

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



This statement was approved by the Board of Spark New Zealand Limited (**Spark**) on 18 August 2016 and is accurate as at that date. The Board does not undertake any obligation to revise this statement to reflect events or circumstances after 18 August 2016 (other than in accordance with the continuous disclosure requirements of the applicable Listing Rules).

The Board and management are committed to ensuring that 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.

## Board of Directors

The Board of Directors is elected by shareholders to protect and enhance the value of the assets of Spark in the interests of Spark and its shareholders. The Board is the overall and final body responsible for all decision-making within the company. 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](http://www.sparknz.co.nz/about/governance).

The Board has eight scheduled meetings each year. In addition, it meets whenever necessary between the scheduled meetings to discuss key strategic issues or urgent business. The Chair and the Managing Director establish meeting agendas to ensure adequate coverage of key issues during the year. The Directors generally receive materials for Board meetings seven days in advance of the meeting, except in the case of special meetings for which the time period may be shorter due to the urgency of the matter to be considered. Leadership Team members and other senior employees regularly attend Board meetings and are also available to be contacted by Directors between meetings.

## Board committees

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

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**). The committees have a number of scheduled meetings each year to coincide with the timing of the various responsibilities of that committee. Other committees may be established from time to time to consider matters of special importance or to exercise the delegated authority of the Board.

Each Board committee has a charter summarising the role, rights, responsibilities and membership requirements for that committee. Committee charters may be found at: [www.sparknz.co.nz/about/governance](http://www.sparknz.co.nz/about/governance). The Board annually reviews the charters of the Board committees and their performance against those charters.

The Board is responsible for appointing committee members according to the skills, experience and other qualities they bring to the committee. All committees are required to comprise a minimum of three members. The composition of the HRCC and NOMs satisfies the requirement of the respective committee charter that a majority of Directors and the Chair be independent. The composition of the HRCC satisfies the requirement of its charter that all members are non-executive Directors. In accordance with its charter, all members of the ARMC are independent, non-executive Directors who are financially literate and the Chair of the ARMC is not the chair of the Board. The ARMC includes members who have appropriate financial experience and an understanding of the industry in which Spark operates. For the industry knowledge and financial experience of members of the ARMC see [www.sparknz.co.nz/about/directors](http://www.sparknz.co.nz/about/directors).

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



After each committee meeting the Board is provided with minutes of the committee meeting at the next meeting of the Board. Where appropriate, the Board is also given a verbal report by the Chair of the committee on the outcomes of the meeting. The structure, membership and responsibilities of the Board's committees are summarised below. Each committee's role and responsibilities are also outlined in the relevant committee charter.

Committee	HRCC	ARMC	NOMs
<b>Role</b>	<ul style="list-style-type: none"> <li>Assist the Board in overseeing the management of the human resources activities of Spark</li> </ul>	<ul style="list-style-type: none"> <li>Assist the Board in its oversight of the integrity of the financial reporting and risk management framework</li> <li>Ensure the independence of the external auditor</li> </ul>	<ul style="list-style-type: none"> <li>Identify and recommend to the Board nominations for members of the Board</li> <li>Review and develop Spark's corporate governance principles and make recommendations to the Board</li> </ul>
<b>Responsibilities</b>	<ul style="list-style-type: none"> <li>Review the current remuneration and human resources strategy, structure and policy of Spark</li> <li>Review and make recommendations to the Board on non-executive Director remuneration, having regard to any relevant factors (including the shareholder-approved fee pool)</li> <li>Review and evaluate the Managing Director's performance against key objectives and make recommendations to the Board on the Managing Director's remuneration</li> <li>Review and approve the conditions and terms of employment of the Managing Director's direct reports (other than members of the Managing Director's Office)</li> <li>Review and recommend to the Board the appointment or termination of the CFO</li> <li>Review and make recommendations to the Board with respect to incentive remuneration plans and equity-based compensation plans</li> <li>Make recommendations</li> </ul>	<ul style="list-style-type: none"> <li>Oversee all matters concerning the integrity of the financial statements and financial reporting systems and processes</li> <li>Ensure compliance with financial reporting and related regulatory requirements</li> <li>Consider the adequacy of internal controls after consultation with management and external and internal auditors</li> <li>Review the fraud report on a quarterly basis and make any necessary disclosures to the external auditor</li> <li>Ensure that an appropriate risk management framework exists and review principal risks</li> <li>Appoint the external auditors (subject to annual shareholder</li> </ul>	<ul style="list-style-type: none"> <li>Recommend candidates for appointment to the Board based on the criteria set out in the Board charter</li> <li>Oversee the performance evaluation of the Board and review Board succession planning</li> <li>Be actively involved in succession planning for the Chair</li> <li>Develop and amend Spark's corporate governance principles and make recommendations to the Board based on such review</li> <li>Recommend to the Board the removal of any Director, subject to the provisions of the constitution</li> <li>Ensure that potential candidates understand the role of the Board and the time commitment involved when acting as a Board member</li> <li>Make recommendations to the Board as to its size</li> </ul>

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



Committee	HRCC	ARMC	NOMs
	<p>to the Board with respect to the measurable objectives to be set by the Board for achieving diversity</p> <ul style="list-style-type: none"> <li>• Annually assess the effectiveness of the diversity policy, the measurable objectives set for achieving diversity, the progress toward achieving them and make recommendations to the Board in respect of such assessments</li> <li>• Ensure that appropriate disclosures with respect to diversity are made in Spark's Annual Report</li> <li>• Annually review and report to the Board on the relative proportion of women and men who make up Spark's workforce, at all levels of the business</li> </ul>	<p>approval)</p> <ul style="list-style-type: none"> <li>• Review the external auditor's qualifications, performance and independence</li> <li>• Review the appointment of the Group Audit Manager and review the activities and performance of the internal audit function</li> <li>• Review Spark's compliance with applicable laws, regulations and standards through Spark's compliance frameworks</li> <li>• Provide oversight of the structure and outcome of remuneration incentive arrangements as they relate to key internal audit personnel</li> </ul>	

The Board has delegated to the Managing Director the day-to-day leadership and management of Spark. The Managing Director has, in some cases, formally delegated certain authorities to his direct reports and has established a formal delegated authority framework that sub-delegates certain authorities within set limits.

## Company Secretary

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

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

## Chair

The Chair is elected by the Board from the non-executive Directors. The Board supports the separation of the roles of Chair and Managing Director. The Chair's role is to manage and provide

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



leadership to the Board and to facilitate the Board's interface with the Managing Director. The current Chair, Mark Verbiest, was appointed on 1 December 2011 (and re-elected on 28 September 2012 and 7 November 2014). Mr Verbiest is a non-executive Director and, as required by the Board charter, is independent (as outlined below). For his biography, see [www.sparknz.co.nz/about/directors](http://www.sparknz.co.nz/about/directors). The Board does not have a Deputy Chair.

## Director independence

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

At its 17 August 2016 Board meeting, the Board resolved, based on information provided by Directors regarding their interests, that each non-executive Director on the Board at 30 June 2016 and at the date of the meeting was independent.

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

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

## Director nomination and appointment

Spark Directors have no fixed term of office but are subject to the retirement provisions contained in the constitution, company policies and relevant stock exchange listing rules. In addition, under the NZSX Listing Rules, at least one third (or the number nearest to one third) of the Directors are required to retire from office at the annual meeting each year but shall be eligible for re-election at that meeting. The executive director (the Managing Director, in Spark's case) is exempt from the requirement to stand for re-election but the executive director is counted in determining the number of directors that must retire. The retiring Directors at any annual meeting will be those who have been longest in office since they were last elected. Spark's notice of meeting details those Directors standing for re-election at Spark's next annual meeting.

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

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

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



recommending a candidate to act as Director, the NOMs takes into account such factors as it deems appropriate, including the background, experience, professional skills and personal qualities of the candidate, whether their skills and experience will augment the existing Board and their availability to commit themselves to the role (as further described in the Board matrix below).

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

## **Board diversity and skills matrix**

The Board was established on 1 December 2011 (following the demerger of Chorus from Telecom) with an appropriate mix of skills and diversity. This mix has continued to be considered as Telecom has changed to Spark and as Spark's strategies have developed. The Board has approved a skills matrix as set out below.

The Board recognises that building diversity through diverse backgrounds, gender, age, experience and perspective across Spark is critical for delivering enhanced business performance and building a business which is better able to solve problems and implement new ideas – this includes building diversity of thought within the Board of Directors. Spark also seeks to ensure that the Board has a broad range of experience and skills appropriate to meet its objectives.

The current Board has depth of expertise and experience both in New Zealand and overseas as well as the diversity of backgrounds, age, gender and perspectives necessary to govern Spark as it addresses opportunities and challenges. In particular, the current Board is comprised of individuals with expertise and experience as set out in the matrix below. For details of individual Directors see [www.sparknz.co.nz/about/directors](http://www.sparknz.co.nz/about/directors).

The NOMs is responsible for making recommendations to the Board regarding the Board's size and composition. It also reviews the criteria for the selection of Directors to ensure the Board comprises the right mix of skills, diversity and experience to meet the needs of Spark.

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



	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	MENG, BSC
<b>Skills</b>							
Executive Leadership and Strategy	Y	Y	Y	Y	Y		Y
Governance	Y	Y		Y		Y	
Telco Experience	Y			Y	Y		Y
Retailing and Marketing		Y	Y	Y			Y
Financial		Y		Y		Y	
Risk and Compliance	Y	Y			Y	Y	
Legal and Regulation	Y			Y	Y		Y
People	Y	Y	Y		Y	Y	Y
Digital / Technology / Innovation	Y		Y		Y		Y
Operations		Y	Y	Y	Y		Y
Capital Markets	Y	Y				Y	Y
<b>Geographical location</b>	NZ	NZ	USA	Australia	Hong Kong	NZ	NZ
<b>Tenure</b>	4.7 years	4.7 years	2 years	4.7 years	4.7 years	< 1 year	4 years
<b>Gender</b>	M	F	M	M	M	F	M

## Director induction and education

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

## Board and committee performance

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

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



charter. Further, Board evaluations are undertaken annually to seek Director and Leadership Team feedback on a range of matters relating to Board performance, including its role and composition and engagement with management, shareholders and stakeholders. The collective results of the evaluation are then reported to the Board by the Chair and discussed individually with Directors. The last Board evaluation survey was undertaken during June 2016, with the results reported to the Board and discussed with Directors during August 2016.

## Terms of appointment

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

## ARMC and external audit independence

The ARMC is responsible for the appointment of Spark's external auditor and their terms of engagement. KPMG was automatically re-appointed as Spark's auditor for the upcoming year at Spark's annual meeting in November 2015. Shareholders also approved the Board setting the remuneration of the auditor at the annual meeting in November 2015. The Chair of the ARMC may invite such persons to attend the committee meetings as deemed necessary. The committee regularly meets with the external auditor without management being present and meets management without the external auditor being present. Committee members may contact the external auditor directly at any time.

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

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

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

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

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



Aside from core audit services, Spark's auditor may provide the following services with prior approval from the ARMC or the Chair of the ARMC (where the Chair has delegated authority from the ARMC to approve the service):

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

Other ad-hoc engagement must be approved by the Chair of the ARMC above a de minimis amount.

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

- bookkeeping/other services related to accounting records or financial statements;
- the design of financial information systems;
- appraisal/valuation services/opinions as to fairness;
- internal audit services;
- structured finance advice;
- due diligence services;
- legal services (services that could be provided only by a person who is qualified in law);
- tax planning and strategy services;
- management functions;
- broker/dealer/investment adviser/investment banking services;
- services of an expert as an advocate;
- actuarial services;
- temporary staff for appropriate assignments;
- assistance in the recruitment of senior management; or
- tax services to employees of Spark who act in a financial reporting oversight role.

The External Audit Independence Policy can be found at: [www.sparknz.co.nz/about/governance](http://www.sparknz.co.nz/about/governance). It is a requirement of the ARMC charter that the committee annually assesses and confirms to the Board the independence of the external auditor after consideration of the External Audit Independence Policy criteria. This includes assessing whether the independence of the external audit process has been maintained in light of the performance of any other assurance services. The ARMC undertook this assessment at its meeting in August 2016 and confirmed to the Board that it had complied in all respects with the External Audit Independence Policy and that the committee was satisfied as to the external auditor's (KPMG's) independence. As part of this assessment, KPMG confirmed in writing that it has complied with all aspects of the External Audit Independence Policy.

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

## ARMC and risk management

The ARMC is also responsible for ensuring that management has established a risk management framework that includes policies and procedures to effectively identify, treat and monitor principal business risks. The committee regularly reviews Spark's risk profile (at least annually). Spark's ARMC receives reports on the effectiveness of the implementation of policies and processes designed to manage risk. The ARMC receives reports from internal audit on the adequacy and effectiveness of Spark's internal controls. The committee regularly reports this information to the Board.

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



Through its risk management framework, Spark identifies, assesses and manages risks that affect its business, including specific pan-Spark risks arising from the business direction and strategic environment. Spark's risk management framework is implemented through business processes, such as business planning, investment analysis, project management and operations management. Spark's Managing Risk Policy requires Spark's business and support groups to:

- identify risks that relate to the achievement of their business objectives;
- assess those risks and determine whether they are acceptable under existing controls or whether additional treatment is required;
- respond appropriately to the risks, based on that assessment; and
- monitor and report on the current status of risks and the effectiveness of their controls.

This systematic approach to managing risk is performed on a planned or embedded basis and is implemented throughout Spark. Management regularly reports to the Board on the effectiveness of Spark's management of its material business risks. Risk management takes place in the context of normal business processes. In addition, risk is managed through the delegated authority framework and other Spark policies that provide a framework for managing specific pan-Spark risks arising from the company's business direction and strategic environment. To manage financial risks around treasury transactions, the Board has approved principles and policies that specify who may authorise transactions and segregates the duties of those carrying them out.

## Annual review of risk management framework

Spark conducts an annual assessment of the effectiveness of its risk management systems. The findings from this review are reported to the Managing Director and CFO. The review for FY16 found that Spark's risk management system operated effectively and efficiently in all material respects. The scope of this review included risk management governance arrangements, the management of risk in core areas such as technology, business strategy, planning and performance, financial management and external reporting, customers and markets, regulation and industry and investment.

## Risk Factors

Spark's ability to create acceptable returns for its shareholders requires successful execution of its business strategy and plans. Risks creating a material exposure for Spark arise from multiple sources. These risks are set out below along with how it plans to address these.

### Customer experience

Recognising that customers are at the heart of our business, Spark's number one priority is to provide its customers with excellent service experiences. Sometimes we may be unable to achieve this. When this happens, our customers become dissatisfied and may choose to churn to competitors impairing our revenue and gross margin performance. Factors that reduce our ability to offer enhanced customer experiences include filling orders for new services with immature service models. UFB fibre is an example of these. Additionally, large volumes of customer contacts may occur at the same time exceeding Spark's supplier's ability to manage them with their existing resources. An example of these is when network faults occur during winter weather conditions.

Spark closely monitors its markets, and assesses changing market dynamics to remain competitive. It has adopted the net promoter score (NPS) system to measure brand strength and adjust its offerings according to customer preferences. Spark has completed the upgrade of its key customer service IT platforms, consolidating its customers onto one system. This significantly improves its customer management, business processes, and data analytics capabilities. These enable it to target its service offerings to customers' requirements.

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



These improvements are a precursor to transforming customer care capabilities and creating new and proactive digital customer journeys.

## Mobile competition

Competition in New Zealand's mature mobile retail market remains strong with mobile retailers continuously vying for competitive leverage.

Over the last 12 months, Spark has surpassed Vodafone in terms of mobile revenues. 2 Degrees has also grown its share of the market in 2016. The balance of these competitive dynamics could easily change if changes to the business ownership, strategic partnerships or business plans among the providers occurred. Any of these changes may require Spark to implement competitive responses reducing the profitability of its mobile business.

Spark ensures it offers a mix of price and value added services such as Spotify and WiFi access in its mobile product bundles to ensure it offers its customers attractive and competitive service offerings. It maintains a nationwide retail and dealer channel network and increasingly offers alternative service options through applications and web portals. It continues to make significant investments in mobile spectrum and network infrastructure to ensure it offers New Zealand's best mobile network. Our flanking mobile-brand Skinny, is New Zealand's number one pre-paid service provider. In 2016, Skinny won the 2016 Consumer NZ People's Choice Award for outstanding customer satisfaction.

## Broadband competition

Competition in New Zealand's broadband market is intense. Spark's ability to retain its scale and price premium position is constantly challenged by existing and new competitors. The proposed merger of Vodafone New Zealand and Sky Television Ltd may intensify competition further by enabling Vodafone to include compelling new media content such as premium sports broadcasts in its broadband bundles. Competition from adjacent industries (for instance electricity providers bundling commoditised broadband offers with energy products) is becoming established as more customers accept these offers.

In addition to competitive monthly data plan allowances, Spark includes value-added content in its broadband bundles such as Lightbox online TV and daily access to free Wi-Fi connectivity. Spark also operates a successful pre-paid naked broadband business, with its flanking brand, Bigpipe.

## Monetising incremental broadband data growth

Unlimited broadband offers accelerate network capacity investment. It may not be possible to monetise this investment at current market price levels. This situation may be accelerated by expansion of the ultra-fast broadband fibre network footprint. The effects of competition as described above, may also reduce Spark's broadband scale impairing its network's economic performance. These and monetisation risks may impair the returns available from broadband products.

Spark continues investing to achieve the lowest cost per unit data network and develop new products that increase the monetisation of increased data consumption across its networks.

## Transition to platform-based IT services (Cloud and as-a-service)

Spark is replacing its legacy IT products with platform-based ICT solutions and state of the art tier one customer co-location data centres. These are positioning Spark Digital as a leading provider of ICT solutions in New Zealand. Its ability to continue improvement of its service delivery

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



and margin performance remains the largest risk factors affecting the profitability of its ICT services business.

Spark is deploying a number of initiatives to improve ICT service delivery and margin performance. It is expending its customer NPS monitoring to ICT interactions to improve its ability to get customer experience feedback. It has also created new customer outcome management roles that provide end to end ownership of significant client relationships. It has built and acquired significant, high performing data centre facilities and is leveraging these to expand its cloud business by providing market leading ICT andaaS solutions.

## **Managing fixed margin decline**

Customer demand for traditional fixed network products and services continues to decline. Due to the high relative margins of fixed network products and services, any acceleration in the rate of decline materially impacts Spark's earnings performance. The rates of fixed to mobile substitution, and customer migration to UFB services are the largest fixed margin decline uncertainties.

To manage the rate of this decline, Spark relies on a robust approval process for price discounting, migrating fixed customers onto new products to utilise lower cost inputs, and bundling higher margin fixed products with other services to extend in-market life.

## **Business efficiency and cost management**

Achieving performance anticipated by current and long term business plans requires ongoing reduction of operating costs. Future cost reductions will depend on Spark's ability to leverage its network assets in new ways, digitise its service delivery and streamline its business operations. These may not reduce costs as materially as earlier initiatives.

In FY17, Spark's business units will implement improved business performance management processes, delivering a consistent view of headline performance to measure and manage financial performance across the business. These are reported to the Managing Director during weekly and monthly review rhythms. Labour costs are closely monitored by the CEOs and Group HR.

## **Regulatory environment**

A number of the markets in which Spark operates in are regulated. From time to time regulatory reviews may occur that change factors such as the prices of key input products, the supply conditions for these, the availability and performance of retail products, industry structure, infrastructure sharing or disclosure requirements or other forms of reporting. Government policy initiatives requiring industry stakeholder funding through fees or levies may also be created. Regulatory changes such as these have potential to affect the level of earnings Spark achieves for its shareholders.

The risk of regulatory change is mitigated by maintaining engagement with government and industry stakeholders through frequent submissions and regular informal engagements up to and including Managing Director level.

## **Meeting compliance obligations**

Spark must ensure it complies with a number of legislative and regulatory obligations without materially increasing its operating cost base. Key legislative compliance obligations exist for the Privacy Act 1993, Commerce Act 1986, Fair Trading Act 1986 and Health and Safety at Work Act 2015. Spark also has significant TSO obligations to fulfil and is subject to NZX and certain ASX listing rules.

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



Legal compliance is assured primarily by regular Spark Compliance and Privacy Team engagement with the business including and supporting it with comprehensive compliance frameworks, tools, training and advice. Spark has completed a major project to ensure compliance with the Health and Safety at Work Act 2015.

## Technology performance

Spark operates large integrated IT and network technology platforms. Customers and other stakeholders require its products and services to be high performing and resilient. If technology incidents occur that affect customer experiences, it may be unable to attract new or retain existing customers.

Spark is implementing a number of initiatives that increase technology performance and resilience. These include investment in new network and IT infrastructure, adoption of best practice approaches to managing our technology estate that de-risk major changes prior to them entering the production environment, and improved operational risk management processes.

## IT and data security risks

Spark's role as a major provider of connectivity, storage and digital services makes it susceptible to cyber-attacks. A successful cyber or data security breach may cause customer loss, additional investment in IT security internal controls or punitive measures such as fines or injunctions.

Spark uses a three lines of defence security operating model to manage cyber security risks that aligns with leading practice principles. The model is overseen by a dedicated Information Security Risk management committee, which is co-chaired by two members of the Spark Leadership team.

The key functions of this committee are ensuring:

- Strategic oversight and business alignment;
- Spark has an effective security operating model and sufficient capability to manage security risks;
- Spark has effective processes to identify and manage security risks; and
- Spark's security controls are operating effectively by reviewing key performance dashboards.

Spark's Privacy Compliance Framework requires all Spark people to complete compulsory online privacy training that focuses on how we meet our customers' expectations for management of their personal information, and keeping personal information secure.

As noted previously, in relation to all of the risks listed above, the Board does not undertake any obligation to revise these risks to reflect events or circumstances after 18 August 2016.

## Internal audit

Spark has an internal audit group based in New Zealand. The internal audit charter (available at: [www.sparknz.co.nz/about/governance](http://www.sparknz.co.nz/about/governance)) defines the internal audit group's objectives, scope, independence, responsibilities and authority. The internal audit group's primary objective is to assist the Board and Managing Director in exercising good governance by providing independent assurance on Spark's control and risk management processes. The ARMC approves the appointment and replacement of the General Manager responsible for Group Risk and Audit who reports to the Board through the ARMC. The internal audit group is independent from the activities and operations it audits, including risk management systems, and has unrestricted access to Spark's records and employees. The internal audit group regularly performs audits across Spark business units. The internal audit team works to an internal audit plan approved by the ARMC.

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



The ARMC ensures that the internal audit group is appropriately staffed and that its scope of work is adequate in light of the key risks facing Spark.

## External reporting assurance

Spark requires that its Managing Director and CFO make an annual declaration in relation to Spark's financial statements in the form set out in s295A of the Australian Corporations Act. Section 295A requires the CEO and CFO to declare that: (a) Spark's financial records have been properly maintained; (b) the financial statements comply with accounting standards; and (c) the financial statements give a true and fair view. Prior to approving Spark's financial statements, the Board receives a declaration from the Managing Director and CFO that, in their opinion, the financial records of Spark have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of Spark and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

## Code of Ethics

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

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

The Code of Ethics covers:

- conflicts of interest;
- acceptance of gifts;
- corporate opportunities;
- confidentiality;
- Code of Behaviours and expectations of employees (including to deal fairly and honestly with Spark's people, professional advisers, customers, and suppliers);
- the proper use of Spark's assets and information;
- compliance with laws and Spark policies;
- delegated authority; and
- reporting issues regarding breaches of the Code of Ethics, legal obligations or other Spark policies.

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

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

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

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



to assist them in complying with legal, regulatory and policy compliance obligations. The Spark Compliance and Privacy Team supports employees and managers in these roles by providing comprehensive compliance frameworks, tools, training and advice.

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

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

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

## Market disclosure

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

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

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

## Shareholder communications

Spark's investor relations programme includes:

- semi-annual earnings announcements;
- semi-annual post-results briefings with investors in Auckland, Wellington and Sydney;
- regular ad hoc one on one and group investor and analyst meetings;
- an annual meeting (that offers virtual participation);

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



- interim and annual reports;
- semi-annual shareholder newsletters;
- investor briefing days (where appropriate); and
- regular investor road shows to Australia, Asia, USA and UK.

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

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

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

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

## Trading in Spark securities

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

## Diversity and Inclusion

Diversity is a topic that is being talked about more and more in today's corporate world. Some of the more switched-on New Zealand companies are trying to address diversity – mainly trying to bring more females into the workplace. We believe that Diversity is greater than simply gender diversity: 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 mind-sets. To achieve this we will 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 believe we can make a

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



difference and be a “diversity and inclusion” leader and role model. The human landscape of New Zealand has radically changed over the last few years – and will continue to change - having a major impact on our customer base. 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 that greater diversity and inclusiveness leads to better decision making and in turn financial performance. While we already have some great initiatives in place, we know we can do much more and although we are a little uncertain of the exact route we will take, 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 a 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.

The HRCC is responsible for developing measurable objectives in relation to diversity within Spark and recommending the objectives to the Board for approval. The HRCC is also responsible for conducting annual assessments of the measurable objectives and the progress made toward achieving them, as well as reporting on such progress. These responsibilities are set out in the respective Board and committee charters.

Spark's progress towards achieving gender diversity, and the proportions of men and women on the Board, are also included in the Annual Report.

## Remuneration

### Remuneration of non-executive Directors

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

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

Excluding the Managing Director, no superannuation or retirement allowance was paid to any Spark Director during FY16. Spark does not have service contracts with any Director (apart from the Managing Director) that provide for any benefits or remuneration in the event that a Director's service with Spark is terminated. For details of the Managing Director's entitlements on termination, see below.

### Spark remuneration policy

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

- Rewards are market competitive to attract and retain talented people;
- Remuneration is linked to performance so that higher levels of performance attract higher rewards;

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



- The overall cost of remuneration is managed and linked to the ability of the company to pay; and
- Rewards to senior management are aligned to the long-term performance of the company.

The HRCC is responsible for reviewing Spark's remuneration policy and practices, as well as the company's overall human resources strategy, structure, policy and practices. Where appropriate, the HRCC engages independent professional advice to inform its decisions with respect to Spark's remuneration policy, and the remuneration of senior executives. The HRCC is also ultimately responsible for the governance of Spark's remuneration policies and practices and for ensuring that Spark meets its legislative and regulatory requirements as they relate to remuneration matters.

## Short-term incentive schemes

Spark operates a number of short-term incentive schemes, ranging from monthly- and quarterly-based commission and sales incentive plans, to annual, cash-based short-term incentives.

Employees in specific sales positions may have a component of their remuneration subject to individual or divisional sales performance targets, such that their total remuneration potential is directly linked to the acquisition and retention of profitable business for Spark.

For senior managers, including the Leadership Team, a component of their remuneration package is at-risk in the form of an annual cash-based short-term incentive. Spark's Short-Term Incentive Scheme rewards senior managers for the achievement of annual performance objectives, with payments awarded from a fixed cash pool that is set based on overall Spark performance against financial and/or non-financial annual performance objectives. Eligibility to participate in the Short-Term Incentive Scheme is at the discretion of the company, and is targeted at individuals in senior roles who play a significant role in driving the overall performance of Spark. Details of the performance objectives can be found under the heading 'People' in the Annual Report.

For FY17, a clawback provision has been introduced and allows Spark to clawback any payments made under the STI scheme, for a period of 12 months following the payment in the event of a material financial misstatement, or should it be found that the participant committed an act of fraud that affected the eligibility to, and amount of, the payment.

## Long-term incentive schemes

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

### *Spark Share Rights Scheme*

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

### *Spark Long Term Incentive Scheme*

For FY16, Spark introduced a restricted share scheme that applies to both the Leadership Team and senior managers. The Restricted Share Scheme delivers one scheme with the same set of

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



rules under one long term incentive. An interest free employee share loan is provided by the company for the sole purpose of enabling the employee to acquire restricted shares in Spark – these shares being held in trust for a period of three years, after which, if the employee remains employed by Spark New Zealand Trading Limited, the company makes payment of a cash bonus to the employee that is used to pay off the remaining loan balance, and the shares are unrestricted. Unvested shares are purchased from the employee and the proceeds are used to repay the employee share loan. A performance hurdle applies to all issues of restricted shares under the scheme, creating stronger shareholder alignment for all participants, and requiring a minimum level of performance for any value to be delivered to employees. Dividend entitlement will remain, but dividends will be applied to repay the interest-free loan during the restrictive period. Participants will be able to exercise any voting rights attached to the shares. The next issue of shares under this scheme is intended to be made in September 2016. Details of the performance hurdle can be found under the heading 'People' in the Annual Report.

## Managing Director's remuneration

The Managing Director's remuneration package reflects the scope and complexity of his role and is set by the Board with reference to the remuneration of managing directors of similarly sized organisations. For FY16 the Managing Director's remuneration package comprised of a fixed cash component, an at-risk short-term incentive (to be awarded under the terms of the Managing Director Annual Performance Incentive Scheme), an at-risk equity incentive (to be awarded under the Managing Director Performance Equity Scheme) and an at-risk long-term incentive (to be awarded under the Managing Director's Long Term Incentive Scheme). The construct of the Managing Director's remuneration package is such that 64% of his remuneration package is at-risk. The Annual Report details the remuneration paid to the Managing Director, Mr Simon Moutter, for FY16.

### *Managing Director Annual Performance Incentive Scheme*

The Managing Director is eligible for an annual cash-based short-term incentive, subject to the achievement of specific performance objectives set by the Board based on Spark's strategy and business plan for the respective financial year. These objectives will be a combination of financial and non-financial measures, including corporate governance, reputation, and effective leadership and management of the company. The Board will assess the Managing Director's performance at the end of the financial year to determine the actual payment value of his short-term incentive, which will be in the range of 0 to 175% of his target value. For FY16, the Managing Director's performance objectives related to earnings before interest, tax, depreciation and amortisation (EBITDA) and delivery of cash savings under the company's Accelerate Programme.

### *Managing Director Performance Equity Scheme*

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

Grants of redeemable ordinary shares will be made at the discretion of the Board within the context of the approval granted by shareholders and may be made in September of each year but in no case later than 5 November 2018 (being three years after the date of the 2015 Annual

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



Meeting) unless further shareholder approval is obtained. The Board may, at its discretion, elect to deliver the award in cash – deferred for two years with the amount payable being based on Spark's share price at the end of the two-year period. The award of redeemable shares, or deferred cash linked to share price, further enhances the link between the Managing Director's remuneration and the interests of shareholders.

## *Managing Director's Long Term Incentive Scheme*

For FY16, the Managing Director's annual long term incentive was granted as restricted shares under a new scheme: the Managing Director's Long Term Incentive Scheme. This new scheme replaces his existing scheme (the Managing Director's Performance Rights Scheme), which granted his long term incentive (LTI) as share rights. All existing "in flight" grants of share rights remain live and subject to the terms and performance hurdles as set at the time of grant. The long-term incentive component of the Managing Director's remuneration package is designed to link part of his remuneration to the long-term performance of Spark, and align his interests with those of shareholders, through the grant of restricted shares with a post-allocation performance hurdle.

## *Managing Director Performance Rights Scheme*

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

## *Performance hurdle*

A performance hurdle applies to all long term incentives made to the Managing Director, including the existing "in-flight" Managing Director Performance Rights Scheme, and the new Managing Director's Long Term Incentive Scheme. This hurdle is agreed by the Board, and sets a minimum level of performance that is required to be achieved over the period of each grant of share rights and restricted shares, in order for the Managing Director to be eligible to exercise some, or all, of those share rights and restricted shares. For the share rights granted in FY15, and the restricted shares granted in FY16, a performance hurdle of Spark's total shareholder return (TSR) applies – this is a measure of share price appreciation and dividends paid over the period of the grant. The target for this hurdle is Spark's cost of equity plus one percent compounding annually.

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

## **Managing Director's Termination**

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

If there is a change of control that results in the Managing Director no longer being the Managing Director of a publicly listed company then he will be able to terminate his

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



employment with three months' notice and receive payment as if Spark had terminated his employment.

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

## **Treatment of Managing Director Long Term Incentives in the event of Termination**

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

### *Performance Equity Scheme*

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

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

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

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

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

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

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

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

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

## **Leadership Certainty - Good Leaver Provisions**

Spark has put in place certain "good leaver provisions" for the Managing Director's Performance Equity Scheme and Long Term Incentive Scheme to extend past FY19, and to incentivise the

# Annual Corporate Governance Statement

Approved by the Board of Spark New Zealand Limited on 18 August 2016



Managing Director to remain in the role until the conclusion of FY19.

## *Performance Equity Scheme and Long Term Incentive Scheme*

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

## **Spark Share**

Spark established Spark Share, an employee share purchase scheme for eligible employees of Spark to buy and hold shares in Spark at a discount to the listing price. Spark Share has been approved by the Inland Revenue Department in accordance with sections DC 12 – 15 of the Income Tax Act 2007 and has a three-year vesting period on the shares purchased. Spark Share was open to eligible employees for its second year in FY16.

## **Performance evaluation**

The HRCC annually reviews the performance of the Managing Director. The evaluation is undertaken using criteria set by the HRCC (and approved by the Board), including the performance of the business, the accomplishment of strategic and operational objectives and other non-quantitative objectives agreed at the beginning of each year. The last Managing Director evaluation was undertaken during July 2016 (in respect of the FY16 financial year).

The Managing Director annually reviews the performance of his direct reports. The evaluation is undertaken using criteria set by the Managing Director, including the performance of the business, the accomplishment of strategic and operational objectives and other non-quantitative objectives agreed with the HRCC at the beginning of each financial year. The last Leadership Team evaluations were undertaken during July 2016 (in respect of the FY16 financial year).