable ASX listing rules. Spark's Compliance and Privacy Team regularly engages with the business to provide compliance frameworks, tools, training and advice.

Spark has completed a major project to ensure compliance with the Health and Safety at Work Act 2015.

For more information on Spark's business risks and risk management system, please refer to our ESG report at www.sparknz.co.nz/what-matters.

11%

DECREASE IN ANNUAL GREENHOUSE GAS EMISSIONS IN FY16

25%

SPARK HAS AN ASPIRATION TO REDUCE ANNUAL GREENHOUSE GAS EMISSIONS BY **25% BY 2025** (FROM FY16 LEVELS)

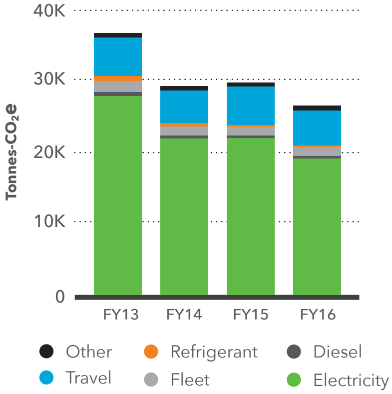
Environment

Sustainability is key when it comes to Spark driving innovation in New Zealand. Spark believes sustainable business practices mean greater competitive advantage in the long term. With a low-carbon future in mind, Spark has an aspiration to reduce our emissions by 25% by 2025 from FY16 levels. This aspiration will be confirmed over the course of the next two years as the impact of technology choices takes effect and reinforces our existing commitment to environmental responsibility and recognises how passionate New Zealanders are about their clean, green environment.

2025 carbon levels

Ten years ago Spark began measuring carbon emissions. To date we have achieved ongoing reductions at world-class rates. Spark has an aspiration to reduce emissions by 25% by 2025 from FY16 levels. Spark will measure and report progress towards this annually.

Reduction in greenhouse gas emissions



Since the FY06 base year, Spark's annual greenhouse gas (GHG) emissions have halved. Over this past decade, emissions have reduced by around twice the level required by science-based targets.

In FY16 annual GHG emissions were 11% lower than FY15. Both direct and indirect emissions reduced this year.

Spark's direct emissions (from sources controlled by Spark) include: the vehicle fleet, refrigerant, diesel for back up generators and natural gas. In FY16 Spark achieved a further 5% reduction in direct emissions. Since FY06 Spark has reduced direct emissions on average by 11% per year. Spark's indirect emissions reduced by 11% this year. Indirect emission sources include business travel, waste and electricity.

Air travel emissions decreased by 8% in FY16, with less international and trans-Tasman travel. In FY16 travel emissions were 46% lower than in the FY06 base year.

Emissions from waste increased by 10% this year, with an increase in volumes of office waste to landfill. However, this source accounts for just 2% of Spark's total emissions. In the past decade, Spark has avoided 3,300 tonnes of emissions through employees' recycling efforts.

The majority of Spark's emissions are from electricity sourced from the national grid. New Zealand has one of the least carbon intensive electricity grids in the world and since FY06 the grid's carbon intensity has more than halved. The national electricity grid is now 82% renewable.

Electricity emissions decreased by 13% this year. A reduction in the carbon intensity of power transmitted across the national grid more than offset a slight growth in power consumption. Spark's power consumption in data centres continues to grow, including with the acquisition of the CCL Group this year. Spark has managed to constrain the overall growth in power through various energy efficiency initiatives.

In FY16 two of Spark's data centres were recognised for energy efficiency. The Mayoral Drive Data Centre trialled a cooling system, Vigilent, which will see Spark reduce our energy consumption by over 517,000kWh per year. The new system also reduces greenhouse gas emissions by 274 tonnes-CO_2e.

RE:mobile

32,279

PHONES RECYCLED THROUGH THE RE:MOBILE PROGRAMME – CHARITY PARTNER SUSTAINABLE COASTLINES

The new flagship Takanini Data Centre uses the latest technologies, such as free-cooling that dramatically reduces energy use and carbon emissions. Passive cooling operates for 95% of the time without the use of chillers. Such design innovations more than halve the data centre's carbon footprint.

Takanini Data Centre – Best in Category / Property Industry Awards

#1

AWARDS

SPARK DATA CENTRE	ACCOLADE	CATEGORY	AWARDED BY
Mayoral Drive Data Centre	Highly Commended	Innovation	Energy Efficiency and Conservation Authority
Takanini Data Centre	Best in Category	Industrial Property	Property Industry

IN FY16, SPARK ADDED EVS TO OUR FLEET AND EQUIPPED PHONE BOXES AROUND NEW ZEALAND WITH EV CHARGERS.

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. Spark has set a target of $390,000 in network recycling revenue for the end of June 2017.

Mobile phone recycling

Spark is a member of the Telecommunications Forum's RE:MOBILE product stewardship scheme, which was created to reduce the environmental impact of unwanted mobile handsets. In FY16, 32,279 phones were recycled through the RE:MOBILE programme. Once collected, working devices are on-sold to emerging markets, with a percentage of the profits going to environmental charity Sustainable Coastlines, which during FY16 succeeded Starship Children's Hospital as the programme beneficiary. We are targeting a 10% increase in phone recycling in FY17.

Electric vehicles (EVs)

In an Australasian first, Spark trialled the Spark Plugs initiative, the fitting of electric vehicle chargers to four phone boxes across the greater Auckland area. In addition, two all-electric Peugeot Ions, the first in New Zealand, were introduced to Spark's pool car fleet. Spark's initiatives to support electric vehicles signal an investment in what could be the future of transport. In FY16 Spark's fleet included 35 Toyota Prius hybrid vehicles, which are recognised for fuel efficiency. In FY17 hybrid vehicles are expected to make up 40% of the pool car fleet.

Group result overview

Spark's earnings before interest, income tax, depreciation and amortisation (EBITDA) were:

$986M ▲ 2.5% from FY15.

Key performance indicators

FOR THE YEAR ENDED 30 JUNE		2016	2015	% CHANGE
Operating revenues and other gains	$M	3,497	3,531	(1.0)%
Re-based operating revenues and other gains[1]	$M	3,466	3,383	2.5%
Operating expenses	$M	2,506	2,566	(2.3)%
Re-based operating expenses[1]	$M	2,481	2,416	2.7%
Earnings before interest, income tax, depreciation and amortisation (EBITDA)[1]	$M	986	962	2.5%
Net earnings	$M	370	375	(1.3)%
Capital expenditure – excluding spectrum[1]	$M	381	418	(8.9)%
Capital expenditure – spectrum[1,2]	$M	9	158	NM
Total mobile connections	(000)s	2,293	2,178	5.3%
Broadband connections[3]	(000)s	675	680	(0.7)%
Employee numbers[4]		5,569	5,092	9.4%

NM = not meaningful

1 Re-based operating revenues and other gains, re-based operating expenses, EBITDA and capital expenditure are all non-Generally Accepted Accounting Practice (GAAP) measures and are not comparable to the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) measures. These measures are defined and reconciled on page 37.

2 Spectrum capital expenditure in FY16 relates to the purchase of 2300 MHz band mobile spectrum and FY15 relates to the purchase of 2x20 MHz of 700 MHz spectrum.

3 Measure relates to broadband connections in the Home, Mobile & Business and Digital business units.

4 FTE's are full-time equivalents, including contractors and are measured as at 30 June.

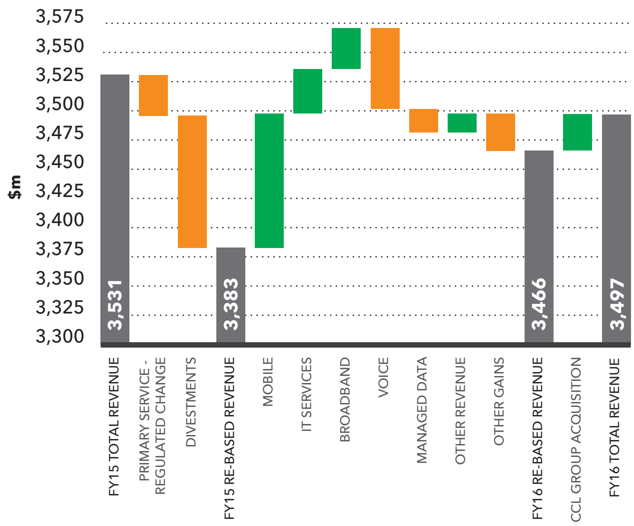
Headlines

Operating revenues and other gains outpaced operating expenses, leading to a $24 million or 2.5% increase in EBITDA in FY16

Capital expenditure for FY16 was $390 million, representing 11.2% of operating revenues

Mobile connections grew 5.3% to 2.293 million in FY16

Operating revenues and other gains



Total operating revenues and other gains decreased by $34 million (or 1.0%) to $3,497 million in FY16. However, operating revenues and other gains in FY15 included $113 million for the three businesses Spark divested in FY15 – the international voice business, Telecom Rentals Limited and the 60% share of Telecom Cook Islands Limited. Additionally, as noted in previous financial reports, since December 2014 there was a regulated change where Chorus now charges the majority of Spark Wholesale's customers directly for access, reducing operating revenues and operating expenses by $35 million. Offsetting these, FY16 operating revenues includes $31 million in relation to the CCL Group, which was acquired in December 2015.

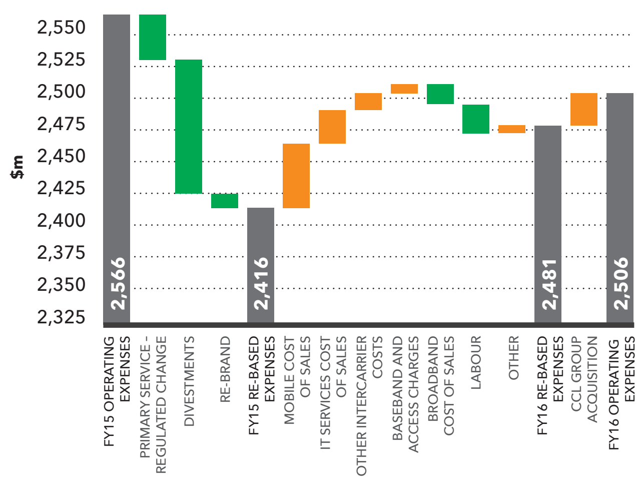
Therefore after re-basing[1] for these items, operating revenues and other gains increased by $83 million or 2.5% in line with Spark's strategic intent to deliver moderate revenue growth. The key drivers of this increase were:

- ▲ **Mobile revenues** grew by $115 million, or 11.3%, with a net increase of 115,000 connections since June 2015 taking the total mobile base to 2.29 million connections at 30 June 2016. The revenue growth was driven by increased service revenues from a combination of higher usage and the higher mobile base and higher volumes of handset sales;
- ▲ **IT services revenue** grew by $38 million, or 6.5%, resulting from growth in platform IT services and procurement revenues, partially offset by a slight decline in traditional IT service revenues; and
- ▲ **Broadband revenues** grew by $35 million, or 5.4%, as customers shifted to higher-value plans, partly offset by a loss of connections on lower-value plans.

These increases were partially offset by the following decreases:

- ▼ **Voice revenues** declined $69 million, or 9.2%, as customers moved away from landline-based calling;
- ▼ **Managed data revenues** declined by $20 million, or 9.6%, as business and wholesale customers migrated off traditional data products; and
- ▼ No **other gains** in FY16, compared to $32 million from the divestment of the international voice business, Telecom Rentals and Telecom Cook Islands Limited in FY15.

Operating expenses



1 Re-based operating revenues and other gains is a non-GAAP measure and is defined and reconciled on page 37.

Total operating expenses reduced by $60 million, or 2.3%, in FY16. However, after adjusting for the impact of the reduction in expenses for the three businesses divested ($104 million in FY15) and the regulated changes to wholesale billing ($35 million in FY15), one-off re-brand costs ($11 million in FY15) and the acquisition of the CCL Group ($25 million in FY16), re-based[2] operating expenses increased by $65 million, or 2.7%, to $2,481 million. There were a number of movements within this increase in operating expenses, including:

- ▲ Mobile acquisition costs increased by $50 million, or 12.6%, following the strong growth in our customer base and higher volumes of handset sales;
- ▲ Increased costs associated with the investment in our start-up enterprises such as Lightbox, Qrious and Morepork, including $9 million impairment costs in relation to the write down of investments in Lightbox Sport and Semble; and partly offset by
- ▼ Lower net labour costs ($23 million, or 4.5%), resulting from efficiency improvements, higher capitalised labour costs in FY16 and lower staff levels.

EBITDA[3]

EBITDA takes operating revenues and other gains and subtracts operating expenses and Spark's share of associates' and joint ventures' net losses. In FY16 the share of associates' and joint ventures' net losses was $5 million, a $2 million increase from FY15. However, operating revenues and other gains outpaced operating expenses in FY16, leading to a $24 million, or 2.5%, increase in EBITDA.

Net earnings

Net earnings is reported in the financial statements and is a NZ IFRS measure. Net earnings takes EBITDA and removes net interest expense, depreciation and amortisation and income tax expense. In FY16 net earnings were $370 million, down 1.3% from FY15. Movements in items that are included in net earnings but excluded from EBITDA were as follows:

- ▼ The depreciation and amortisation expense decreased by $7 million, or 1.5%, to $446 million in FY16 due to lower levels of capital spend compared to FY15;
- ▲ Net finance expense increased by $1 million, or 3.7%, to $28 million in FY16. This was due to a combination of $9 million lower interest income following the divestment of the Telecom Rentals business, largely offset by a $8 million reduction in interest expense due to a combination of lower average debt levels and lower interest rates; and
- ▲ The income tax expense increased by $35 million, or 32.7%, to $142 million in FY16 due to a combination of the non-taxable gains on the sale of businesses of $10 million in FY15, the impact of increased earnings in FY16 of $8 million and the impact of prior period adjustments of $7 million.

Further details of the FY16 and historical performance of Spark and each business unit are available in a separate financials file on the investor section of our website at: investors.sparknz.co.nz/investor-centre.

2 Re-based operating expenses is a non-GAAP measure and is defined and reconciled on page 37.

3 EBITDA is a non-GAAP measure and is defined and reconciled on page 37.

4 Capital expenditure is a non-GAAP measure and is defined on page 37.

Capital expenditure[4]

Capital expenditure for FY16 was $390 million, a decrease of $186 million, or 32.3%, on FY15, which included a $158 million investment in 700 MHz spectrum and $61 million for the Takanini data centre. FY16 capital expenditure excluding spectrum was 11.2% of operating revenues and other gains, decreasing from 11.8% in FY15.

The capital expenditure for Spark is shown in the table below.

YEAR ENDED 30 JUNE	2016 $M	2015 $M	CHANGE %
Major programmes			
Mobile network	77	92	(16.3%)
Re-engineering of IT systems	66	72	(8.3%)
Optical transport network (OTN) and Carrier Ethernet	23	16	43.8%
Takanini Data Centre	–	61	NM
Total major programmes	**166**	**241**	**(31.1%)**
Operating capital expenditure			
Customer retention and growth	202	172	17.4%
Southern Cross capacity	13	5	NM
Total operating capital expenditure	**215**	**177**	**21.5%**
Total relating to major programmes and operating capital expenditure	**381**	**418**	**(8.9%)**
Mobile spectrum	9	158	NM
Total capital expenditure	**390**	**576**	**(32.3%)**

NM = not meaningful

MAJOR PROGRAMMES

- $77 million was invested in FY16 in Spark's mobile network. This investment continued the deployment of single radio access network (SRAN) and Long Term Evolution (LTE) sites. Investment in SRAN/4G latest mobile technology has a number of key benefits, including capital efficiency, operating cost reduction, network performance improvement and simplification.
- $66 million was invested in FY16 to complete the Re-engineering Programme, delivering releases across fibre, pay monthly mobile and managed data. This continues to simplify Spark's technology and processes, enhancing customer experience.
- $23 million was invested in the OTN and Carrier Ethernet programme in FY16, with investment focused on meeting customer demand for services and traffic growth across the network as coverage expands.

OPERATING CAPITAL EXPENDITURE

- Customer retention and growth capital expenditure increased from $172 million in FY15 to $202 million in FY16, driven by a combination of investment in Telecommunications-as-a-Service platforms and the Tasman Global Access cable, which will enhance New Zealand's international broadband connectivity.
- Spark continued to invest in Southern Cross international cable capacity, with three further tranches purchased for a total of $13 million in FY16. Additional capacity will be purchased as and when required to meet upward trends in customer demand for data.

MOBILE SPECTRUM

- In FY16 Spark purchased 2300 MHz band mobile spectrum to be utilised in the roll out of Wireless Broadband for $9 million. In FY15 $158 million was invested in purchasing 700 MHz spectrum to increase the capacity and coverage of the 4G mobile network.

Cash flows

Spark's principal sources of liquidity are operating cash flows and external borrowing from established debt programmes and bank facilities.

The full statement of cash flows is provided in the financial statements section of this Annual Report. The following describes the main cash flow movements in FY16 compared to FY15.

NET CASH FLOWS FROM OPERATING ACTIVITIES

The net cash inflow from operating activities was $716 million in FY16, an $86 million, or 13.7%, increase compared to FY15. The major drivers of this increase in operating cashflows were:

- ▲ A $24 million increase in EBITDA in FY16;
- ▲ A $39 million increase in Southern Cross dividend receipts due to a $13 million increase in dividend levels and the timing of cash receipts;
- ▲ $24 million lower tax payments in FY16; and partly offset by
- ▼ The impact of reductions in payables.

NET CASH FLOWS FROM INVESTING ACTIVITIES

The net cash outflow from investing activities was $488 million in FY16, a $32 million, or 7.0%, increase compared to FY15. The major drivers of this change were:

- ▼ The sales of Spark's international voice business, 60% share of Telecom Cook Islands and Telecom Rentals Limited, which generated net cash receipts of $169 million in FY15;
- ▼ An increase in payments for the purchase of businesses with the acquisition of the CCL Group for $50 million in FY16, compared with $17 million for the acquisition of Appserv Limited in FY15; and partly offset by
- ▲ A reduction in capital expenditure of $168 million, largely due to the purchase in FY15 of 700 MHz spectrum for $158 million.

NET CASH FLOWS FROM FINANCING ACTIVITIES

The net cash outflow from financing activities was $256 million in FY16, compared to a net outflow of $304 million in FY15. The major drivers of this increase in financing cashflows were:

- ▲ Net proceeds from short and long-term debt of $189 million compared with $16 million net repayments in FY15, driven by funding requirements and higher dividend payments during the year;
- ▲ A reduction of payments made for share repurchases;
- ▼ An increase in dividend payments of $132 million in FY16 to $430 million, reflecting the increase in dividends per share paid during the year; and
- ▼ $1 million receipts on finance leases in FY16, compared to $34 million in FY15 following the sale of Telecom Rentals Limited.

Dividends

Spark pays dividends on a semi-annual basis. An ordinary dividend of 11 cents per share and special dividend of 1.5 cents per share were declared for H1 FY16 and were both fully imputed. A fully imputed ordinary dividend of 11 cents per share has been declared for H2 FY16, together with a fully imputed special dividend of 1.5 cents per share, bringing the total dividends for FY16 to 25 cents per share. This represents a 10% increase in ordinary dividends and 25% increase in total dividends from FY15.

For FY17, subject to there being no material adverse changes in operating outlook, Spark anticipates paying an annual ordinary dividend of 22 cents per share and a special dividend of 3 cents per share. It is currently anticipated that the FY17 ordinary dividend will be fully imputed and the special dividend at least 75% imputed. The dividend reinvestment plan has been suspended for the foreseeable future.

	H1 FY16 ORDINARY DIVIDENDS	H1 FY16 SPECIAL DIVIDENDS	H2 FY16 ORDINARY DIVIDENDS	H2 FY16 SPECIAL DIVIDENDS
Dividends declared				
Ordinary shares	11.0 cents	1.5 cents	11.0 cents	1.5 cents
American Depositary Shares	37.61 US cents	5.13 US cents	39.55 US cents[1]	5.39 US cents[1]
Imputation				
Percentage imputed	100%	100%	100%	100%
Imputation credits per share	4.2778 cents	0.5833 cents	4.2778 cents	0.5833 cents
Supplementary dividend per share[2]	1.9412 cents	0.2647 cents	1.9412 cents	0.2647 cents
'Ex' dividend dates				
New Zealand Stock Exchange	17 Mar 2016	17 Mar 2016	22 Sep 2016	22 Sep 2016
Australian Securities Exchange	17 Mar 2016	17 Mar 2016	22 Sep 2016	22 Sep 2016
American Depositary Shares	16 Mar 2016	16 Mar 2016	21 Sep 2016	21 Sep 2016
Record dates				
New Zealand Stock Exchange	18 Mar 2016	18 Mar 2016	23 Sep 2016	23 Sep 2016
Australian Securities Exchange	18 Mar 2016	18 Mar 2016	23 Sep 2016	23 Sep 2016
American Depositary Shares	18 Mar 2016	18 Mar 2016	23 Sep 2016	23 Sep 2016
Payment dates				
New Zealand and Australia	1 Apr 2016	1 Apr 2016	7 Oct 2016	7 Oct 2016
American Depositary Shares	8 Apr 2016	8 Apr 2016	14 Oct 2016	14 Oct 2016

1 Based on the exchange rate at 15 August 2016 of NZ$1 to US$0.7190 and a ratio of five ordinary shares per one American Depositary Share. The actual exchange rate used for conversion is determined in the week prior to payment when the Bank of New York performs the physical currency conversion.

2 Supplementary dividends are paid to non-resident shareholders.

Non-GAAP measures

This Annual Report includes non-GAAP financial measures that are not prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS'). These are defined and reconciled below.

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

Spark calculates EBITDA by adding back depreciation, amortisation, finance expense and income tax expense to net earnings less finance income. EBITDA includes Spark's share of its associates' and joint ventures' net losses. The calculation of Spark's EBITDA is provided below and based on amounts taken from, and consistent with, those presented in the audited financial statements.

YEAR ENDED 30 JUNE	2016 $M	2015 $M
Net earnings reported under NZ IFRS	370	375
Add back: depreciation	248	256
Add back: amortisation	198	197
Less: finance income	(18)	(27)
Add back: finance expense	46	54
Add back: income tax expense	142	107
EBITDA	**986**	**962**

Adjusted EBITDA, where applicable, is the segment result reported, plus the net result of corporate revenue and expenses, in the financial statements. It excludes significant one-off gains, expenses and impairments individually greater than $25 million that are also excluded from the segmental result to provide an indication of the underlying earnings of that segment. There were no adjusting items in FY15 or FY16. Segment results are reconciled to net earnings before income tax in note 2.1 of the financial statements.

RE-BASED OPERATING REVENUES AND OTHER GAINS AND RE-BASED OPERATING EXPENSES

Spark has provided re-based operating revenues and other gains and re-based operating expenses to assist with the comparison of current and prior period results. These reflect the divestments of the international voice business, Spark's 60% share of Telecom Cook Islands Limited and Telecom Rentals Limited and one-off rebrand costs in FY15. Additionally, since December 2014 there was a regulated change where Chorus now charges the majority of Spark Wholesale's customers directly for access, reducing both revenue and expenses. FY16 operating revenues and other gains and operating expenses have also been re-based to exclude the impact of the acquisition of the CCL Group during the period.

Operating revenues and other gains and operating expenses as reported under NZ IFRS have been reconciled to re-based amounts below:

YEAR ENDED 30 JUNE	2016 $M	2015 $M
Operating revenues and other gains		
Total reported under NZ IFRS	3,497	3,531
Less: Impact of divestments	–	(113)
Less: Impact of regulated change in primary service access charges	–	(35)
Less: Impact of CCL Group acquisition	(31)	–
Total re-based	**3,466**	**3,383**

YEAR ENDED 30 JUNE	2016 $M	2015 $M
Operating expenses		
Total reported under NZ IFRS	2,506	2,566
Less: Impact of divestments	–	(104)
Less: Impact of regulated change in primary service access charges	–	(35)
Less: Impact of rebrand costs	–	(11)
Less: Impact of CCL Group acquisition	(25)	–
Total re-based	**2,481**	**2,416**

CAPITAL EXPENDITURE

Capital expenditure is the additions to property, plant and equipment and intangible assets, excluding goodwill, acquisitions and other non-cash additions that may be required by NZ IFRS, such as decommissioning costs. Key asset information under NZ IFRS is included in section 3 of the notes to the financial statements.

USE OF NON-GAAP MEASURES

Spark believes that these non-GAAP financial measures provide useful information to readers to assist in the understanding of the financial performance, financial position or returns of Spark. These measures are also used internally to evaluate performance of business units, to analyse trends in cash-based expenses, to establish operational goals and allocate resources. However, they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with NZ IFRS.

Non-GAAP financial measures reported by Spark are not uniformly defined or utilised by all companies in New Zealand or the telecommunications industry. Accordingly, these measures may not be comparable with similarly titled measures used by other companies.

Spark Home, Mobile & Business

Financial result

YEAR ENDED 30 JUNE	2016 $M	2015 $M	CHANGE %
Operating revenues and other gains	1,984	1,857	6.8%
Operating expenses	(1,201)	(1,102)	9.0%
Share of associates' and joint ventures' net (losses)	(5)	(4)	25.0%
EBITDA	**778**	**751**	**3.6%**

The financial results above include those for Spark Ventures.

Spark Home, Mobile & Business provides products, services and support to consumer and small business customers. It provides a full range of services and content, data and voice services across fibre and copper broadband, 3G and 4G mobile and nationwide WiFi zones. The key priorities for Spark Home, Mobile & Business are to drive growth in the mobile and small business markets whilst holding market share in the broadband market. This will be delivered through improving service to customers through call centres, driving growth in digital self-service channels, and creating differentiated products that customers value.

OPERATIONAL HIGHLIGHTS

In FY16 we:

- Achieved strong mobile service revenue growth driven by flexibility with open term plans, great device catalogue and differentiation through our customers being able to access our WiFi network and our music partnership with Spotify;
- Delivered strong growth in high-value broadband customers and our market share of new UFB connections, driven by the inclusion of Lightbox, partly offset by a loss in low-value connection numbers;
- Launched Wireless Broadband, providing fast broadband speeds to our customers over our 4G mobile network; and
- Worked on a number of customer service fronts, including: hiring almost 300 new staff in our call centres, publishing real-time call centre performance, committing more resources to our digital service roadmap and educating customers on digital customer service options available.

In FY17 we will:

- Deliver more services to our customers digitally, maximise new customer service capabilities enabled by the Re-engineering Programme systems updates, work with fibre network companies to improve industry processes and continue to improve customer wait times in our call centres;
- Continue our leadership position in the mobile market, growing revenues and connections through the best value plans;
- Continue our leadership position in broadband through connecting our customers to the best plans and technology for them; and
- Drive a focused multi-brand strategy that adds clear value to our customers.

FINANCIAL PERFORMANCE

Total operating revenues and other gains increased by $127 million, or 6.8%, in FY16. The primary driver of this increase was the strong growth in mobile revenue, up $120 million or 14.9%. This was driven by higher service revenues, which increased by 10.5%, and mobile handset sales, from a combination of increased connection numbers, uptake of higher-value plans and mobile devices and a reduction in mobile subsidies. Broadband revenues also increased as customers shifted to higher-value plans. These increases were partly offset by a $42 million, or 10.8%, decline in landline voice revenue in line with historic trends.

Overall, operating expenses increased by $99 million, or 9.0%, in FY16 reflecting higher mobile cost of sales of $50 million, primarily through increased device costs. In addition, labour cost increased by $15 million partly due to increased investment in staff in our call centres.

This strong revenue growth performance drove an overall increase in EBITDA of $27 million, or 3.6%, in FY16.

Increase in mobile service revenue

10.5%

Spark Digital

Financial result

YEAR ENDED 30 JUNE	2016 $M	2015 $M	CHANGE %
Operating revenues and other gains	1,215	1,215	–
Operating expenses	(805)	(826)	(2.5%)
EBITDA	**410**	**389**	**5.4%**

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

OPERATIONAL HIGHLIGHTS

In FY16 we:

- Continued to rapidly expand our platform IT services business through organic growth as well as the acquisition of the CCL Group;
- Started the delivery of large business transformation projects in partnership with KiwiRail and New Zealand Racing Board;
- Provided a WiFi solution that enabled in-store digital experiences for Restaurant Brands' outlets KFC and Carl's Jnr and developed a mobile engineering workforce for Opus International Consultants;
- Cemented our position on the Government Telecommunications as a Service (TaaS) panel, leading the digital fit-out for the Statistics New Zealand CIGA building in Christchurch; and
- Increased productivity through an improved delivery model between Spark Digital and Spark Connect.

In FY17 we will:

- Continue to move towards platform-based delivery for both telco and IT, to enable efficient and rapid deployment of digital capability to customers;
- Grow our Cloud business by providing market-leading solutions and experiences; and
- Complete on-boarding a number of major new customers onto our services.

FINANCIAL PERFORMANCE

Spark Digital delivered EBITDA growth of $21 million, or 5.4%, in FY16. Growth in platform IT services, as well as benefits from operating efficiency improvements, more than compensated for the underlying decline in traditional telecommunications.

Total operating revenues and other gains were flat in FY16. IT services revenues grew by $71 million, or 12.4%, led by strong growth in platform IT services, being partially offset by a decline in traditional IT services of $9 million. Voice, broadband, managed data and mobile revenue rates of decline slowed in a strong H2 FY16.

Spark Digital EBITDA increase

5.4%

Platform IT services revenue increase

26.4%

Spark Connect

Financial result

YEAR ENDED 30 JUNE	2016 $M	2015 $M	CHANGE %
Operating revenues and other gains	280	458	(38.9)%
Operating expenses	(463)	(614)	(24.6)%
Share of associates' and joint ventures' net profits	1	1	–
EBITDA	**(182)**	**(155)**	**17.4%**

During FY16 Spark Connect was responsible for developing and operating Spark's core networks and IT platforms, as well as providing services directly to wholesale customers. Spark Connect also provided many critical support services to Spark, such as billing, credit collections, provisioning, procurement and the management of buildings and leasehold property.

% of the population covered by 4G mobile

>90%

OPERATIONAL HIGHLIGHTS

In FY16 we:

- Continued roll out of 4G, with coverage now over 90% of the population;
- Made significant investment in network resiliency and capacity, including investment in the Single Radio Access Network (SRAN), upgrades to the broadband network gateways and continued investment in the Optical Transport Network (OTN), which have resulted in improved network reliability and performance;
- Launched Wireless Broadband products, which leverage investments in 4G and spectrum assets;
- Completed a highly successful four-year IT Re-engineering Programme, which will provide Spark with a source of ongoing competitive advantage;
- Commenced the build of Telecommunications as a Service (TaaS) IT platforms for Spark Digital clients;
- Commenced construction of a new Tasman Global Access submarine cable connecting New Zealand and Australia;
- Delivered efficiency savings through procurement and supply chain activities and an improved delivery model with Spark Digital; and
- Completed the sale of our international voice business.

In FY17 we will:

- Create two new business units, Spark Platforms and Spark Connect;
- Spark Platforms will be responsible for leveraging the investments made in our IT Re-engineering Programme and re-inventing our service and product experience for customers so that they are truly digital; and
- Spark Connect will be responsible for our ongoing network performance and technology roadmap, core connectivity, infrastructure and shared services functions, with the objective of lowering our cost per gigabyte of data across our networks.

FINANCIAL PERFORMANCE

Total operating revenues and other gains decreased by $178 million, or 38.9%, in FY16, with most of this decline due to the divestments of the international voice business and our 60% share in Telecom Cook Islands Limited ($113 million), combined with the regulated change to wholesale access billing ($35 million). After adjusting for these, total operating revenue declined by $30 million, or 9.7%, as wholesale customers rationalised their legacy copper-based voice and data services.

Overall, Connect EBITDA declined by $27 million, or 17.4%, resulting from the rationalisation of legacy copper-based services by wholesale customers.

Spark Ventures

Spark Ventures is developing a portfolio of new businesses and services that will create long-term value for Spark by delivering connected digital experiences that consumers love. To achieve this outcome it is building a portfolio of ventures and acting as an internal incubator and accelerator, adopting disruptive business models, using agile methods and with a bias for partnering.

OPERATIONAL HIGHLIGHTS

In FY16 we:

- Delivered consistent subscriber, average revenue per user (ARPU) and revenue growth in Skinny, underpinned by Spark's mobile network and market-leading customer service. Skinny also entered the broadband market via the launch of a 4G Wireless Broadband product;
- Saw strong growth in Bigpipe subscribers underpinned by best-in-class customer satisfaction measures and continued product innovation;
- More than doubled Lightbox's subscriber base and delivered portfolio benefits across Spark's Consumer broadband base;
- Launched Morepork initially with a security service and expanded this into Smart Living;
- Grew Qrious big data analytics revenues year-on-year, driven by continued product and business development focused across a number of sectors, including transport, tourism and events;
- Assisted in the ongoing commercialisation of our investments in Putti and Vigil Monitoring portfolio; and
- Ceased operations in Lightbox Sport and shut down the payment service within Semble as they failed to demonstrate a pathway to profitability.

In FY17 we will:

- Move Skinny, Bigpipe, Lightbox and Morepork across to Spark Home, Mobile & Business;
- Validate and implement the next wave of Ventures, including potential points of market entry for Internet of Things (IOT);
- Accelerate growth in Qrious earnings through the introduction of new services, deeper expansion into existing sectors and leveraging its big data capability across Spark to drive performance; and
- Continue to revolutionise the way New Zealanders discover and consume video.

Spark Ventures' financial results are included within the results of Spark Home Mobile & Business as they are not currently material.

Skinny rated

#1

by Canstar

Lightbox Subscriber base up

>100%

year-on-year

Financial statements

Independent auditor's report

To the shareholders of Spark New Zealand Limited

We have audited the accompanying consolidated financial statements of Spark New Zealand Limited and its subsidiaries (''the group'') on pages 44 to 76. The financial statements comprise the consolidated statement of financial position as at 30 June 2016, the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Directors' responsibility for the consolidated financial statements

The directors are responsible on behalf of the group for the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the consolidated financial statements on pages 44 to 76 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the consolidated financial position of Spark New Zealand Limited as at 30 June 2016 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

18 August 2016

Auckland

Income statement

YEAR ENDED 30 JUNE

	NOTES	2016 $M	2015 $M
Operating revenues and other gains	2.2	3,497	3,531
Operating expenses	2.3	(2,506)	(2,566)
Share of associates' and joint ventures' net losses	5.1	(5)	(3)
Earnings before interest, income tax, depreciation and amortisation		986	962
Depreciation	3.1	(248)	(256)
Amortisation	3.2	(198)	(197)
Earnings before interest and income tax		540	509
Finance income	2.4	18	27
Finance expense	2.4	(46)	(54)
Net earnings before income tax		**512**	**482**
Income tax expense	2.5	(142)	(107)
Net earnings for the year		**370**	**375**
Attributable to:			
Equity holders of the Company		370	373
Non-controlling interests		–	2
		370	**375**
Earnings per share			
Basic and diluted earnings per share (cents)		20.2	20.3
Weighted average ordinary shares (millions)		1,830	1,834
Weighted average ordinary shares and options (millions)		1,834	1,838

See accompanying notes to the financial statements.

Statement of comprehensive income

YEAR ENDED 30 JUNE

	NOTES	2016 $M	2015 $M
Net earnings for the year		370	375
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of long-term investments designated at fair value through other comprehensive income	5.1	(7)	15
Items that may be reclassified to profit or loss:			
Translation of foreign operations		2	5
Cash flow hedges[1]	6.2	(27)	(4)
Other comprehensive (loss)/income for the year		**(32)**	**16**
Total comprehensive income for the year		**338**	**391**
Attributable to:			
Equity holders of the Company		338	389
Non-controlling interests		–	2
		338	**391**

See accompanying notes to the financial statements.

1 Net of tax, with differences between gross and net detailed in note 6.2.

Statement of financial position

AS AT 30 JUNE

	NOTES	2016 $M	2015 $M
Current assets			
Cash		52	80
Short-term derivative assets	6.2	-	8
Short-term receivables and prepayments	4.1	513	494
Taxation recoverable		3	14
Inventories	3.3	81	70
Total current assets		**649**	**666**
Non-current assets			
Long-term receivables and prepayments	4.1	210	181
Long-term derivative assets	6.2	12	1
Long-term investments	5.1	131	133
Property, plant and equipment	3.1	1,104	1,105
Intangible assets	3.2	1,131	1,120
Total non-current assets		**2,588**	**2,540**
Total assets		**3,237**	**3,206**
Current liabilities			
Short-term payables, accruals and provisions	4.2	450	567
Taxation payable		8	-
Short-term derivative liabilities	6.2	5	-
Debt due within one year	4.3	190	150
Total current liabilities		**653**	**717**
Non-current liabilities			
Deferred tax liabilities	2.5	125	124
Long-term derivative liabilities	6.2	69	22
Long-term payables, accruals and provisions	4.2	21	23
Long-term debt	4.3	685	542
Total non-current liabilities		**900**	**711**
Total liabilities		**1,553**	**1,428**
Equity			
Share capital	4.4	923	924
Reserves		(401)	(368)
Retained earnings		1,162	1,222
Total equity		**1,684**	**1,778**
Total liabilities and equity		**3,237**	**3,206**

See accompanying notes to the financial statements.

On behalf of the Board

Mark Verbiest, Chairman

Simon Moutter, Managing Director

Authorised for issue on 18 August 2016

Statement of changes in equity

YEAR ENDED 30 JUNE 2016	NOTE	SHARE CAPITAL $M	RETAINED EARNINGS $M	HEDGE RESERVE $M	SHARE-BASED COMPEN-SATION RESERVE $M	REVAL-UATION RESERVE $M	FOREIGN CURRENCY TRANS-LATION RESERVE $M	TOTAL EQUITY HOLDERS OF THE COMPANY $M	NON-CONTROL-LING INTERESTS $M	TOTAL $M
Balance at 1 July 2015		**924**	**1,222**	**(4)**	**10**	**(350)**	**(24)**	**1,778**	**–**	**1,778**
Net earnings for the year		–	370	–	–	–	–	370	–	370
Other comprehensive income/(loss)		–	–	(27)	–	(7)	2	(32)	–	(32)
Total comprehensive income/(loss) for the year		**–**	**370**	**(27)**	**–**	**(7)**	**2**	**338**	**–**	**338**
Contributions by, and distributions to, owners:										
Dividends	4.4	–	(430)	–	–	–	–	(430)	–	(430)
Supplementary dividends		–	(56)	–	–	–	–	(56)	–	(56)
Tax credit on supplementary dividends		–	56	–	–	–	–	56	–	56
Issuance of shares under share schemes		3	–	–	(1)	–	–	2	–	2
Shares repurchased	4.4	(4)	–	–	–	–	–	(4)	–	(4)
Total transactions with owners		**(1)**	**(430)**	**–**	**(1)**	**–**	**–**	**(432)**	**–**	**(432)**
Balance at 30 June 2016		**923**	**1,162**	**(31)**	**9**	**(357)**	**(22)**	**1,684**	**–**	**1,684**

YEAR ENDED 30 JUNE 2015	NOTE	SHARE CAPITAL $M	RETAINED EARNINGS $M	HEDGE RESERVE $M	SHARE-BASED COMPEN-SATION RESERVE $M	REVAL-UATION RESERVE $M	FOREIGN CURRENCY TRANS-LATION RESERVE $M	TOTAL EQUITY HOLDERS OF THE COMPANY $M	NON-CONTROLL-ING INTERESTS $M	TOTAL $M
Balance at 1 July 2014		**920**	**1,179**	**–**	**5**	**(366)**	**(36)**	**1,702**	**6**	**1,708**
Net earnings for the year		–	373	–	–	–	–	373	2	375
Other comprehensive income/(loss)		–	–	(4)	–	15	5	16	–	16
Total comprehensive income/(loss) for the year		**–**	**373**	**(4)**	**–**	**15**	**5**	**389**	**2**	**391**
Contributions by, and distributions to, owners:										
Dividends	4.4	–	(330)	–	–	–	–	(330)	(1)	(331)
Supplementary dividends		–	(44)	–	–	–	–	(44)	–	(44)
Tax credit on supplementary dividends		–	44	–	–	–	–	44	–	44
Dividend reinvestment plan		32	–	–	–	–	–	32	–	32
Issuance of shares under share schemes		3	–	–	5	–	–	8	–	8
Shares repurchased	4.4	(31)	–	–	–	–	–	(31)	–	(31)
Disposal of foreign operation		–	–	–	–	1	7	8	(7)	1
Total transactions with owners		**4**	**(330)**	**–**	**5**	**1**	**7**	**(313)**	**(8)**	**(321)**
Balance at 30 June 2015		**924**	**1,222**	**(4)**	**10**	**(350)**	**(24)**	**1,778**	**–**	**1,778**

See accompanying notes to the financial statements.

Statement of cash flows

YEAR ENDED 30 JUNE

	2016 $M	2015 $M
Cash flows from operating activities		
Cash received from customers	3,351	3,383
Interest receipts	15	25
Dividend receipts	77	38
Payments to suppliers and employees	(2,570)	(2,628)
Income tax paid	(116)	(140)
Interest payments	(41)	(48)
Net cash flows from operating activities	**716**	**630**
Cash flows from investing activities		
Sale of business	3	169
Purchase of business	(50)	(17)
Payments for long-term investments	(17)	(16)
Purchase of property, plant and equipment and intangibles	(418)	(586)
Capitalised interest paid	(6)	(6)
Net cash flows from investing activities	**(488)**	**(456)**
Cash flows from financing activities		
Proceeds from long-term debt	730	500
Repayment of long-term debt	(640)	(473)
Proceeds from short-term debt	548	565
Repayment of short-term debt	(449)	(608)
Dividend payments	(430)	(298)
Payments for share repurchases	(11)	(23)
Payments on finance leases	(5)	(1)
Receipts on finance leases	1	34
Net cash flows from financing activities	**(256)**	**(304)**
Net cash flow	**(28)**	**(130)**
Opening cash position	80	208
Foreign exchange movements	–	2
Closing cash position	**52**	**80**

See accompanying notes to the financial statements.

Statement of cash flows (continued)

Reconciliation of net earnings to net cash flows from operating activities

YEAR ENDED 30 JUNE	2016 $M	2015 $M
Net earnings for the year	370	375
Adjustments to reconcile net earnings to net cash flows from operating activities		
Depreciation and amortisation	446	453
Bad and doubtful accounts	26	17
Deferred income tax	5	4
Share of associates' and joint ventures' net losses	5	3
Impairments	9	–
Gain on sale of business	–	(32)
Other	1	9
Changes in assets and liabilities net of effects of non-cash and investing and financing activities		
Movement in receivables and related items	(57)	(96)
Movement in inventories	(11)	(19)
Movement in current taxation	19	(37)
Movement in payables and related items	(97)	(47)
Net cash flows from operating activities	**716**	**630**

See accompanying notes to the financial statements.

Notes to the financial statements: General information

Section 1 General information

In this section

This section includes general information to assist in understanding how these financial statements were prepared, including key estimates and judgements made by management. A summary of significant transactions and events provides a snapshot of what affected the financial performance and position of the Group during the year.

1.1 About this report

Reporting entity

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

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

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

Basis of preparation

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

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

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

Operating revenues presentation changes

The disaggregation of operating revenues has been changed in the current year to better reflect the nature of services the Group provides to its customers. Operating revenues previously classified as 'Fixed' have been re-presented to allocate its 'Access' and 'Other' components to the appropriate service provided, being Voice or Broadband. Total operating revenues are unchanged. Comparative information has also been re-presented to conform to the current year's presentation.

New and amended standards adopted by the Group

The Group early adopted *Disclosure Initiative* (Amendments to NZ IAS 1 *Presentation of Financial Statements*) from the year ended 30 June 2015. This was used as a framework for the further simplification of the Group's financial statements, removal of disclosure not considered to be material and enhancements to their layout.

The Group also early adopted Part 1 of NZ IFRS 9 (2009) *Financial Instruments* from the year ended 30 June 2010. NZ IFRS 9 specifies that financial assets should be measured at either amortised cost or fair value, on the basis of both the business model for managing these assets and the nature of any contractual cash flows. The recognition and measurement of financial liabilities currently remains in accordance with NZ IAS 39 *Financial Instruments*.

New standards not yet adopted

NZ IFRS 15 *Revenue from contracts with customers* will replace NZ IAS 18 *Revenue* and related interpretations and may have a material impact on the Group. The standard will be effective for the Group from the year ending 30 June 2019. The Group is currently assessing the impact of NZ IFRS 15 and is expected to adopt it in the period it becomes mandatory.

NZ IFRS 16 *Leases* will replace NZ IAS 17 *Leases* and related interpretations and will have a material impact on the Group. The standard will be effective for the Group from the year ending 30 June 2020. The Group is currently assessing the impact of NZ IFRS 16 and is expected to adopt it in the period it becomes mandatory.

NZ IFRS 9 *Financial Instruments* (2014), representing the final version of the standard, replaces earlier versions of NZ IFRS 9 and completes the replacement of NZ IAS 39 *Financial Instruments: Recognition and Measurement*. The standard includes a revised model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The standard will be effective for the Group from the year ending 30 June 2019. The Group is currently assessing the impact of the final version of NZ IFRS 9 and the period from which it will be adopted.

Notes to the financial statements: General information

1.2 Key estimates and judgements

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

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

- Note 2.2 Operating revenues and other gains
- Note 3.1 Property, plant and equipment
- Note 3.2 Intangible assets

1.3 Significant transactions and events in the financial year

The following significant transactions and events affected the financial performance and financial position of the Group for the year ended 30 June 2016:

Comparative operating revenue and expenses

- Movements in operating revenues from FY15 to FY16 were impacted by the divestment of the international voice business, the Group's 60% share of Telecom Cook Islands Limited and Telecom Rentals Limited in FY15. These businesses contributed $113 million of operating revenues and $32 million of gains on sale to the Group in FY15, with no equivalent operating revenues or gains on sale in FY16. Operating expenses recognised by the Group in FY15 in relation to these businesses prior to their sale were $104 million.
- A 1 December 2014 change to the Telecommunications Act 2001 resulted in unbundled bitstream access (UBA) becoming the primary service purchased from Chorus, resulting in Chorus now charging our Spark Wholesale customers directly for layer 1 copper access, where it bundles the voice service sold by Spark Wholesale with a broadband service to its customers. This resulted in the Group no longer recognising the revenue or expense associated with access charges for these Wholesale customers. Before the regulated change, $35 million of operating revenues and $35 million of operating expenses were recognised by the Group in FY15.

Debt programme

- On 10 December 2015 the Group issued $100 million of unsecured, unsubordinated fixed rate bonds with a coupon rate of 4.51%, maturing on 10 March 2023.
- The Group repaid its final issuance of TeleBonds of $150 million on 31 March 2016.
- The Group also entered into two committed revolving bank funding facilities totalling $200 million, of which $140 million was drawn as at 30 June 2016.

Acquisitions and long-term investments

- The Group acquired 100% of the ordinary shares of Property Leasing Limited, which owns all of the shares in Computer Concepts Limited and the Colocation Company Limited (together, the 'CCL Group') on 18 December 2015 for cash consideration of $50 million. The CCL Group is a South Island based IT infrastructure and professional services company and the acquisition will add further momentum to the growth strategies of Spark Digital and the CCL Group, improving their capabilities, expanding their market reach and deepening the Group's Cloud and platform IT services offer, providing revenue, cost and capital synergies. Goodwill recognised on acquistion was $25 million.
- On 30 November 2015 the Group acquired a 26% holding (and increased its stake to 37%, as at 30 June 2016) of NOW New Zealand Limited, a Hawke's Bay based internet service provider. This investment is classified as an associate.
- The Group made additional investments in associates and joint ventures, such as NOW New Zealand Limited, Feenix Communications Limited, TSM NZ Limited, Vigil Monitoring Limited and App La Carte Limited, of $19 million. The Group's net earnings for the year includes $5 million from its share of the net losses of associates and joint ventures.
- The Group recognised an $8 million impairment expense to fully write down its investment in Lightbox Sport General Partner Limited. A $1 million impairment expense was also recognised in relation to TSM NZ Limited due to the shut down of its Semble payment service.

Capital expenditure

The Group's additions to property, plant and equipment during the year were $225 million and to intangible assets, $165 million. This included $77 million in relation to the Group's mobile network, $66 million in relation to the re-engineering of IT systems, $202 million on customer retention and growth capital expenditure, which included expenditure on the Tasman Global Access cable and Telecommunications as a Service platforms, and $9 million on 2300 MHz band mobile spectrum.

Dividends and equity

- Dividends paid during the year ended 30 June 2016 in relation to the H2 FY15 second-half dividend (11 cents per share) and H1 FY16 first-half dividend (ordinary dividend of 11 cents per share and special dividend of 1.5 cents per share) totalled $430 million or 23.5 cents per share. Dividends paid during the prior year ended 30 June 2015 totalled $330 million or 18 cents per share.
- During the year ended 30 June 2016 the Company repurchased 1.4 million of its own shares at a cost of $4 million.

Notes to the financial statements: Financial performance information

Section 2 Financial performance information

In this section

This section provides detail on the financial performance of the Group's three operating segments, which is how the Managing Director analyses the Group's results. Further detail is also provided in relation to the composition of line items that generate the Group's net earnings, including operating revenues and other gains, operating expenses, finance income and expenses and taxation.

2.1 Segment information

The Group's operating segments at 30 June 2016 were:

- Spark Home, Mobile & Business – provider of fixed line, mobile and internet services to consumers and the small-medium business market and includes Spark Ventures;
- Spark Digital – integrates IT and telecommunications services to provide converged ICT solutions for clients; and
- Spark Connect – responsible for all of the Group's network and IT operations, shared business operations and servicing of wholesale and international customers.

In addition to the Group's operating segments, a Corporate Centre contains income and expenses not associated with the operating segments, such as dividends from investments and costs of providing corporate services, such as communications, legal, finance and human resources.

The segment results disclosed are based on those reported to the Managing Director and are how the Group analyses its business results. Segment results are an adjusted EBITDA and measured based on net earnings before depreciation, amortisation, finance income and expenses and income tax expense and other gains and expenses not allocated to segments. None of these excluded items are assessed on a segment basis by the Managing Director.

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

Comparative segment results

The Group has reclassified the comparative segment results to reflect changes in business unit structures and changes in accountabilities for managing revenue and costs. This includes the reclassification of backhaul expenses previously recognised within Spark Home, Mobile & Business and Spark Digital business units into Spark Connect and the Group's mobile phone insurance product from the Corporate Centre to Spark Home, Mobile & Business.

There was no change to the overall Group reported result as a result of these changes and no other changes to the Group's segments from the 30 June 2015 financial statements.

The financial information of each segment is set out below:

YEAR ENDED 30 JUNE 2016	SPARK HOME, MOBILE & BUSINESS $M	SPARK DIGITAL $M	SPARK CONNECT $M	TOTAL $M
Voice	347	197	137	681
Broadband	647	38	–	685
Managed data	–	137	51	188
Mobile	927	192	15	1,134
IT services	12	645	1	658
Other operating revenue	46	–	38	84
Internal revenue	5	6	38	49
Total operating revenues	**1,984**	**1,215**	**280**	**3,479**
Segment result	**778**	**410**	**(182)**	**1,006**

YEAR ENDED 30 JUNE 2015	SPARK HOME, MOBILE & BUSINESS $M	SPARK DIGITAL $M	SPARK CONNECT $M	TOTAL $M
Voice	389	215	276	880
Broadband	609	41	–	650
Managed data	–	144	64	208
Mobile	807	200	12	1,019
IT services	11	574	4	589
Other operating revenue	38	5	55	98
Internal revenue	3	36	47	86
Total operating revenues	**1,857**	**1,215**	**458**	**3,530**
Segment result	**751**	**389**	**(155)**	**985**

Notes to the financial statements: Financial performance information

2.1 Segment information (continued)

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

YEAR ENDED 30 JUNE	2016 $M	2015 $M
Segment operating revenues	3,479	3,530
Less internal revenue	(49)	(86)
Other gains not allocated for segmental reporting	–	32
Dividend income	66	53
Other revenue not allocated for segmental reporting	1	2
Operating revenues and other gains	**3,497**	**3,531**

Reconciliation from segment result to consolidated net earnings before income tax

YEAR ENDED 30 JUNE	2016 $M	2015 $M
Segment result	1,006	985
Net result of corporate revenue and expenses	(20)	(23)
Depreciation and amortisation	(446)	(453)
Net finance expense	(28)	(27)
Net earnings before income tax	**512**	**482**

2.2 Operating revenues and other gains

The accounting policies specific to the Group's key operating revenues and other gains are outlined below:

Telecommunications services

- Revenue from the sale of prepaid mobile credit is initially deferred, with recognition occurring when the prepaid credit is used by the customer.
- For services billed monthly, unbilled revenue from the billing cycle date to the end of each month is recognised as revenue during the month the service is provided and is deferred in respect of the portion of fixed monthly charges that have been billed in advance.
- Revenue from interconnect fees is recognised at the time the services are performed and in some instances management may be required to estimate levels of traffic flows between networks.

Revenue arrangements with multiple deliverables

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

Revenue from IT services contracts

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

2.2 Operating revenues and other gains (continued)

YEAR ENDED 30 JUNE	2016 $M	2015 $M
Operating revenues		
Voice	681	880
Broadband	685	650
Managed data	188	208
Mobile	1,134	1,019
IT services	658	592
Dividend income	66	53
Miscellaneous other	85	97
	3,497	3,499
Other gains		
Gain on sale	–	32
	–	32
Total operating revenues and other gains	**3,497**	**3,531**

Operating revenues

Operating revenues include $2,865 million from the rendering of services (30 June 2015: $2,983 million), $296 million from the sale of goods (30 June 2015: $234 million) and $270 million of IT procurement revenues (30 June 2015: $229 million).

Gain on sale

In the year ended 30 June 2016 there was no gain on sale and in the year ended 30 June 2015 the gain on sale of $32 million comprised:

- $15 million gain on the sale of TCNZ Cook Islands Limited in February 2015 (which held the Group's 60% share of Telecom Cook Islands Limited);
- $9 million gain on the sale of Telecom Rentals Limited in April 2015; and
- $8 million gain on the sale of the Group's international voice business in May 2015. This included a loss of $7 million recycled from the foreign currency translation reserve to profit or loss.

Key estimates and assumptions

Examples of the key revenue lines subject to management's judgement include:

- Mobile, voice, managed data and broadband revenues – determining the fair value of distinct products or services in revenue arrangements with multiple deliverables can be complex and is subject to judgement; and
- IT services revenue – the revenue recognition on contracts that span more than one accounting period may be impacted by estimates of the total costs, ultimate profitability or other appropriate inputs. These revenues are also subject to ongoing profitability reviews of underlying contracts to determine whether the latest estimates applied remain appropriate.

Notes to the financial statements: Financial performance information

2.3 Operating expenses

YEAR ENDED 30 JUNE	2016 $M	2015 $M
Payments to telecommunications operators	694	817
Mobile acquisition, procurement and IT services	809	722
Labour	497	518
Other operating expenses		
Direct network costs	69	49
Computer costs	74	76
Accommodation costs	92	92
Advertising, promotions and communication	77	78
Bad debts	22	13
Impairments	9	-
Other	163	201
	506	509
Total operating expenses	**2,506**	**2,566**

Donations

Donations for the year ended 30 June 2016 were $2,395,000, comprised of the Group's donation to the Spark Foundation, $2,365,000, and other donations of $30,000 (30 June 2015: $2,749,000, comprised the Spark Foundation donation of $2,588,000 and other donations of $161,000). No donations were made to political parties for the years ended 30 June 2016 or 30 June 2015.

Auditor remuneration

YEAR ENDED 30 JUNE	2016 $'000	2015 $'000
Audit of financial statements		
Audit and review of financial statements [1]	1,240	1,310
Other services		
Regulatory audit work [2]	53	53
Other assurance services [3]	23	71
Total fees paid to auditor	**1,316**	**1,434**

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

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

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

2.4 Finance income and expense

YEAR ENDED 30 JUNE	2016 $M	2015 $M
Finance lease income	14	21
Interest income from cash	2	3
Other interest income	2	3
Total finance income	**18**	**27**
Finance expense on long-term debt [1]	40	43
Other interest and finance expenses	12	17
	52	60
Less interest capitalised	(6)	(6)
Total finance expense	**46**	**54**

1 Includes $4 million transferred from the cash flow hedge reserve for the year ended 30 June 2016 (30 June 2015: $5 million).

Interest was capitalised on property, plant and equipment and intangible assets under development for the year ended 30 June 2016 at an annualised rate of 5.5% (30 June 2015: 6.0%).

2.5 Taxation

Income tax expense

The income tax expense is determined as follows:

YEAR ENDED 30 JUNE	2016 $M	2015 $M
Income statement		
Current income tax		
Current year income tax expense	(139)	(117)
Adjustments in respect of prior periods	4	11
Deferred income tax		
Depreciation, provisions, accruals, tax losses and other	(8)	(1)
Adjustments in respect of prior periods	1	–
Income tax expense recognised in income statement	**(142)**	**(107)**

Reconciliation of income tax expense

YEAR ENDED 30 JUNE	2016 $M	2015 $M
Net earnings before income tax	**512**	**482**
Tax at current rate of 28%	(143)	(135)
Adjustments to taxation		
Non-assessable gains on sale	–	10
Other non-assessable items	(6)	3
Tax effects of non-New Zealand profits	3	4
Adjustments in respect of prior periods	4	11
Total income tax expense	**(142)**	**(107)**

Notes to the financial statements: Financial performance information

2.5 Taxation (continued)

Deferred tax assets and liabilities

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

ASSETS/(LIABILITIES)	FIXED ASSETS $M	PROVISIONS & ACCRUALS $M	OTHER $M	TOTAL $M
At 1 July 2015	(137)	23	(10)	(124)
Amounts recognised in income statement				
Relating to the current period	1	(11)	2	(8)
Adjustments in respect of prior periods	1	–	–	1
Acquisitions	–	–	(4)	(4)
Reclassifications	(1)	1	–	–
Amounts recognised in equity relating to the current period	–	(1)	11	10
At 30 June 2016	**(136)**	**12**	**(1)**	**(125)**
To be recovered within 12 months	(11)	19	–	8
To be recovered after more than 12 months	(125)	(7)	(1)	(133)
At 1 July 2014	(148)	32	(11)	(127)
Amounts recognised in income statement				
Relating to the current period	12	(10)	(3)	(1)
Adjustments in respect of prior periods	(1)	1	–	–
Amounts recognised in equity relating to the current period	–	–	4	4
At 30 June 2015	**(137)**	**23**	**(10)**	**(124)**
To be recovered within 12 months	(7)	10	–	3
To be recovered after more than 12 months	(130)	13	(10)	(127)

The Group has not recognised the tax effect of accumulated unrestricted losses and temporary differences amounting to AUD$467 million at 30 June 2016 based on the relevant corporation tax rate of Australia (30 June 2015: AUD$465 million). These losses and temporary differences may be available to be carried forward to offset against future taxable income. However, utilisation is contingent on the relevant subsidiaries producing taxable profits over a significant period of time and is subject to compliance with the relevant taxation authority requirements.

The Group has a negative imputation credit account balance of $6 million as at 30 June 2016 (30 June 2015: $30 million positive balance). The imputation credit account had a positve balance as at 31 March 2016.

Notes to the financial statements: Key asset information

Section 3 Key asset information

In this section

The Group has significant assets that are used to provide goods and services to customers and generate its earnings. This section provides further detail on these key assets – being property, plant and equipment, intangible assets and inventories – how they are measured and any related key estimates and assumptions.

3.1 Property, plant and equipment

YEAR ENDED 30 JUNE 2016	TELECOMMUNI-CATIONS EQUIPMENT AND PLANT $M	FREEHOLD LAND $M	BUILDINGS $M	OTHER ASSETS $M	WORK IN PROGRESS $M	TOTAL $M
Opening net book value	714	67	252	63	9	1,105
Additions	–	–	15	–	210	225
Transfers	162	–	–	43	(205)	–
Acquisitions	–	–	–	20	–	20
Depreciation charge	(172)	–	(27)	(49)	–	(248)
Currency movements	1	–	–	1	–	2
Closing net book value	**705**	**67**	**240**	**78**	**14**	**1,104**
AS AT 30 JUNE 2016						
Cost	3,597	67	515	477	14	4,670
Accumulated depreciation and impairment losses	(2,892)	–	(275)	(399)	–	(3,566)
Closing net book value	**705**	**67**	**240**	**78**	**14**	**1,104**

Events after balance date

On 15 July 2016 the Group announced it had entered into a conditional agreement to sell surplus property in Mayoral Drive, Auckland for $26.5 million. The property has a carrying value of $7.1 million and was previously used for carparking and does not impact the Group's ownership or operation of the Mayoral Drive exchange. The transaction remains subject to resource consent and is expected to be completed on 31 March 2017.

Notes to the financial statements: Key asset information

3.1 Property, plant and equipment (continued)

YEAR ENDED 30 JUNE 2015	TELECOMMUNI-CATIONS EQUIPMENT AND PLANT $M	FREEHOLD LAND $M	BUILDINGS $M	OTHER ASSETS $M	WORK IN PROGRESS $M	TOTAL $M
Opening net book value	732	63	215	79	12	1,101
Additions	–	4	68	–	192	264
Transfers	159	–	–	36	(195)	–
Acquisitions	–	–	–	3	–	3
Disposals	(4)	–	(4)	–	–	(8)
Depreciation charge	(173)	–	(27)	(56)	–	(256)
Currency movements	–	–	–	1	–	1
Closing net book value	**714**	**67**	**252**	**63**	**9**	**1,105**
AS AT 30 JUNE 2015						
Cost	4,096	67	520	629	9	5,321
Accumulated depreciation and impairment losses	(3,382)	–	(268)	(566)	–	(4,216)
Closing net book value	**714**	**67**	**252**	**63**	**9**	**1,105**

Key estimates and assumptions

The Group has a significant level of property, plant and equipment, with the following key judgements made:

- The determination of the appropriate useful life for a particular asset requires management to make judgements about its expected period of service potential, the likelihood it will become obsolete as a result of technological advances, the likelihood of the Group ceasing to use it in its business operations and the effect of government regulation.
- The estimated useful life of the Group's property, plant and equipment is as follows:

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

- The determination of any impairment of assets is based on a large number of factors, such as those referred to above, as well as changes in current competitive conditions, expectations of growth in the telecommunications industry, the discontinuance of services and other changes in circumstances that indicate an impairment exists. Assessing whether an asset is impaired may involve estimating the future cash flows that the asset is expected to generate. The key judgements include rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for valuing future cash flows.

3.2 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. The cost of acquiring an intangible asset with a finite life is amortised from the date the underlying asset is ready for use, on a straight-line basis over its estimated useful life.

YEAR ENDED 30 JUNE 2016	SOFTWARE $M	CAPACITY $M	SPECTRUM LICENCES $M	OTHER INTANGIBLES $M	GOODWILL $M	WORK IN PROGRESS $M	TOTAL $M
Opening net book value	317	240	215	52	163	133	1,120
Additions [1]	–	13	9	–	–	143	165
Transfers	113	–	–	6	–	(119)	–
Acquisitions	–	–	–	15	25	–	40
Amortisation charge	(161)	(17)	(15)	(5)	–	–	(198)
Currency movements and other transfers	–	–	–	4	–	–	4
Closing net book value	**269**	**236**	**209**	**72**	**188**	**157**	**1,131**
AS AT 30 JUNE 2016							
Cost	1,633	593	270	100	1,221	157	3,974
Accumulated amortisation and impairment losses	(1,364)	(357)	(61)	(28)	(1,033)	–	(2,843)
Closing net book value	**269**	**236**	**209**	**72**	**188**	**157**	**1,131**

1 Total software capitalised in the year ended 30 June 2016 includes $18 million of internally generated assets.

YEAR ENDED 30 JUNE 2015	SOFTWARE $M	CAPACITY $M	SPECTRUM LICENCES $M	OTHER INTANGIBLES $M	GOODWILL $M	WORK IN PROGRESS $M	TOTAL $M
Opening net book value	314	251	71	48	154	154	992
Additions [1]	–	5	158	–	–	149	312
Transfers	165	–	–	5	–	(170)	–
Acquisitions	–	–	–	6	9	–	15
Disposals	(2)	–	–	–	–	–	(2)
Amortisation charge	(160)	(16)	(14)	(7)	–	–	(197)
Closing net book value	**317**	**240**	**215**	**52**	**163**	**133**	**1,120**
AS AT 30 JUNE 2015							
Cost	2,015	598	276	105	1,196	133	4,323
Accumulated amortisation and impairment losses	(1,698)	(358)	(61)	(53)	(1,033)	–	(3,203)
Closing net book value	**317**	**240**	**215**	**52**	**163**	**133**	**1,120**

1 Total software capitalised in the year ended 30 June 2015 includes $39 million of internally generated assets.

Key estimates and assumptions

The Group has a significant level of intangible assets that are amortised over their useful lives. The determination of the appropriate useful life for a particular intangible asset requires management judgement. The estimated useful life of intangible assets of the Group is as follows:

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

Notes to the financial statements: Key asset information

3.2 Intangible assets (continued)

Goodwill

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

AS AT 30 JUNE	2016 $M	2015 $M
Spark Home, Mobile & Business	34	34
Spark Digital[1]	137	122
Revera	7	7
CCL Group[1]	10	-
	188	**163**

1 Goodwill of $25 million was recognised on acquisition of CCL Group on 18 December 2015 and $15 million has been allocated to the Spark Digital CGU and $10 million to the CCL Group CGU, see note 5.2.

During the years ended 30 June 2016 and 30 June 2015 no impairment arose as a result of the review of goodwill. Headroom currently exists in each CGU and, based on sensitivity analysis performed, no reasonably possible changes in the assumptions would cause the carrying amount of the CGUs to exceed their recoverable amounts.

Key estimates and assumptions

An impairment loss is recorded if the recoverable amount of the CGU is less than its carrying amount. The recoverable amount of each CGU was calculated on the basis of value in use using a discounted cash flow model. Future cash flows were projected for one year, based on Board-approved business plans, with key assumptions being earnings and capital expenditure for the CGU based on forecasts of expected future performance. The forecasted financial information is based on both past experience and future expectations of CGU performance. The major inputs and assumptions used in performing an impairment assessment that require judgement include revenue forecasts, operating cost projections, customer numbers and customer churn, discount rates, growth rates and future technology paths.

Nil terminal growth was applied and a pre-tax discount rate of 12% was utilised (30 June 2015: 12%).

3.3 Inventories

AS AT 30 JUNE	2016 $M	2015 $M
Maintenance materials and consumables	4	5
Goods held for resale	57	33
Content rights inventory	20	32
Total inventories	**81**	**70**

Content rights inventory

The Group enters into contracts for the rights to stream digital content to subscribers of its Lightbox service. Content is licensed for a fixed fee for the term of the licence agreement and this may span more than one year. Content rights are stated at the lower of cost and net realisable value, less accumulated amortisation. The amortisation of content rights is recognised within operating expenses in the income statement on a straight-line basis over its licence period. The content rights amortisation charge for the year ended 30 June 2016 was $21 million (30 June 2015: $14 million).

Payments made for content rights before the commencement of the related licence period (prepaid content rights) as at 30 June 2016 were $10 million (30 June 2015: $3 million) and the non-current portion of content rights inventory is $4 million (30 June 2015: $12 million).

3.4 Net tangible assets

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

AS AT 30 JUNE	2016 $M	2015 $M
Total assets	3,237	3,206
Less intangible assets	(1,131)	(1,120)
Less total liabilities	(1,553)	(1,428)
Net tangible assets	**553**	**658**
Number of shares outstanding (in millions)	1,830	1,830
Net tangible assets per share	**$0.30**	**$0.36**

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

Notes to the financial statements: Funding

Section 4 Funding

In this section

This section provides detail on how the Group funds its operations, including working capital (such as receivables and payables), the composition of the Group's debt and changes in share capital. Information is also included on the dividends paid to shareholders during the period and declared subsequent to year-end.

4.1 Receivables and prepayments

AS AT 30 JUNE	2016 $M	2015 $M
Short-term receivables and prepayments		
Trade receivables	247	244
Less allowance for doubtful accounts receivable	(11)	(10)
	236	234
Unbilled rentals and tolls	133	99
Prepaid expenses	83	70
Finance lease receivables	7	8
Other receivables	54	83
	513	**494**
Long-term receivables and prepayments		
Finance lease receivables	123	117
Other receivables	87	64
	210	**181**

Trade receivables, finance lease receivables and other receivables are financial instruments and held at amortised cost.

The Group has $181 million of trade receivables that are current (30 June 2015: $173 million) and $66 million are overdue (30 June 2015: $71 million). Of the overdue balance, $55 million are overdue but not impaired (30 June 2015: $61 million) and $11 million has been provided for through the allowance for doubtful accounts receivable (30 June 2015: $10 million).

The fair value of finance lease receivables is estimated to be $64 million (30 June 2015: $60 million) using a discount rate based on the relevant swap rate, given the tenure of the lease and adding a credit margin that reflects the credit quality of the receivables. The carrying amount of all other receivables are approximately equivalent to their fair value because of the short term to maturity.

Finance lease receivables

On demerger, the Group entered into a number of leases with Chorus for space in exchange buildings. Under these leases the Group is a lessor for space in the Group's exchanges and a lessee for space in Chorus exchanges. These leases are generally accounted for as finance leases and include a legal right of offset, as the Group and Chorus settle the payments on a net basis. As such, the finance lease payable and finance lease receivable are shown as a net finance lease receivable on the statement of financial position.

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

The profile of lease net receipts is set out below:

	2016		2015	
	UNDISCOUNTED	DISCOUNTED	UNDISCOUNTED	DISCOUNTED
AS AT 30 JUNE	$M	$M	$M	$M
Less than one year	8	7	8	8
Between one and five years	34	26	30	24
More than five years	370	97	371	93
Finance lease receivable	**412**	**130**	**409**	**125**
Less unearned finance income	(282)	–	(284)	–
Present value of finance lease receivable	**130**	**130**	**125**	**125**
Short-term finance lease receivable		7		8
Long-term finance lease receivable		123		117

4.2 Payables, accruals and provisions

AS AT 30 JUNE	2016 $M	2015 $M
Short-term payables, accruals and provisions		
Trade accounts payable	277	349
Revenue billed in advance	83	101
Accrued personnel costs	56	71
Provisions	5	12
Other payables and accruals	29	34
	450	**567**
Long-term payables, accruals and provisions		
Provisions	8	8
Other payables and accruals	13	15
	21	**23**

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

Provisions

Total provisions as at 30 June 2016 were $13 million (30 June 2015: $20 million). New provisions of $8 million were made during the year (30 June 2015: $12 million) and provisions of $15 million were utilised or released (30 June 2015: $26 million).

The largest portion of provisions relate to onerous leases and make-good property provisions of $7 million (30 June 2015: $9 million).

Notes to the financial statements: Funding

4.3 Debt

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

AS AT 30 JUNE				2016 $M	2015 $M
FACE VALUE	FACILITY	COUPON RATE	MATURITY		
Short-term debt					
50 million NZD – Commercial paper		Variable	28/07/2016	50	–
50 million NZD – Commercial paper		Variable	21/10/2016	50	–
				100	–
Bank funding					
Bank of Tokyo-Mitsubishi UFJ	100 million NZD	Variable	13/03/2018	100	100
Westpac New Zealand Limited	100 million NZD	Variable	30/11/2016	90	–
Bank of New Zealand	100 million NZD	Variable	31/10/2018	50	–
				240	100
Domestic notes					
250 million NZD		5.25%	25/10/2019	250	250
100 million NZD		4.50%	25/03/2022	103	100
100 million NZD		4.51%	10/03/2023	106	–
				459	350
Euro Medium Term Notes					
22 million GBP		5.63%	14/05/2018	42	51
18 million GBP		5.75%	06/04/2020	34	41
				76	92
TeleBonds					
150 million NZD		7.00%	31/03/2016	–	150
				875	**692**
Debt due within one year				190	150
Long-term debt				685	542

None of the Group's debt is secured and all debt ranks equally with other liabilities. There are no financial covenants over the Group's debt, however, there are certain triggers in the event of default, as defined in the various debt agreements. There have been no events of default over the Group's debt in the years ended 30 June 2016 and 30 June 2015.

As at 30 June 2016 the fair value of long-term debt (calculated based on the present value of future principal and interest cash flows, discounted at market interest rates at balance date) was $804 million compared to a carrying value of $775 million (30 June 2015: fair value of $724 million compared to a carrying value of $692 million).

4.4 Equity and dividends

Share capital

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

YEAR ENDED 30 JUNE	2016 NUMBER	2016 $M	2015 NUMBER	2015 $M
Balance at the beginning of the year	1,829,864,090	924	1,828,530,844	920
Dividend reinvestment plan	–	–	10,777,332	32
Shares repurchased	(1,391,193)	(4)	(11,026,795)	(31)
Employee shares	1,322,280	3	1,582,709	3
Balance at the end of the year	**1,829,795,177**	**923**	**1,829,864,090**	**924**

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

Shares repurchased

On 2 June 2015 the Company announced an on-market share buyback to return gearing to a more appropriate level and this was completed on 21 December 2015. Shares were purchased during the year ended 30 June 2016 at an average buyback price of $2.98 (30 June 2015: $2.78) and cancelled immediately on acquisition.

Dividends declared and paid

YEAR ENDED 30 JUNE	2016 CENTS PER SHARE	2016 $M	2015 CENTS PER SHARE	2015 $M
Previous year second half-year dividend paid	11.0	201	9.0	165
First half-year dividend paid	12.5	229	9.0	165
Total dividends paid in the year	**23.5**	**430**	**18.0**	**330**
Second half-year dividend declared subsequent to balance date not provided for	12.5	229	11.0	201

4

Events after balance date

On 18 August 2016 the Board approved the payment of a second-half ordinary dividend of 11 cents per share or approximately $201 million and a special dividend of 1.5 cents per share or approximately $28 million. The ordinary and special dividends will be fully imputed in line with the corporate income tax rate. In addition, supplementary dividends totalling approximately $30 million will be payable to shareholders who are not resident in New Zealand. In accordance with the Income Tax Act 2007, the Group will receive a tax credit from Inland Revenue equivalent to the amount of supplementary dividends paid.

Notes to the financial statements: Group structure

Section 5 Group structure

In this section

The Group is comprised of a number of subsidiary companies, together with other long-term investments, including a number of associates and joint ventures – entities where the Group has significant influence or joint control through an ownership holding of 50% or less – but not control.

This section includes information on these holdings, together with the acquisition of the CCL Group during the period, detail on the Group's significant subsidiaries and joint operation.

5.1 Long-term investments

AS AT 30 JUNE	2016 $M	2015 $M
Shares in Hutchison	107	114
Investment in TMT Ventures	1	1
Investment in associates and joint ventures	23	18
	131	**133**

The Group holds a 10% interest in Hutchison Telecommunications Australia Limited (Hutchison) which is quoted on the Australian Securities Exchange (ASX) and an investment in TMT Ventures (TMT). The Group measures these investments at fair value and has elected to designate them at fair value through other comprehensive income.

The Group measures the fair value of Hutchison using its observable market share price at balance date as quoted on the ASX, classified as being within level 1 of the fair value hierarchy. As at 30 June 2016 the quoted price of Hutchison's shares on the ASX was AUD$0.075 (30 June 2015: AUD$0.075). The change in fair value during the year was as a result of currency movements.

The change in fair value recognised within other comprehensive income and accumulated in the revaluation reserve for the year ended 30 June 2016 was a $7 million decrease (30 June 2015: $15 million increase).

Investment in associates and joint ventures

The Group's investment in associates and joint ventures at 30 June 2016 consists of the following:

NAME	TYPE	COUNTRY	OWNERSHIP	PRINCIPAL ACTIVITY
App La Carte Limited (Putti)	Associate	New Zealand	44%	Mobile applications
Feenix Communications Limited	Associate	New Zealand	30%	Supplier of network services
NOW New Zealand Limited	Associate	New Zealand	37%	Internet service provider
Pacific Carriage Holdings Limited	Associate	Bermuda	50%	A holding company
Southern Cross Cables Holdings Limited	Associate	Bermuda	50%	A holding company
TSM NZ Limited (Semble)	Associate	New Zealand	33%	Mobile wallet platform
Vigil Monitoring Limited	Associate	New Zealand	30%	Healthcare technology
Connect 8 Limited	Joint Venture	New Zealand	50%	Fibre network construction
Lightbox Sport General Partner Limited	Joint Venture	New Zealand	50%	Sports content streaming
TNAS Limited	Joint Venture	New Zealand	50%	Telecommunications development

All investments in associates and joint ventures are measured using the equity method and none are considered to be individually material. The Group's share of profit or loss is presented within the income statement, with the exception of Pacific Carriage Holdings Limited and Southern Cross Cables Holdings Limited (Southern Cross). The Group has stopped recognising its share of Southern Cross losses, as its carrying value has been reduced to nil and it has no obligation to fund its deficits or repay dividends. As at 30 June 2016 the Group's share of cumulative Southern Cross deficits not recognised was $605 million (30 June 2015: $630 million). The Group's share of Southern Cross profits not recognised for the year ended 30 June 2016 was $73 million (30 June 2015: $52 million). The Group has recognised cumulative dividend income from Southern Cross of $865 million (30 June 2015: $799 million).

5.1 Long-term investments (continued)

Changes in the aggregate carrying amount of the Group's investment in associates and joint ventures is as follows:

	ASSOCIATES		JOINT VENTURES		TOTAL	
YEAR ENDED 30 JUNE	2016 $M	2015 $M	2016 $M	2015 $M	2016 $M	2015 $M
Investment at the beginning of the year	7	3	11	–	18	3
Additional investment during the year	14	5	5	13	19	18
Impairments	(1)	–	(8)	–	(9)	–
Share of net losses	(2)	(1)	(3)	(2)	(5)	(3)
Investment at the end of the year	**18**	**7**	**5**	**11**	**23**	**18**

5.2 Acquisitions

On 18 December 2015 the Group acquired 100% of the ordinary shares of Property Leasing Limited, which owns all of the shares in Computer Concepts Limited and the Colocation Company Limited (together, the 'CCL Group'), for cash consideration of $50 million.

CCL Group is a South Island based IT infrastructure and professional services company and the acquisition will add further momentum to the growth strategies of Spark Digital and the CCL Group, improving their capabilities, expanding their market reach and deepening the Group's Cloud and platform IT services offer, providing revenue, cost and capital synergies. The goodwill recognised on acquisition is allocated to the CGU that is expected to benefit from the synergies of the transaction. Goodwill of $15 million has been allocated to Spark Digital CGU and $10 million allocated to the CCL Group CGU.

The following values were recognised in the financial statements in respect of the CCL Group acquisition:

	18 DEC 2015 $M
Assets	
Receivables and prepayments	10
Property, plant and equipment	20
Other intangible assets	15
Goodwill (note 3.2)	25
Total assets	**70**
Liabilities	
Payables, accruals and provisions	16
Deferred tax liabilities	4
Total liabilities	**20**
Net assets acquired/consideration paid	**50**

CCL Group contributed operating revenues of $31 million and earnings before tax of $2 million for the period to 30 June 2016. If the acquisition had occurred on 1 July 2015, it is estimated that the contribution to the Group's operating revenues would have been $53 million and earnings before tax would have been $3.5 million.

Notes to the financial statements: Group structure

5.3 Subsidiaries

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

NAME	COUNTRY	OWNERSHIP	PRINCIPAL ACTIVITY
Appserv Limited	New Zealand	100%	Business Cloud services
Gen-i Australia Pty Limited	Australia	100%	Provides outsourced telecommunications services
Lightbox New Zealand Limited	New Zealand	100%	Subscription video-on-demand service
Property Leasing Limited (CCL Group)	New Zealand	100%	IT infrastructure and professional services
Revera Limited	New Zealand	100%	IT infrastructure and data centre provider
Spark Finance Limited	New Zealand	100%	A Group finance company
Spark Retail Holdings Limited	New Zealand	100%	Retailer of telecommunications products and services
Spark New Zealand Trading Limited	New Zealand	100%	Provides local, national and international telephone and data services
TCNZ (Bermuda) Limited	Bermuda	100%	A holding company
Teleco Insurance Limited	Bermuda	100%	A Group insurance company
Telecom New Zealand USA Limited	United States	100%	Provides international wholesale telecommunications services
Telecom Southern Cross Limited	New Zealand	100%	A holding company

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

5.4 Joint operation

The Group has entered into a joint arrangement in relation to the construction and operation of the Tasman Global Access fibre-optic submarine cable between Australia and New Zealand. For the year ended 30 June 2016 the Group has recognised $18 million (30 June 2015: $3 million) in relation to its share of property, plant and equipment.

In assessing whether joint control exists, judgement was applied to assess whether the related agreements contained substantive unanimous decision-making rights between all parties. On balance, it was determined that joint control exists and therefore the arrangement is a joint operation.

Notes to the financial statements: Risk management and derivatives

Section 6 Risk management and derivatives

In this section

The Group is exposed to a number of financial and capital risks from its operations. The financial risks include currency risk (changes in foreign currency exchange rates), interest rate risk (changes in interest rates), liquidity risk (ability to meet contractual obligations) and credit risk (ability to recover amounts owed). The Group also manages its capital (equity and debt) considering shareholders' interests and to ensure an 'A band' credit rating is maintained.

This section includes further information on each of these risks, how the Group manages the risk (for example, through policies and derivatives), the Group's exposure to these risks and resulting sensitivity of its earnings to these risks.

6.1 Financial and capital risk management

a) Financial market risk

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

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

Currency risk

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

Risk management
All debt not denominated in New Zealand dollars is hedged. Debt denominated in foreign currencies is translated to New Zealand dollars, with currency translation recognised in the income statement. These movements are offset by the translation of the principal value of the related cross-currency interest rate swaps.

Capital and operational expenditure in foreign currencies may be hedged in certain circumstances as detailed by the treasury policy.

Exposure
A portion of the Group's long-term debt has been issued in GBP and cross-currency interest rate swaps are used to convert these borrowings into a floating rate New Zealand dollar exposure. The Group's total exposure (from non-derivative financial instruments) to foreign currency is $96 million (30 June 2015: $143 million) of which $76 million (30 June 2016: $92 million) relates to the fully hedged long-term debt denominated in GBP. The remaining exposure is primarily in relation to trade payables denominated in USD and AUD, which has been substantially hedged by entering into forward exchange contracts.

Sensitivity to foreign currency movements
As at 30 June 2016 a movement of 10% in the New Zealand dollar would impact the income statement and statement of changes in equity (after hedging) by less than $12 million (30 June 2015: $12 million). This analysis assumes a movement in the New Zealand dollar across all currencies and only includes the effect of foreign exchange movements on monetary financial instruments.

Interest rate risk

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

Risk management
The Group employs the use of derivative financial instruments for the purpose of reducing its exposure to fluctuations in interest rates.

The Group's objective in relation to interest rate risk management is to minimise the cost of net borrowings and to minimise the impact of interest rate movements on the Group's interest expense and net earnings within policies approved by the Board.

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

Sensitivity to interest rate movements
As at 30 June 2016 a movement in interest rates of 100 basis points would impact the income statement and statement of changes in equity (after hedging) by less than $24 million (30 June 2015: $14 million).

b) Liquidity risk

Nature of the risk
Liquidity risk represents the Group's ability to meet its contractual obligations as they fall due.

Risk management
The Group uses cash and derivative financial instruments to manage liquidity and evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its financial liabilities. As at 30 June 2016 current liabilities of $653 million (30 June 2015: $717 million) were greater than current assets of $649 million (30 June 2015: $666 million). Positive operating cash flows enable working capital to be managed to meet short-term liabilities as they fall due.

Notes to the financial statements: Risk management and derivatives

6.1 Financial and capital risk management (continued)

b) Liquidity risk (continued)

In the event of any shortfalls, the Group has the following financing programmes:

- An uncommitted $500 million Note Facility with $100 million drawn as at 30 June 2016 (30 June 2015: undrawn);
- An uncommitted US$1 billion European Commercial Paper Programme;
- An undrawn committed standby facility of $200 million (30 June 2015: $200 million) with a number of creditworthy banks;
- Committed bank facilities of $300 million (30 June 2015: $100 million) with $240 million drawn as at 30 June 2016 (30 June 2015: $100 million drawn); and
- Committed bank overdraft facilities of $15 million with New Zealand banks (30 June 2015: $15 million).

There are no compensating balance requirements associated with these facilities.

The Group's liquidity policy is to maintain unutilised committed facilities of at least 110% of the next 12 months' forecast peak net funding requirements. The policy also requires that the maximum amount of long-term debt maturing in any 12-month period is not to exceed $400 million. As at 30 June 2016 management considered that it was in compliance with its liquidity policy, as reported to the Board.

Exposure

The following table analyses the Group's exposure to liquidity risk based on contractual cash flows relating to financial liabilities. Contractual cash flows include contractual undiscounted principal and interest payments.

AS AT 30 JUNE 2016	CARRYING AMOUNT $M	CONTRACTUAL CASH FLOWS $M	0-6 MONTHS $M	6-12 MONTHS $M	1-2 YEARS $M	2-5 YEARS $M	5+ YEARS $M
Non-derivative financial liabilities							
Trade and finance lease payables	284	285	279	2	2	2	–
Short and long-term debt	875	982	202	15	169	384	212
Derivative financial liabilities							
Interest rate swaps (net settled)	42	48	2	3	6	19	18
Cross-currency interest rate swaps (gross settled)							
Inflows	–	(88)	–	(4)	(47)	(37)	–
Outflows	27	121	2	2	68	49	–
Forward exchange contracts (gross settled)							
Inflows	–	(131)	(127)	(4)	–	–	–
Outflows	5	137	133	4	–	–	–
	1,233	**1,354**	**491**	**18**	**198**	**417**	**230**

AS AT 30 JUNE 2015	CARRYING AMOUNT $M	CONTRACTUAL CASH FLOWS $M	0-6 MONTHS $M	6-12 MONTHS $M	1-2 YEARS $M	2-5 YEARS $M	5+ YEARS $M
Non-derivative financial liabilities							
Trade and finance lease payables	351	351	350	1	–	–	–
Long-term debt	692	815	15	169	23	499	109
Derivative financial liabilities							
Interest rate swaps (net settled)	14	17	1	1	3	6	6
Cross-currency interest rate swaps (gross settled)							
Inflows	–	(60)	–	(3)	(3)	(54)	–
Outflows	8	72	1	1	3	67	–
Forward exchange contracts (gross settled)							
Inflows	–	(75)	(63)	(12)	–	–	–
Outflows	–	75	63	12	–	–	–
	1,065	**1,195**	**367**	**169**	**26**	**518**	**115**

6.1 Financial and capital risk management (continued)

c) Credit risk

Nature of the risk

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

Risk management

The Group manages its exposure using a credit policy that includes limits on exposures with significant counterparties that have been set and approved by the Board and are monitored on a regular basis. The Group places its cash and derivative financial instruments with high-credit quality financial institutions. The Group's financial instruments do not have significant concentration of risk with any single party.

The Group has certain derivative and debt agreements that are subject to bilateral credit support agreements that require the Group or the counterparty to post collateral funds to support the value of certain derivatives. As at 30 June 2016 no collateral was posted (30 June 2015: nil).

Exposure

Of the Group's assets $787 million are subject to credit risk (30 June 2015: $764 million). The Group holds various letters of credit and guarantees over some of these amounts. The Group does not hold any collateral over these amounts.

d) Capital risk management

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

AS AT 30 JUNE	2016 $M	2015 $M
Cash	(52)	(80)
Short-term debt	100	–
Long-term debt at hedged rates	809	710
Net debt	857	630
Total equity	1,684	1,778
Capital	**2,541**	**2,408**

The Board continues to be committed to the Company maintaining an 'A Band' credit rating and its capital management policies are designed to ensure this objective is met. As part of this commitment, the Group manages its debt levels to ensure that the ratio of net interest-bearing debt (inclusive of associated derivatives) to earnings before interest, tax, depreciation and amortisation does not materially exceed 1.1 times on a long-run basis, which, for credit ratings agency purposes, equates approximately to debt to earnings before interest, tax, depreciation and amortisation of 1.5 times. The difference between these two ratios is primarily due to the capitalisation of operating leases by credit ratings agencies.

As at 30 June 2016 the Company's Standard & Poor's credit ratings for long-term and short-term debt was A- and A-2 respectively, with outlook stable (30 June 2015: same).

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

AS AT 30 JUNE	2016 $M	2015 $M
Long-term debt	775	692
Impact of hedged rates used	34	18
Long-term debt at hedged rates	**809**	**710**

Notes to the financial statements: Risk management and derivatives

6.2 Derivatives

Derivative financial instruments are initially recognised at fair value on the date they are entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged.

The fair values of derivatives are as follows:

	2016		2015	
	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES
AS AT 30 JUNE	$M	$M	$M	$M
Forward exchange contracts – cash flow hedges	–	(5)	8	–
Interest rate swaps – cash flow hedges	–	(33)	1	(14)
Interest rate swaps – fair value hedges	8	–	–	–
Interest rate swaps – held for trading	4	(9)	–	–
Cross–currency interest rate swaps – cash flow hedges	–	(27)	–	(8)
	12	**(74)**	9	(22)
Short-term derivatives	–	(5)	8	–
Long-term derivatives	12	(69)	1	(22)

As at 30 June 2016 and 30 June 2015 no derivative financial assets or derivative financial liabilities have been offset in the statement of financial position. The potential for offsetting of any derivative financial instruments is immaterial.

The Group's derivatives are classified as being within level 2 of the fair value hierarchy. The fair value of interest rate swaps and cross-currency interest rate swaps are calculated as the present value of the estimated future cash flows, based on observable yield curves. The fair value of forward foreign exchange contracts are determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

6.2 Derivatives (continued)

Cash flow hedges

During the period all hedged forecast transactions occurred as expected and qualified for hedge accounting.

Cross-currency interest rate swaps and interest rate swaps used to manage interest and foreign exchange risk on debt are jointly designated as cash flow hedges of the forecast interest and principal cash flows of the debt. The changes in the fair values of interest rate derivatives accumulated in equity are expected to be reclassified to finance expense as interest payments occur over the remaining term of the derivatives.

The Group also enters into forward exchange contracts to hedge foreign currency purchases. The majority of the purchases are forecast to be made within 12 months of 30 June 2016 (30 June 2015: within 12 months of 30 June 2015). When in a hedging relationship, the fair value of foreign exchange forward contracts will be included in the income statement at the same time as the underlying purchase impacts the determination of income.

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

	2016			2015		
	BEFORE TAX	TAX CREDIT / (EXPENSE)	NET OF TAX	BEFORE TAX	TAX CREDIT / (EXPENSE)	NET OF TAX
YEAR ENDED 30 JUNE	$M	$M	$M	$M	$M	$M
Balance at the beginning of the year			(4)			–
Gain/(loss) recognised in other comprehensive income	(47)	13	(34)	(15)	4	(11)
Amount reclassified to finance expense	4	(1)	3	5	(1)	4
Amount reclassified to property, plant and equipment/intangible assets and inventory	6	(2)	4	5	(2)	3
Total movements to other comprehensive income/(loss)	**(37)**	**10**	**(27)**	**(5)**	**1**	**(4)**
Balance at the end of the year			**(31)**			**(4)**

Other amounts deferred in equity will be transferred to the income statement over the next nine years (30 June 2015: seven years).

Fair value hedges

As at 30 June 2016 the Group had interest rate swaps designated as fair value hedges. The gain or loss from remeasuring both the hedging instrument and the hedged items at fair value is recognised in the income statement.

During the year ended 30 June 2016 the Group recognised a $9 million gain on fair value hedges and a $9 million loss on hedged exposures (30 June 2015: an immaterial gain on fair value hedges and an immaterial loss on hedged exposures) and there has been no material ineffectiveness on fair value hedging relationships.

Notes to the financial statements: Other information

Section 7 Other information

In this section

This section includes other information relating to the Group's financial statements such as operating lease and capital commitments, contingencies, employee share schemes and disclosure of related party transactions.

7.1 Commitments

Operating lease commitments – Group as lessee

The Group has entered into commercial operating leases on properties, network infrastructure, motor vehicles and other items of equipment. Certain leases are subject to the Group being able to renew or extend the lease period based on terms that would then be agreed with the lessor.

Future minimum rental commitments for all non-cancellable operating leases are:

AS AT 30 JUNE	2016 $M	2015 $M
Less than one year	74	73
Between one and five years	202	209
More than five years	184	197
	460	**479**

The total of future minimum sublease payments expected to be received under non-cancellable subleases as at 30 June 2016 is $26 million (30 June 2015: $13 million).

Capital and other commitments

As at 30 June 2016 capital expenditure contracted for, but not yet incurred, was $158 million (30 June 2015: $208 million) with $95 million due in the year ending 30 June 2017. Commitments principally relate to telecommunications network equipment, cable capacity and the Tasman Global Access cable.

As at 30 June 2016 the Group had other supplier commitments of $524 million (30 June 2015: $584 million), with $480 million due in the year ending 30 June 2017.

7.2 Contingencies

Effect of outstanding claims

The Group has ongoing claims, investigations and inquiries, none of which it currently believes are expected to have significant effect on the financial position or profitability of the Group. However, the Group cannot reasonably estimate the adverse effect (if any) on the Group if any of the foregoing outstanding claims or inquiries are ultimately resolved against the Group's interests. There can be no assurance that such cases will not have a significant effect on the Group's business, financial condition, position, results of operations or profitability.

7.3 Employee share schemes

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

Restricted share schemes

A restricted share scheme was initially introduced for selected employees in September 2001. For new allocations after August 2016 that was replaced by two new restricted share schemes:

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

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

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

Share rights schemes

The share rights scheme (SRS) was used for selected Leadership Team members and senior employees, and the Managing Director performance rights scheme (PRS) for the Managing Director. The final grants under these schemes were made in September 2014 and are exercisable in September 2017.

Under the SRS and PRS participants were granted rights to purchase Company shares at a nil cost strike price. Share rights have no voting rights until exercised and generally cannot be exercised for a three-year period. The share rights will be exercisable at the end of the vesting period only if the individual is still employed by the Group and, in the case of the Leadership Team and the Managing Director, a total shareholder return performance hurdle has been met. The target for this hurdle is the Company's cost of equity plus 1% compounding annually.

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

	RSS NUMBER OF SHARES	SRS NUMBER OF OPTIONS	PRS NUMBER OF OPTIONS
Balance as at 30 June 2014	**3,157,990**	**2,123,951**	**1,416,887**
Awarded or granted	509,099	441,390	333,123
Vested or exercised	(87,852)	–	(277,435)
Forfeited or lapsed	(224,855)	–	–
Balance as at 30 June 2015	**3,354,382**	**2,565,341**	**1,472,575**
Awarded or granted	774,715	–	–
Vested or exercised	(703,261)	(222,074)	(179,634)
Forfeited or lapsed	(493,293)	(128,253)	(45,906)
Balance as at 30 June 2016	**2,932,543**	**2,215,014**	**1,247,035**
Percentage of total ordinary shares	0.16%	0.12%	0.07%
Weighted average remaining life of options outstanding (years)		0.90	0.90

The fair value of the employee services received in exchange for the grant of equity instruments is recognised as an expense, with a corresponding entry in equity. The total charge recognised for these schemes for the year ended 30 June 2016 was $5 million (30 June 2015: $7 million); the expense relating to the restricted share schemes was $3 million (30 June 2015: $4 million) and the expense relating to all SRS and PRS awards was $2 million (30 June 2015: $3 million). As at 30 June 2016, $6 million of share scheme awards remain unvested and not expensed (30 June 2015: $10 million). This expense will be recognised over the vesting period of the awards.

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

Notes to the financial statements: Other information

7.4 Related party transactions

Related parties of the Group include the associates and joint venture companies listed in note 5.1 and key management personnel detailed below.

Interest of directors in certain transactions

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

Transactions with associate and joint venture companies

The Group has the following transactions with associates and joint ventures:

- The Group provides network operations and management services to Southern Cross in respect of its operations in New Zealand;
- The Group makes payments to Southern Cross in connection with capacity it has purchased on Southern Cross' network; and
- The Group makes payments to Connect 8 Limited for fibre and telecommunications construction services.

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

AS AT AND FOR THE YEAR ENDED 30 JUNE	2016 $M	2015 $M
Operating revenues[1]	72	59
Operating expenses	12	12
Capacity acquired and other capital expenditure[2]	26	9
Receivables	2	1

1 Includes dividend income from Southern Cross of $66 million for the year ended 30 June 2016 (30 June 2015: $53 million).

2 As at 30 June 2016 the Group has committed to purchases of $60 million for cable capacity from Southern Cross (30 June 2015: $72 million).

Key management personnel compensation

YEAR ENDED 30 JUNE	2016 $'000	2015 $'000
Directors' remuneration	1,167	1,223
Salary and other short-term benefits[1]	7,777	8,844
Redundancy and termination payments	–	583
Long-term incentives and share-based compensation	1,840	1,435
	10,784	**12,085**

1 Includes short-term benefits paid on termination.

The table above includes remuneration of the Managing Director and the other members of the Leadership Team, including amounts paid to members of the Leadership Team who left during the year ended 30 June or were in acting Leadership Team positions. Like other Group employees, members of the Leadership Team also receive telephone concessions. In addition, some members of the Leadership Team receive de minimus amounts by way of contributions to medical insurance premiums and membership to the Marram Trust.

Corporate governance and disclosures

Corporate governance

The Board and management are committed to ensuring that Spark New Zealand Limited (Spark) maintains a high standard of corporate governance and adheres to high ethical standards. The Board regularly reviews and assesses Spark's governance structures and processes to ensure that they are consistent with international best practice, in both form and substance.

In accordance with the 3rd Edition of the ASX Corporate Governance Council's Principles and Recommendations, Spark has published certain corporate governance disclosures on its website: www.sparknz.co.nz/about/governance. This website includes further information on: the role and responsibilities of the Board and Board committees (including their charters); audit and independence; risks; remuneration; diversity; and ethics and other key Spark policies.

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 role and responsibilities of the Board are set out in the Board Charter, which may be found at: www.sparknz.co.nz/about/governance.

Three Board committees assist in the execution of the Board's responsibilities: the Human Resources and Compensation Committee (HRCC); the Nominations and Corporate Governance Committee (NOMs); and the 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.

Stock exchange listings

Spark ordinary shares are listed on the NZSX and ASX. Spark has adopted the governance practices prescribed in the NZX Corporate Governance Best Practice Code, the ASX Corporate Governance Council's Principles and Recommendations (3rd Edition) and the Financial Markets Authority handbook Corporate Governance in New Zealand Principles and Guidelines. As at 18 August 2016 the Board considers that Spark has complied with these practices for the FY16 reporting period. Further detail regarding such compliance can be found at: www.sparknz.co.nz/about/governance.

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

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

Remuneration

The total remuneration available to non-executive directors is fixed by shareholders. The current annual fee pool limit is $1,500,000 and has not been increased since it was approved by shareholders at the annual meeting in October 2003.

The fees payable to non-executive directors during FY16 were:

BOARD/COMMITTEE[1]	CHAIR	MEMBER[2]
Board of Directors	$347,547	$136,912
Audit and Risk Management Committee	$36,861	$17,903
Human Resources and Compensation Committee	$31,595	$15,798
Nominations and Corporate Governance Committee	–	–

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

2 Member fees were payable for each committee.

From 1 July 2016 the non-executive directors fees increased by 2%, to be paid within the current shareholder-approved annual fee pool of $1,500,000.

Committee membership as at 30 June 2016 was as follows:

HUMAN RESOURCES AND COMPENSATION COMMITTEE	AUDIT AND RISK MANAGEMENT COMMITTEE	NOMINATIONS AND CORPORATE GOVERNANCE COMMITTEE
Justine Smyth (Chair)	Justine Smyth (Chair)	Mark Verbiest (Chair)
Paul Berriman	Paul Berriman	Paul Berriman
Mark Verbiest	Charles Sitch	Ido Leffler
		Charles Sitch
		Justine Smyth

The total remuneration received by non-executive directors of Spark during FY16 was as follows:

NAME	TOTAL REMUNERATION (NZD)[1]
Paul Berriman	$167,133
Murray Horn	$173,773
Ido Leffler	$136,912
Charles Sitch	$154,816
Justine Smyth	$186,411
Mark Verbiest	$347,547
Total	**$1,166,592**

1 The figures shown are gross amounts and exclude GST (where applicable). In addition to these amounts, Spark meets costs incurred by directors that are incidental to the performance of their duties. This includes providing directors with telephone concessions and paying the costs of directors' travel. As these costs are incurred by Spark to enable directors to perform their duties, no value is attributable to them as benefits to directors for the purposes of the above table.

The total remuneration earned by, or paid to, the Managing Director, Mr Simon Moutter, for FY16 and the total anticipated target remuneration expected to be earned or paid in FY17 are as follows:

PERIOD	BASE SALARY[1]	SHORT-TERM INCENTIVE[2]	EQUITY INCENTIVE[3]	LONG-TERM INCENTIVE[4]
FY16 actual remuneration	NZ$1,405,215	NZ$742,000	NZ$594,000	NZ$1,000,000 in the form of 203,111 restricted shares
FY17 anticipated target remuneration	NZ$1,417,500	NZ$787,500	NZ$630,000	NZ$1,000,000 in the form of restricted shares

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

2 FY16 actual short-term incentive was earned in FY16 and will be paid in FY17, as further described in Managing Director Annual Performance Incentive Scheme on www.sparknz.co.nz/about/governance. The gross amount earned in FY15 and paid in FY16 was $825,000. FY17 anticipated target short-term incentive will be earned in FY17 and paid in FY18.

3 FY16 actual equity incentive was earned in FY16 and will be awarded in FY17 in the form of redeemable ordinary shares that will reclassify as ordinary shares in September 2018, as further described in Managing Director Performance Equity Scheme on www.sparknz.co.nz/about/governance. The gross amount earned in FY15 and awarded in FY16 was $660,000. FY17 anticipated target equity incentive will be earned in FY17 and awarded in FY18 in the form of redeemable ordinary shares that will reclassify as ordinary shares in September 2019.

4 FY16 actual long-term incentive was granted in FY16 and, subject to specific performance hurdles, will vest in September 2018, as further described in Managing Director Long-Term Incentive Scheme on www.sparknz.co.nz/about/governance. FY17 anticipated target long-term incentive will be granted in FY17 and, subject to performance hurdles, will vest in September 2019.

The total remuneration earned by, or paid to, key management personnel, being the directors and members of the Leadership Team, is set out in note 7.4 of the financial statements.

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

Mr Quince received a director's fee of NZ$10,000 (excluding GST) for acting as a director of Teleco Insurance (NZ) Limited. Appleby Services (Bermuda) Limited received a director's fee of US$2,000 in relation to Ms Dyer-Fagundo acting as a director of TCNZ (Bermuda) Limited. These directorship services are now provided by Estera Services (Bermuda) Limited following a management buy out of the Appleby fiduciary business. Ms Dyer-Fagundo will continue to act as the Estera Services (Bermuda) Limited appointed director of TCNZ (Bermuda) Limited.

Board and committee meeting attendance for FY16

The Board held nine meetings during FY16. The table below shows director attendance at these Board meetings and committee member attendance at committee meetings. Sub-committees of the Board also met regularly throughout the year to consider matters of special importance.

	BOARD	ARMC	HRCC	NOMS
Total number of meetings held	9	6	5	4
Paul Berriman	9	6	5	4
Murray Horn	7[1]	5	–	4
Ido Leffler	8	–	–	4
Simon Moutter	9	–	–	–
Charles Sitch	9	6	–	4
Justine Smyth	9	6	5	4
Mark Verbiest	9	6[2]	5	4

1 Dr Horn retired as a director of Spark on 24 May 2016.

2 Mr Verbiest attends ARMC meetings in an ex officio capacity.

The table below shows the number of employees and former employees, not being directors of Spark, who, in their capacity as employees, received remuneration and other benefits during FY16 totalling NZ$100,000 or more.[1]

REMUNERATION RANGE	CURRENT EMPLOYEES	FORMER EMPLOYEES	TOTAL EMPLOYEES
$100,000–$110,000	339	29	368
$110,001–$120,000	282	21	303
$120,001–$130,000	253	13	266
$130,001–$140,000	194	16	210
$140,001–$150,000	160	6	166
$150,001–$160,000	119	7	126
$160,001–$170,000	93	5	98
$170,001–$180,000	66	6	72
$180,001–$190,000	55	3	58
$190,001–$200,000	28	5	33
$200,001–$210,000	36	1	37
$210,001–$220,000	24	1	25
$220,001–$230,000	20	1	21
$230,001–$240,000	21	2	23
$240,001–$250,000	22	2	24
$250,001–$260,000	21	3	24
$260,001–$270,000	8		8
$270,001–$280,000	10	1	11
$280,001–$290,000	12	2	14
$290,001–$300,000	6		6
$300,001–$310,000	7	2	9
$310,001–$320,000	4	1	5
$320,001–$330,000	4		4
$330,001–$340,000	2	2	4
$340,001–$350,000	3	1	4
$350,001–$360,000	1		1

REMUNERATION RANGE	CURRENT EMPLOYEES	FORMER EMPLOYEES	TOTAL EMPLOYEES
$360,001–$370,000	2	3	5
$370,001–$380,000		1	1
$380,001–$390,000	1		1
$390,001–$400,000	1		1
$400,001–$410,000	2		2
$420,001–$430,000	1		1
$430,001–$440,000	1	1	2
$440,001–$450,000	1	1	2
$450,001–$460,000	1		1
$460,001–$470,000	4	1	5
$470,001–$480,000	2	1	3
$480,001–$490,000	1	2	3
$490,001–$500,000	1		1
$510,001–$520,000	1	1	2
$520,001–$530,000	1		1
$540,001–$550,000	1		1
$550,001–$560,000	2		2
$560,001–$570,000	1		1
$610,001–$620,000	2		2
$670,001–$680,000	1		1
$710,001–$720,000	2		2
$760,001–$770,000	1		1
$800,001–$810,000	1		1
$840,001–$850,000	1		1
$890,001–$900,000	1		1
$970,001–$980,000	1		1
$1,230,001–$1,240,000	1		1
Total	**1,825**	**141**	**1,966**

1 The table includes base salaries, short-term incentives and vested or exercised long-term incentives. The table does not include: amounts paid after 30 June 2016 relating to FY16; long-term incentives that have been granted and have yet to vest (the total value of which was NZ$17,974,655 as at 30 June 2016); product and service concessions received by employees; contributions paid towards employee membership of the Marram Trust (a community healthcare and holiday accommodation provider); contributions paid to the Government Superannuation Fund (a legacy benefit provided to a small number of employees); and, if the individual is a KiwiSaver member, contributions of 3% of gross earnings towards that individual's KiwiSaver scheme.

Diversity

Spark believes that our success is intrinsically linked to our people and that in an increasingly global world, the diversity of our people – the unique insights, perspectives and ideas that people from diverse backgrounds bring – will be critical to the future performance of our business.

Our approach to diversity is based on strategy-first: the tangible actions we take to enhance the diversity of our workforce are designed to align with, and support, our strategy. It is our aim to have a workforce that is reflective of the emerging make-up of New Zealand – those that are our customers today and who will be our customers in the future.

Over the past year we have made targeted investments in programmes in support of these aims:

- Continued sponsorship of current and emerging senior women leaders on the Global Women Breakthrough Leadership Programme of which we are a major partner;
- Initiated internal forums to engage on diversity and inclusion, including external speakers and special interest groups;
- Actively engaged and supported industry groups, such as Women in Technology and Global Telco Forum;
- Sponsored emerging female talent onto targeted development programmes, such as the Global Women Activation series;
- Partnered with the First Foundation to sponsor scholarships and provide work experience for talented young New Zealanders who lack the financial means to a tertiary education;
- Sponsored leaders and high-potential employees of Pasifika descent on the BEST Pasifika Leadership Programme;
- Engaged in the 'Champions for Change' initiative;
- Introduced university scholarships for women in technology;
- Appointed a Diversity and Inclusion Programme Leader to accelerate our diversity and inclusion ambition; and
- Piloted leadership initiatives to accelerate the leadership growth of diverse leaders.

Gender composition of our workforce

The following table sets out the numbers of men and women at different levels of Spark's workforce as at 30 June 2015 and 30 June 2016.[1]

	FEMALE				MALE			
	2015		2016		2015		2016	
	NO.	%	NO.	%	NO.	%	NO.	%
Directors	1	14%	1[2]	14%[3]	6	86%	6[4]	86%
Leadership Team[5]	1	17%	1	17%	5	83%	5	83%
Other leadership roles[6]	13	33%	14	30%	26	67%	33	70%
Overall workforce	**1,771**	**37%**	**1,847**	**37%**	**2,984**	**63%**	**3,105**	**63%**

1 The table includes details of permanent and fixed-term employees of Spark New Zealand Trading Limited and directors of Spark New Zealand Limited.

2 Ms Gerry was appointed as a director of Spark on 1 July 2016 and Ms Barrass will be appointed as a director of Spark on 1 September 2016.

3 This percentage increased to 29% on 1 July 2016 with the appointment of Ms Gerry to the Board. This percentage will increase further to 38% as at 1 September 2016 with the appointment of Ms Barrass to the Board.

4 Dr Horn retired as a director of Spark during FY16.

5 The Leadership Team is considered 'senior managers' for the purposes of the Financial Markets Conduct Act 2013 and 'senior executives' for the purposes of the ASX Corporate Governance Council's Principles and Recommendations.

6 Substantive roles that report directly to members of the Leadership Team or to their direct reports.

Director independence and interests

The Board has determined, based on information provided by directors regarding their interests, that at 30 June 2016: Mr Berriman, Mr Leffler, Mr Sitch, Ms Smyth and Mr Verbiest were independent. The Board also determined that Mr Moutter was not independent due to his position as Managing Director. Further, the Board has determined, based on information provided by Ms Gerry regarding her interests, that Ms Gerry (who was appointed as a director by the Board effective 1 July 2016) is independent. Further information regarding director independence may be found at: www.sparknz.co.nz/about/governance.

Directors made the following entries in the interests register for FY16:

- Directors disclosed, pursuant to section 140 of the Companies Act 1993, interests in the following entities during FY16:

DIRECTOR	ENTITY	RELATIONSHIP
Paul Berriman	NGMN Limited	Board Member
	Lynx Analytics Pte Limited	Non-Executive Director
Ido Leffler	Range Me	Non-Executive Director
Simon Moutter	Designer Wardrobe Limited	Non-Executive Director, Chairman and significant shareholder
Charles Sitch	Pacific Edge Limited	Ceased to be a director
	Apiam Animal Health Limited	Board member
	Bellamy’s Australia Limited	Board member
Mark Verbiest	Aspiring Foundation Trust	Ceased to be Chairman and remained a Trustee

- Directors disclosed, pursuant to section 148 of the Companies Act 1993, the following acquisitions and disposals of relevant interests in Spark shares during FY16:

NAME	DATE OF ACQUISITION/ DISPOSAL	CONSIDERATION PAID/RECEIVED	NUMBER OF SHARES ACQUIRED/(DISPOSED)	CLASS OF FINANCIAL PRODUCT
Simon Moutter	21 September 2015	Services to Spark	128,461	Redeemable ordinary shares
	30 September 2015	Services to Spark	(45,906)	Performance rights
	30 September 2015	Services to Spark	179,634	Ordinary shares
	12 November 2015	Services to Spark	203,111	Ordinary shares (subject to restrictions under the Managing Director Long-Term Incentive Scheme 2015)
Justine Smyth	4 September 2015	$59,690.94	20,201	Ordinary shares
	14 December 2015	Nil	(230,201)	Ordinary shares (transfer to Miksha Trust with beneficial ownership retained)
Mark Verbiest	24 August 2015	$59,800	20,000	Ordinary shares (relevant interest in beneficial ownership of ordinary shares held by S J Verbiest)

- Directors disclosed, for the purposes of section 162 of the Companies Act 1993, insurance effected for Spark’s directors and senior managers for the 12 month period from 1 June 2016 and deeds of indemnity provided to all directors and specified senior managers of Spark.

Shareholdings

As at 30 June 2016 there were 1,829,795,177 Spark ordinary shares on issue, each conferring to the registered holder the right to one vote on a poll at a meeting of shareholders on any resolution, held as follows:

SIZE OF HOLDING	NUMBER OF HOLDERS[1]	%	NUMBER OF SHARES	%
1–1,000	12,250	30.05	6,399,055	0.35
1,001–5,000	17,871	43.83	46,412,107	2.54
5,001–10,000	5,694	13.97	42,775,398	2.34
10,001–100,000	4,778	11.72	109,148,432	5.96
100,001 and over	177	0.43	1,625,060,185	88.81
Total	**40,770**	**100.00**	**1,829,795,177**	**100.00**

1 Includes 3,420,651 shares on issue held by Spark Trustee Limited on behalf of 47 beneficial holders and on trust for the Spark Restricted Share Scheme and 928,831 shares on issue held by Spark Trustee Limited on behalf of 1,169 holders for Spark Share (as further described in note 7.3 of the financial statements). There are 774,715 shares on issue held by Spark Trustee Limited on behalf of 32 holders for the Spark Long-Term Incentive Plan.

As at 30 June 2016 there were 318,601 redeemable ordinary shares on issue held by the Managing Director and 3,462,049 share rights (including performance rights held by the Managing Director) on issue held by seven holders. Redeemable ordinary shares and shares held under Spark Share have the same voting rights as ordinary shares (but are subject to restrictions regarding disposal). Restricted shares and share rights are issued to Spark employees as part of Spark's long-term incentive schemes. Further information on these schemes is contained in note 7.3 of the financial statements and at www.sparknz.co.nz/about/governance.

As at 30 June 2016 there were 610 shareholders holding between 1 and 99 ordinary shares (a minimum holding under the NZX listing rules).

The 20 largest holders of Spark shares at 30 June 2016 were:

	NAME[1]	NUMBER OF SHARES	%
1.	HSBC Nominees (New Zealand) Limited	541,921,840	29.62
2.	National Nominees New Zealand Limited	363,447,630	19.86
3.	JP Morgan Chase Bank	145,150,682	7.93
4.	Citibank Nominees (NZ) Limited	135,296,110	7.39
5.	Accident Compensation Corporation	50,909,561	2.78
6.	HSBC Custody Nominees (Australia) Limited	46,711,044	2.55
7.	BNP Paribas Nominees NZ Limited	37,902,307	2.08
8.	JP Morgan Nominees Australia Limited	34,682,316	1.90
9.	National Nominees Limited	27,168,978	1.48
10.	New Zealand Superannuation Fund Nominees Limited	25,475,665	1.39
11.	Cogent Nominees Limited	23,744,718	1.30
12.	Tea Custodians Limited	18,438,240	1.01
13.	Premier Nominees Limited	16,455,456	0.90
14.	FNZ Custodians Limited	13,743,538	0.75
15.	Citicorp Nominees Pty Limited	13,387,833	0.73
16.	Guardian Nominees No.2 Limited	12,884,185	0.70
17.	BNP Paribas Noms Pty Limited	11,576,389	0.63
18.	Cogent Nominees (NZ) Limited	6,853,924	0.37
19.	New Zealand Depository Nominee Limited	6,807,618	0.37
20.	Private Nominees Limited	5,641,575	0.31

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

According to substantial holder notices, as at 30 June 2016 the substantial holders in Spark were as follows:

NAME	NUMBER OF ORDINARY SHARES	% OF ORDINARY SHARES ON ISSUE[1]
Blackrock Investment Management (Australia) Limited	115,998,106	6.34%
The Bank of New York Mellon Corporation	131,141,655	7.17%

1 Based on issued share capital of 1,829,795,177 as at 30 June 2016.

Spark does not operate any ownership ceilings or restrictions for specific parties.

As at 30 June 2016 directors, or entities related to them, held relevant interests (as defined in the Financial Markets Conduct Act 2013) in Spark shares as follows:

	RELEVANT INTEREST IN SPARK SHARES AT 30 JUNE 2016	
NAME	NUMBER	%[1]
Paul Berriman	20,000	0.0011
Ido Leffler	–	–
Simon Moutter	2,280,355[2]	0.1246
Charles Sitch	13,934	0.0008
Justine Smyth	230,201[3]	0.0126
Mark Verbiest	37,568[4]	0.0021

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

2 Held in the form of 511,608 ordinary shares, 318,601 redeemable ordinary shares,1,247,035 share rights and 203,111 restricted shares. Some of these remain subject to vesting conditions.

3 Relevant interest in beneficial ownership of 230,201 ordinary shares held by Miksha Trust.

4 Includes a relevant interest in beneficial ownership of 20,000 ordinary shares held by S J Verbiest.

Subsidiary company directors

The following people held office as directors of subsidiary companies at 30 June 2016. Alternate directors are indicated with an (A).

SUBSIDIARY COMPANY	CURRENT DIRECTORS	DIRECTORS WHO RETIRED DURING THE YEAR
Appserv Limited	M Anastasiou, J Hodson, J Paris	
Computer Concepts Limited	T Miles, J Hodson, M Anastasiou	
Digilife New Zealand Limited	R Snodgrass, D Werder	
Gen-i Australia Pty Limited	T Miles, M Pryke	
Gen-i Limited	M Anastasiou, T Miles	
Lightbox New Zealand Limited	J Hodson, R Snodgrass	
Property Leasing Limited	T Miles, J Hodson, M Anastasiou	
Qrious Limited	J Hodson, R Snodgrass	
Revera (Australia) Pty Limited (in liquidation)[1]	M Anastasiou, M Pryke	
Revera Limited	M Anastasiou, J Hodson, T Miles	
Spark Finance Limited	M Anastasiou, J Hodson, S Knight, M Sheppard	M Laing
Spark New Zealand Cables Limited	M Sheppard, L Cowley	M Laing
Spark New Zealand LS Limited	J Hodson, R Snodgrass	
Spark New Zealand Trading Limited	D Havercroft, J Hodson, T Miles, R Snodgrass, J Paris	
Spark Retail Holdings Limited	M Anastasiou, J Hodson	
Spark Trustee Limited	M Anastasiou, J Hodson	
TCNZ Australia Investments Pty Limited	M Pryke, F Evett	
TCNZ (Bermuda) Limited	L Cowley, A Dyer-Fagundo, J Wesley-Smith, R Snodgrass (A), A Pirie (A), M Stribling (A)	S Rees Davies, M Amissah (A), T Counsell (A), S Demerling (A), J Wilson (A)
TCNZ Cook Islands Holdings Limited (in liquidation)[2]	F Evett	J van Woerkom
TCNZ Financial Services Limited	M Anastasiou, F Evett	M Laing
TCNZ Solutions Australia Pty Limited (in liquidation)[3]	M Pryke	
TCNZ (United Kingdom) Securities Limited	F Evett, M Palmer, J Reader	M Laing
Teleco Insurance Limited	D Havercroft, S Knight, A Dyer-Fagundo, J Burke (A), S Demerling (A), F Evett (A), M Anastasiou (A)	S Rees Davies, M Amissah (A), T Richardson-Augustus (A), T Woods (A), S Roest (A)
Teleco Insurance (NZ) Limited	S Knight, R Quince	M Laing
Telecom 3G (Australia) Limited[4]	M Anastasiou, J Hodson	
Telecom Capacity Limited	D Havercroft, J Hodson	
Telecom Enterprises Limited	M Anastasiou, J Hodson	
Telecom New Zealand International Limited[4]	M Anastasiou, J Hodson	
Telecom New Zealand (UK) Enterprises Limited	F Evett, M Sheppard	M Laing
Telecom New Zealand USA Limited	L Cowley	
Telecom Pacific Limited	M Anastasiou, M Sheppard	
Telecom Southern Cross Limited	M Anastasiou, J Hodson	
Telecom Wellington Investments Limited	M Anastasiou, F Evett	M Laing
Telegistics Repair Limited	M Anastasiou, J Goddard	
The Colocation Company Limited	T Miles, J Hodson, M Anastasiou	

1 David Pratt and Jane Ifield appointed as joint and several liquidators under members voluntary liquidation.
2 KPMG Cook Islands appointed as liquidator under members voluntary liquidation.
3 David Pratt and Jane Ifield appointed as joint and several liquidators under members voluntary liquidation.
4 Amalgamated into Spark New Zealand Trading Limited on 29 July 2016.

Glossary

3G	means third-generation mobile network as defined by the International Telecommunications Union.
4G	means fourth-generation mobile network as defined by the International Telecommunications Union.
ADR	means an American Depositary Receipt.
ARMC	means the Audit and Risk Management Committee.
ARPU	means Average Revenue Per Unit/User.
ASX	means the Australian Securities Exchange.
CCL Group	means Property Leasing Limited, which owns all the shares in Computer Concepts Limited and The Colocation Company Limited.
CGU	means Cash Generating Units.
Company	means Spark New Zealand Limited.
EBITDA	means Earnings before Interest, Tax Expense, Depreciation and Amortisation and is a non-GAAP measure used by management.
FTE	means Full-time Equivalent.
Group	means the Group in relation to these financial statements, which are prepared for Spark New Zealand Limited (the company) and its subsidiaries (together the Group).
HRCC	means the Human Resources and Compensation Committee.
ICT	means Information and Communications Technologies.
IFRS	means International Financial Reporting Standards.
ISP	means Internet Service Provider.
LTE	means Long-Term Evolution.
LTI	means Long-Term Incentive, which is part of Spark Leadership Team and Managing Director remuneration.
Net debt	means a non-GAAP measure of debt used by management that includes long-term debt at the value of hedged cash flows due to arise on maturity, plus short-term debt, less any cash.
NM	means not meaningful.
NOMs	means the Nominations and Corporate Governance Committee.
NPS	means Net Promoter Score.
NZ GAAP	means Generally Accepted Accounting Practice in New Zealand.
NZ IAS	means New Zealand International Accounting Standard.
NZ IFRS	means New Zealand Equivalent to International Financial Reporting Standards.
NZSX	means the main board equity security market operated by NZX.
NZX	means NZX Limited.
OTN	means Optical Transport Network.
PRS	means Performance Rights Scheme.
RSS	means Restricted Share Scheme.
SEC	means the United States Securities and Exchange Commission.
Southern Cross	means Southern Cross Cables group of companies, which consists of two sister companies, Southern Cross Cables Holdings Limited and Pacific Carriage Holdings Limited and their subsidiaries.
Spotify	means an application that allows access to digital music services.
SRAN	means Single Radio Access Network.
SRS	means Share Rights Scheme.
STI	means Short-Term Incentive, which is part of Spark Leadership Team and Managing Director remuneration.
TaaS	means Telecommunications as a Service, which is a Government programme that delivers a range of cross-government telecommunications and managed security services.
UBA	means Unbundled Bitstream Access.
UFB	means Ultra Fast Broadband.
WACC	means Weighted Average Cost of Capital.
Wireless Broadband	means a home broadband service that uses Spark's 4G mobile network.

Contact details

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Silvana Roest

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