



# Active...

FOR Growth | Environment | Community | People | Governance | Risk



**FY16 Environment, Social & Governance Report**

1 JULY 2015 - 30 JUNE 2016

# Introduction



**Spark aims to unleash the potential in all New Zealanders. Contributing positively to all aspects of our community and being a good corporate citizen are important facets to realising this ambition.**

We do this through:

- ▶ Focusing on long-term growth and business sustainability;
- ▶ Minimising the environmental impacts of our business operations and helping others be more sustainable;
- ▶ Supporting Spark Foundation to encourage generosity and build a better future for New Zealanders. In FY16 we provided more than \$2.5 million to fund the Foundation's school and community initiatives;
- ▶ Cultivating an inclusive workplace of diverse and engaged staff; and
- ▶ Putting in place best practice governance and risk management procedures.



# Welcome

The future of New Zealand is becoming more connected than ever. As the country's leading digital services company, Spark has a powerful ambition: to unleash the potential in all New Zealanders through amazing technology.

Our networks and services are the absolute platform for people and devices in New Zealand to be connected. We are pushing hard to drive the agenda of the connected world by harnessing all the benefits of new technologies, such as Cloud services and the Internet of Things.

For New Zealand, breakthrough technology is set to make a significant and positive impact. We believe increased digital connectivity will improve social, economic and environmental outcomes. This enables stronger and safer communities, even in the most remote rural areas. It opens up more educational opportunities for our children, regardless of their socio-economic backgrounds, and it improves health outcomes for New Zealanders of all ages and walks of life.

The possibilities are endless and we are determined to create a sustainable infrastructure to make a meaningful contribution to New Zealand's digital future. We do this through:

- ▶ Driving a sustainable growth framework;
- ▶ Minimising the environmental impacts of our business operations;
- ▶ Supporting schools and communities through the work of Spark Foundation;
- ▶ Ensuring our staff are as diverse as our customer base; and
- ▶ Setting best practice governance and risk management procedures.

Spark's long-term success is dependent on our customers in one key market: New Zealand. That's why we're passionate about technology being truly useful and helping New Zealanders lead smarter, healthier and more connected lives.



**Mark Verbiest**  
Chairman  
18 August 2016

**Simon Moutter**  
Managing Director



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 Cloud IT 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 the 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.

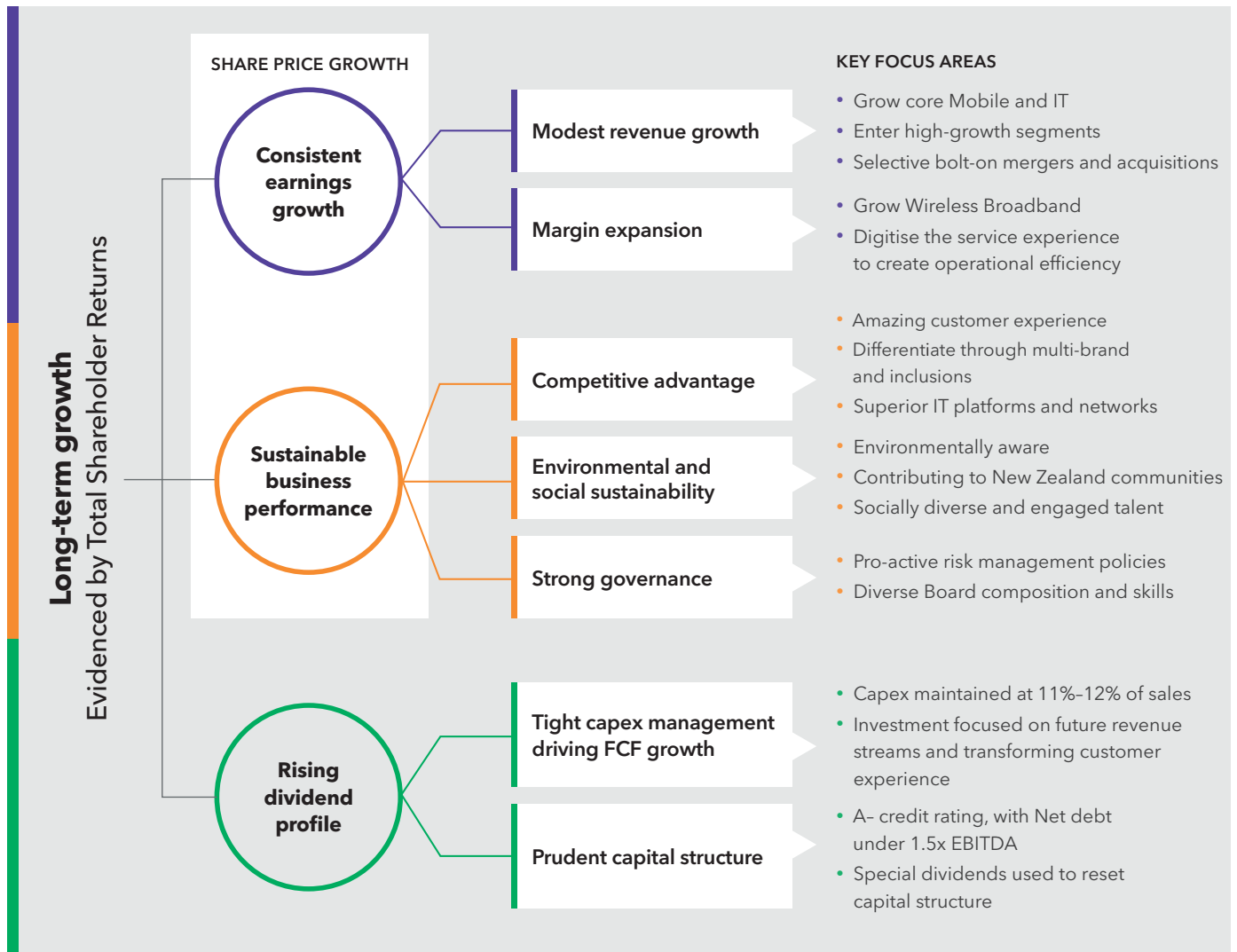
Each of the three areas above is supported through our overarching focus on long-term and sustainable growth as we continue to build a strong business for all New Zealanders.

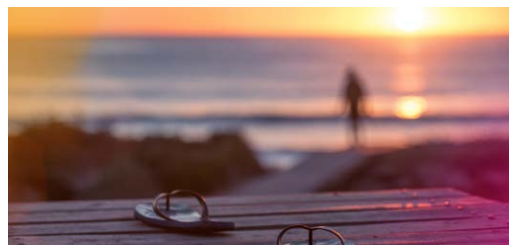
## Compound Average Total Shareholder Return

**22.4%**

over the past three years

## Our model for long-term returns





# 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

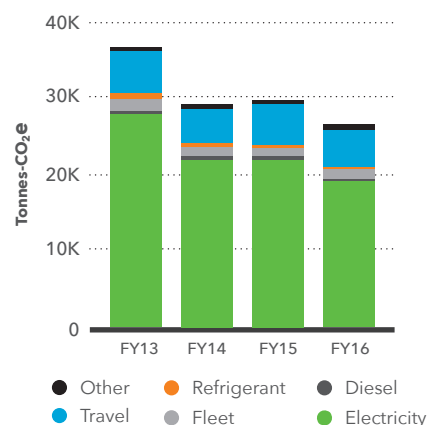
# Environment

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.

## Leading sustainable operations

### REDUCTIONS IN GREENHOUSE GAS EMISSIONS

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.



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.



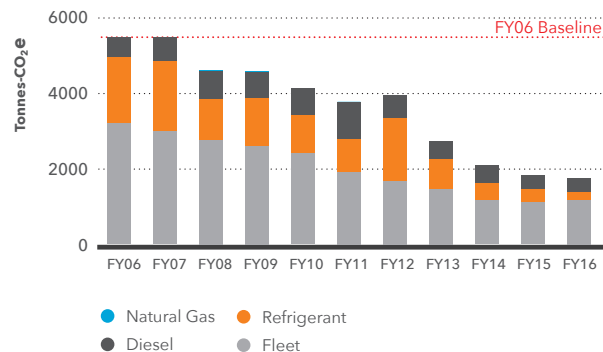
SPARK PEOPLE USE VOLUNTEER DAYS TO HELP ENVIRONMENTAL CAUSES

The table below shows FY16 emissions compared with FY15 and the FY06 base year.

TONNES-CO <sub>2</sub> E	FY16	FY15	% INCREASE/ (DECREASE)	BASE YEAR FY06	% INCREASE/ (DECREASE) SINCE FY06 BASE YEAR
Direct Emissions	1,751	1,842	(5%)	5,483	(68%)
Indirect Emissions	24,946	28,171	(11%)	47,606	(48%)
<b>Total Emissions</b>	<b>26,697</b>	<b>30,013</b>	<b>(11%)</b>	<b>53,089</b>	<b>(50%)</b>

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. In FY16 Spark replaced 30 vehicles in the fleet with hybrid engines and commenced a trial of electric vehicles. The environmental benefits of these initiatives will show through in future years. This year Spark recorded record lows in both refrigerant leakage and in diesel consumption for back up generators.

### DIRECT EMISSIONS



Spark’s indirect emissions reduced by 11% this year. Indirect emission sources include business travel, waste and electricity.

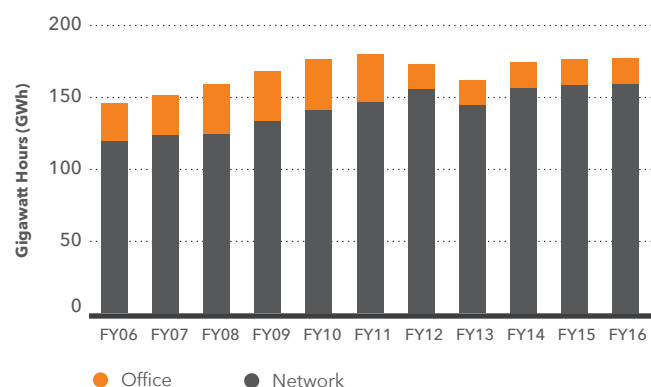
Air travel emissions decreased by 8% in FY16, with less international and trans-Tasman travel. In FY16 travel emissions were 46% lower than in the FY06 base year.

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 and New Zealand’s 2025 target is 90%. The very high proportion of renewable electricity in our supply means that Spark is a low-carbon business. This extends to all our services, from mobile and broadband to data centres.

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, of just 0.4%. Spark has managed to constrain the overall growth in power through various energy efficiency initiatives.

### ELECTRICITY CONSUMPTION



### TAKANINI DATA CENTRE - PASSIVE COOLING OPERATES FOR 95% OF THE TIME WITHOUT THE USE OF CHILLERS



Spark continually invests in energy efficiency improvements that reduce electricity consumption. These investments will be critical in achieving our 2025 carbon reduction target. Spark closely manages technology lifecycle; deploying new technologies, replacing equipment and retiring end-of-life legacy equipment. The expansion of our services, such as our data centre, mobile and fibre services, drives electricity consumption up. In recent years electricity consumption increased by 15% through data centre expansion alone including the acquisitions of Revera, Appserv and CCL Group and the state-of-the-art Takani Data Centre. Electricity consumption would have grown even more if it were not for investments in energy efficiency technologies.

In FY16 two of Spark’s data centres were recognised for energy efficiency and Spark’s new subsidiary CCL Group has an innovative and highly advanced artesian free-cooling system in its Christchurch Data Centre.

The Mayoral Drive Data Centre trialed a cooling system, Vigilant, which will see Spark reduce our energy consumption by over 517,000kWh per year. Related annual marginal GHG emissions will reduce by 274 tonnes-CO<sub>2</sub>e. Less air conditioning and the more efficient use of process cooler units (PCUs) will have the additional climate change benefit of reducing refrigerant requirements and associated GHG emissions.

The new flagship Takani Data Centre uses the latest technologies, such as free-cooling that dramatically improves energy efficiency and reduces its carbon footprint. Passive cooling operates for 95% of the time without the use of chillers. These design innovations will reduce marginal emissions by 2,650 tonnes-CO<sub>2</sub>e per year when compared to a typical data centre, ultimately resulting in total lifetime marginal emission reductions of more than 65 kilotonnes-CO<sub>2</sub>e. Spark Digital operates this data centre exclusively for our customers and, as well as the many features and benefits of colocation services provided, customers have the knowledge that their equipment is hosted in a low-carbon and sustainable facility.

Other initiatives that Spark is undertaking or investigating to reduce electricity and related emissions include: free-cooling for mobile towers, roll out of SRAN tower upgrades, installing more efficient batteries operable at higher temperatures, removing redundant equipment from network exchange buildings and rationalising office space.

**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

**CARBON OFFSETS**

Since FY12 Spark volunteers have planted 12,360 native trees to help restore Motuihe Island in Auckland. Although carbon is sequestered in these trees, the carbon offsets generated have not been quantified. Over the lifetime of the trees planted, carbon offsets achieved may be material to Spark’s carbon footprint.

**SPARK PEOPLE USE VOLUNTEER DAYS TO PLANT NATIVE TREES ON MOTUIHE ISLAND IN AUCKLAND**



**NETWORK RECYCLING**

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

**Target for FY17:**

- ▶ \$390,000 in annual network recycling revenue

**BUILDING DESIGN**

Spark is headquartered in a technology-forward building, Spark City. The sustainable framework from which it has been designed delivers operating efficiencies. A number of sustainable technologies are present and maintained including:

- ▶ A building management system that monitors water and energy consumption;
- ▶ An integrated light-sensor system;
- ▶ A 120,000 litre rain water tank to provide water to the toilets; and
- ▶ Low-energy LED lighting in the atrium and T5 fluorescents throughout the remainder of the building.

These features result in modest consumption in water, lighting, temperature and electricity. The New Zealand Green Building Council acknowledges Spark’s headquarters, with a coveted 5 Green Star rating for Office Design.



## Enabling sustainability in New Zealand

Spark enables people and businesses to be more sustainable every day. From the Cloud to Wireless Broadband, our services increase energy efficiency across the board. Through digital services Spark reduces the need for travel and transport and increases productivity and communication – which all helps to reduce emissions. Enabling our customers and staff to better manage our country’s resources also allows Spark to work towards a more sustainable future.

### MOBILE PHONE RECYCLING

Unwanted mobile handsets, especially those directed to landfill, can have undesirable environmental outcomes. Spark aims to reduce the impact of unwanted mobile phones by encouraging customers and staff to recycle handsets. As a member of the Telecommunications Forum’s RE:MOBILE product stewardship scheme, Spark supplies recycling bins in all its retail stores and in many office buildings around the country. In FY16 32,279 phones were recycled through the RE:MOBILE programme. Spark’s Recycling Stations also accept mobile phone chargers, home phones, modems and tablets.

Unusable devices are recycled through the correct channels, resulting in tonnes of potentially harmful substances being diverted from landfills. Once collected, working devices are on-sold to emerging markets, with a percentage of the profits going to the environmental charity Sustainable Coastlines, which during FY16 succeeded Starship Children’s Hospital as the programme beneficiary.

Working collectively with other telecommunications providers that also participate in the RE:MOBILE scheme, Spark works to meet the programme’s targets and ensure its success. Continuing to grow the awareness of RE:MOBILE through internal and external promotion will be a focus for FY17.

#### Target for FY17:

- ▶ 10% annual increase in number of phones recycled through RE:MOBILE

**RE:mobile**  
**32,279**  
PHONES RECYCLED THROUGH THE RE:MOBILE PROGRAMME - CHARITY PARTNER SUSTAINABLE COASTLINES



### ELECTRIC VEHICLES

Spark believes electric vehicles are charged with potential and has invested in two key initiatives to support what could be the future of transport. In FY16 Spark piloted the Spark Plugs initiative and added two electric vehicles (EVs) to the pool car fleet.

In an Australasian first, Spark trialled the use of phone boxes as charging stations for EVs. Four phone boxes in Waipu, Wellsford, Waiwera and Waitakaruru were fitted with electric vehicle chargers. The Spark Plugs charging stations extends the work Spark has done to convert more than 1,000 phone boxes into WiFi hot spots.

In addition, Spark introduced two all-electric Peugeot Ions to the pool car fleet. The EVs are the first of their model in New Zealand and join the other 35 fuel efficient Toyota Prius hybrid vehicles in the fleet. As the uptake of EVs in New Zealand grows and the technology improves, Spark is monitoring the potential to adopt more EVs.

#### Target for FY17:

- ▶ 40% of corporate pool car fleet comprised of hybrid vehicles



# 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 Givealittle, New Zealand's crowdfunding platform for social good. 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 invested \$550,000 in the Manaiakalani programme, the bulk of which was directed to an Outreach programme, spreading the methodology from its base in Tamaki, east Auckland to other school clusters around New Zealand. The success of the Outreach 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.



STUDENTS LEARNING UNDER THE MANAIAKALANI PROGRAMME

### 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

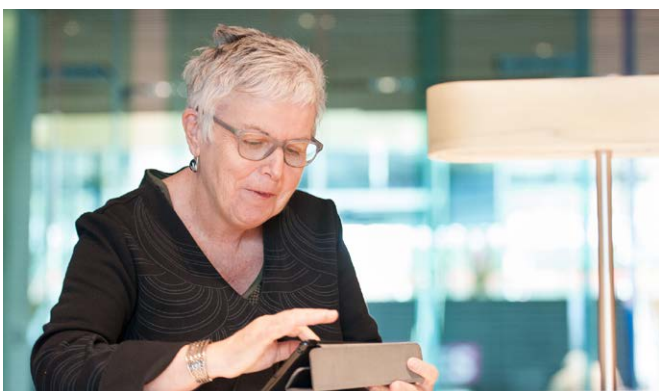
# 1,390

VOLUNTEER DAYS DONATED IN FY16



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.

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.



**AGE HACKERS BLOG ABOUT HOW THEY USE TECHNOLOGY IN THEIR DAILY LIVES, DEMONSTRATING THAT AGE IS NO BARRIER**

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.

# \$21.4m

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



## Unleashing potential through generosity

### GIVEALITTLE

The internet and the 'power of the crowd' can be powerful enablers of generosity. Spark Foundation owns and operates Givealittle, New Zealand's crowdfunding platform for social good. Thousands of New Zealanders use Givealittle to 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 and gift it back to the people of New Zealand. Spark also contributed \$20,000 to the campaign and encouraged other businesses to get involved. Following the successful purchase, the beach, which may have otherwise been sold into private hands, obtained national park status to ensure ongoing public use and access.



### Target for FY17:

- ▶ \$40 million in annual donations through crowdfunding platform Givealittle

### VOLUNTEERING AND PAYROLL GIVING

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. At the core of Spark Foundation's values is choice and the programmes encourage Spark people to support their chosen charity, school or community group. Spark Foundation has a network of 90 Ambassadors who support staff engagement in these programmes across Spark's nationwide centres.

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.

#### Target for FY17:

- ▶ Volunteering participation: 30%
- ▶ Payroll giving participation: 20%

### DISASTER RELIEF

Spark believes in using our core services to do the right thing in times of need. Spark provides support to customers who were impacted by local and international disasters. In FY16 Spark New Zealand offered communications support to:

- ▶ **Paris attacks, France.** Spark credited customers for the cost of landline and mobile calls and texts to France for three days following the attack in November.
- ▶ **Cyclone Winston, Fiji.** Spark credited customers for the cost of landline and mobile calls and texts to Fiji for three days following the disaster in February.
- ▶ **Brussels attacks, Belgium.** Spark credited customers for the cost of landline and mobile calls and texts to Belgium for a day following the attack in March.

### 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).

#### COLAB

Colab is a research and teaching institute of the Auckland University of Technology (AUT). The partnership sees Spark work collaboratively with tertiary students to explore and create new digital technologies. Spark provides students specific problems to solve, along with mentorship, bridging the gap between education and the commercial world. In FY16 Spark funded two masters' scholarships to the programme.



THROUGH A PARTNERSHIP WITH COLAB, SPARK GIVES UNIVERSITY STUDENTS THE OPPORTUNITY TO APPLY THEIR LEARNING IN A COMMERCIAL CONTEXT



**NANOTECHNOLOGIST AND CO-FOUNDER OF OMG TECH!, DR MICHELLE DICKINSON (AKA NANOGIRL) WORKS WITH SPARK TO INSPIRE A PASSION FOR TECHNOLOGY IN NEW ZEALANDERS**



**INNOVATOR AND PHILANTHROPIST SIR RAY AVERY WAS A KEYNOTE SPEAKER DURING SPARK LAB'S INNOVATION MONTH**

#### **LIGHTNING LAB**

The Lightning Lab is an accelerator programme through which start-ups successfully prove, build and launch their ideas to market. As the National Foundation Partner, Spark supports teams through The Lightning Lab where they gain the structure, methodologies, business skills and focused support they need to excel in the market. In FY16 Spark supported programmes in Christchurch, Wellington and Auckland, with Spark staff providing mentorship on growth and funding.

#### **SPARK LAB**

Spark inspires New Zealand business people and entrepreneurs to unleash their potential with technology. Located in downtown Auckland, Spark Lab is a space dedicated to exchanging innovative ideas. On a monthly basis, Spark Lab hosts a series of curated events, designed to deliver practical business insights that impact operations and results. Sessions feature industry leaders and influencers from New Zealand and beyond and provide the opportunity for networking and sharing peer-to-peer insights. More than 145 talks have been presented to date, all the events are free of charge and many are accessible through live-stream.

#### **NEW ZEALAND INNOVATION MISSION TO ISRAEL**

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.



# 3

INTERNAL PROMOTIONS TO THE LEADERSHIP TEAM ANNOUNCED

# 25%

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

# People

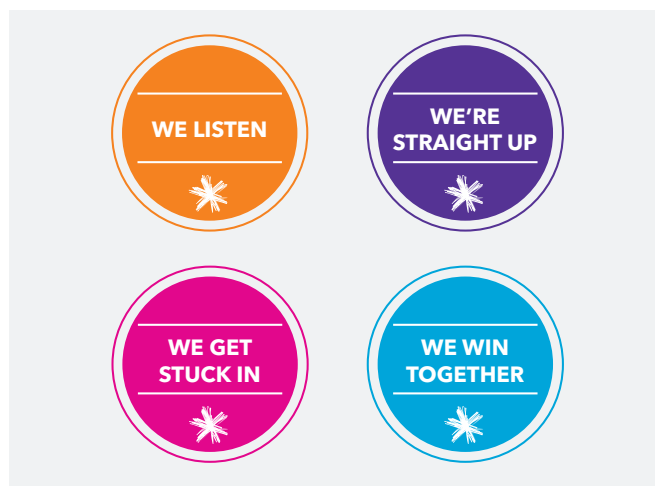
**We actively invest in our people so that they can make more of a difference. Every day they strive to deliver little victories for our customers.**

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 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 bringing top talent through into leadership roles sooner rather than later. We provide a range of benefits that help us attract and retain top talent. We are committed to New Zealand's future and 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 Values



### WE LISTEN

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

### WE'RE STRAIGHT UP

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

### WE GET STUCK IN

- See it. Own it. Sort it
- Be brave and make it happen
- Make our time count - make a difference
- Act like it's your business and spend wisely (so we can do the cool stuff our customers want)

### WE WIN TOGETHER

- We're open to new ideas
- Make it easy for others to be great
- We collaborate internally, compete externally
- Celebrate real achievement

## 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	<ul style="list-style-type: none"> <li>At 30 June 2016 one out of seven female directors, increasing to three out of eight in FY17</li> <li>Proportion of female Spark Leadership Team members will increase from 17% to 25% from 1 July 2016</li> <li>Three internal promotions to the Spark Leadership Team from 1 July 2016</li> <li>50% of employees non-NZ European</li> </ul>	<ul style="list-style-type: none"> <li>&gt; 50% of our directors and leaders are female or non-NZ European</li> <li>&gt; 50% of our people leaders are female or non-NZ European</li> <li>Diversity and inclusion programmes embedded in our recruitment and promotion practices</li> </ul>
Ensure our people are fairly remunerated and incentivised in ways that lead to better customer outcomes	<ul style="list-style-type: none"> <li>Introduced Spark life and disability cover for all employees, career breaks, flexible summer hours and purchased leave</li> <li>Confirmed intention to introduce 'Spark Pay' above minimum wage</li> <li>Short-term incentive scheme for senior managers linked to key EBITDA and growth metrics</li> <li>Long-term schemes with performance hurdles linked to Total Absolute Shareholder Returns</li> </ul>	<ul style="list-style-type: none"> <li>100% of employees paid at least the 'Spark Pay' rate for FY17 (\$40,000 for non-commission based full-time roles)</li> <li>Customer satisfaction (measured through Net Promoter Score) is included in all performance measures and incentives</li> <li>Achieve 100% gender pay parity</li> <li>Continue the expansion of employee benefits to improve the wellbeing of Spark people</li> </ul>
Ensure we have the right skills at our Board and Leadership tables for the digital future	<ul style="list-style-type: none"> <li>Two new director appointments made</li> <li>&gt;150 senior leaders commenced our enhanced leadership development programme</li> <li>&gt;600 people leaders completed our management fundamentals programme</li> </ul>	<ul style="list-style-type: none"> <li>&gt;250 senior leaders completed our enhanced leadership development programme</li> </ul>
Provide a healthy and safe work environment for our people and those who work with us	<ul style="list-style-type: none"> <li>Retained our ACC accreditation at tertiary level</li> <li>Zero major injuries or accidents</li> </ul>	<ul style="list-style-type: none"> <li>Zero major injuries or accidents</li> </ul>

## 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.

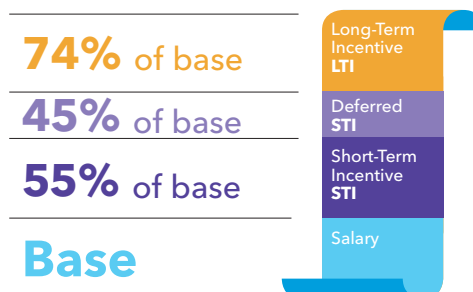
### ELEMENT 2

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

Performance metric	%	Outcome	Result
Group EBITDA	60%	Target achieved	60%
Accelerate Programme cumulative cash benefits	40%	Target almost achieved	39%
<b>Total</b>	<b>100%</b>		<b>99%</b>

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	<ul style="list-style-type: none"> <li>• Group EBITDA; and</li> <li>• Net Promoter Score.</li> </ul>
Long-Term Incentives	<ul style="list-style-type: none"> <li>• Spark Absolute Total Shareholder Return &gt; cost of equity plus 1% per annum compounded</li> </ul>

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.

We want 'One Spark' to be the best company in New Zealand where everyone has a high sense of belonging - where everyone is accepted, welcomed and valued.



# Governance

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

The Board recognises that building diversity across Spark is critical for delivering enhanced business performance, including building diversity of thought within the Board and its various Sub-Committees. As illustrated by the Board skills matrix 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.

## Role of the Board

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

The Board 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.

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

## Board skills matrix

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

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

## Why does Spark manage risk?

Spark recognises the best way to create shareholder value is to contribute to the growth and well being of New Zealand society. We seek to do this by enabling New Zealanders to unleash their potential by offering them the best data network and digital services capability.

To achieve this and our other goals we must successfully execute emerging business strategies and plans, while maintaining high standards of operational performance. Strong corporate governance, including a highly effective and integrated risk management framework, enable this to be achieved.

## An overview of our Risk Management framework

Spark's framework for managing risk comprises an integrated set of responsibilities for its Board, Leadership Team, corporate functions and business units. It exists to strengthen corporate governance and enable management to manage risks using an approach best suited to their risk environments.

The framework is mandated by a Managing Risk Policy, which the Audit and Risk Management Committee (ARMC) formulate and approve. This Policy defines the options available to management to manage risks. The Policy is underpinned by other behavioural and functional core policies. These provide direction for the management of specific areas of risk.

Two examples include the Planning and Performance and Technology Policy.

- ▶ The Planning and Performance Policy specifies requirements for developing business plans and implementing performance management systems that effectively achieve the strategic objectives endorsed by the Board.
- ▶ The Technology Policy specifies decision-making guidelines associated with any technology lifecycle decisions.

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. It is regularly reviewed for effectiveness.

## Our Managing Risk Policy

To manage risks we combine two leading practice approaches:

- ▶ We refer to the first of these as 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. We have set out these major risk management roles and responsibilities in Table One below; and
- ▶ 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.

While this is a Leadership Team implementation of formal risk management, the business also uses formal, standards-based approaches where appropriate. These bottom-up implementations are often used to de-risk major technology releases prior to them entering production environments, prioritising investment choices or as an integral part of due diligence associated with major transactions. Spark also operates other standards-based compliance risk and IT security regimes as a condition of its large customer contracts.

We have provided a summary of our current Principal Risks and their mitigants in **Appendix One**.

## How we measure the effectiveness of our Risk Management systems operation

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

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

- ▶ Reviewing the Managing Director and Chief Financial Officer's report concerning the processes used to support their annual assertion that a sound system of risk management and internal control and compliance exists that implements the policies adopted by the Board;
- ▶ Consultation with the internal and external auditors during and at the completion of the implementation of their annual assurance plans;
- ▶ Reviewing Managements' Principal Risk profile;
- ▶ Reviewing the fraud report; and
- ▶ Reviewing the results from peer reviews of the Internal Audit and Risk Management systems design and operation.

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

**RISK MANAGEMENT FRAMEWORK RESPONSIBILITIES**

		Internal Stakeholders			
		Board of Directors	Audit and Risk Management Committee	Leadership Team and corporate groups	Leadership Team and business groups
Govern	Governance Policy	✓			
	Authority delegated to management	✓			
	Board sub committees charters	✓			
	Managing Risk Policy		✓		
Monitor	Principal risk profile		✓		
	Annual and half-year reports		✓		
	External auditors appointed		✓		
	External audit strategy and plan		✓		
	Annual internal audit plan		✓		
	Quarterly legal compliance updates		✓		
	Treasury compliance and directors' certificates		✓		
	Quarterly review of operational performance and risks		✓		
	CFO's quarterly update (key accounting changes and business performance)		✓		
External peer reviews- risk management and internal audit frameworks, fraud		✓			
Deploy	Group strategy, three-year financial model and annual business plan			✓	
	Core policies			✓	
	Policy frameworks to manage specific areas of risk			✓	
	Specialist support provided to the business units to help them manage specific risk areas			✓	
	Business performance management			✓	
	Centrally held decision rights exercised			✓	
Operate	Changes in risk and control environment monitored and reported			✓	✓
	Risk managed implicitly by business-as-usual operation and accountabilities				✓
	Risk managed explicitly with a formal standards-based approach			✓	✓
	Risk management embedded into business processes				✓
	Key risk or other performance indicators			✓	✓

## Appendix One: Spark's current material business risks and their mitigations (Principal Risks)

### 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 the Net Promoter Score (NPS) system 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 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 NZX and applicable ASX listing rules. Spark's Compliance and Privacy Team regularly engage 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.



Spark<sup>nz</sup>

[www.sparknz.co.nz/what-matters](http://www.sparknz.co.nz/what-matters)