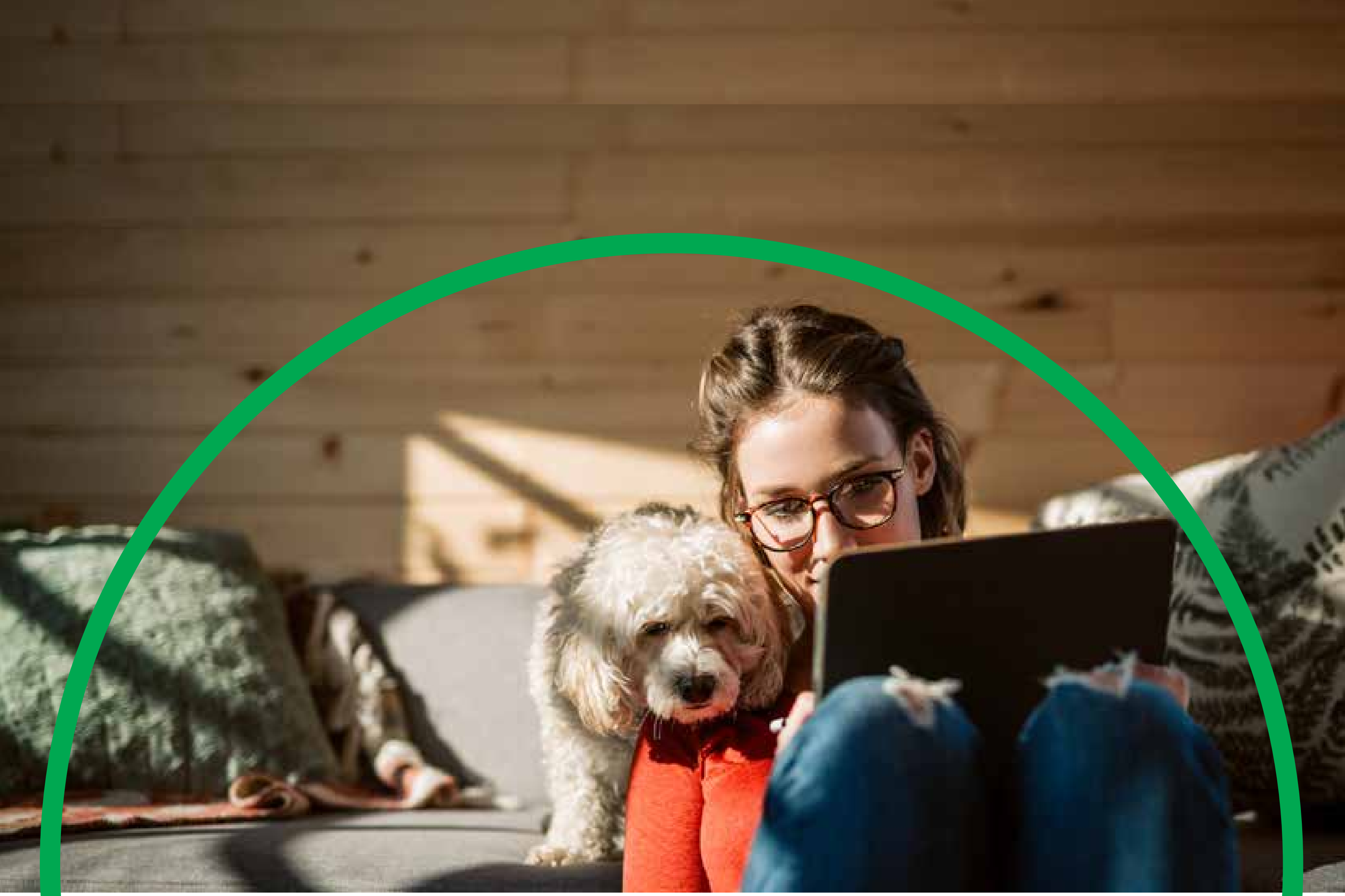
CONNECTIONS MATTER

Now more than ever.

Annual Report 2020

Helping Kiwis stay connected during COVID-19.

COVID-19 has challenged so much of what Kiwis have always held dear. This year, suddenly separated from the daily interactions that we treasure, we did what we've never done before: we discovered new and powerful ways to stay connected digitally with those who matter to us. We kept our distance, and yet we seemed more together as a nation than many other parts of the world.

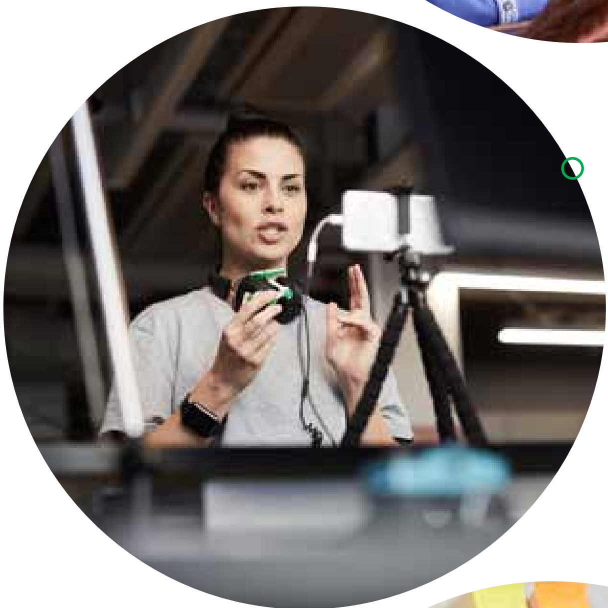


During lockdown we have been reminded that as a 'lifeline utility' the role we play in keeping people connected is incredibly important. For most Kiwis, almost every interaction with the outside world has been enabled by a phone or internet connection. COVID-19 has been the biggest test of our infrastructure as Kiwis moved to work, learn and be entertained at home. Years of sustained investment to build capacity into our network has meant that New Zealand has been well served at a time when telecommunications services truly became an essential service.

We helped our customers

STAY CONNECTED

by removing data limits on capped broadband plans, waiving late payment fees and not terminating services for those experiencing financial hardship.



As New Zealand went into lockdown our wireless broadband network traffic increased by

40%

with more than 17,000 terabytes of data used in total. Calling volumes on mobile increased by 60% at peak, and Kiwis benefited from over 7,200 terabytes of free data to work, learn and connect from home.

We worked with our business and enterprise customers to

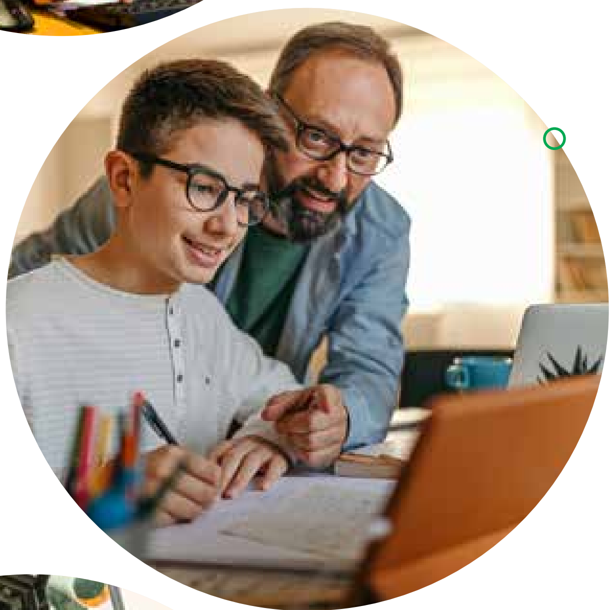
RAPIDLY EXPAND

and enable secure remote working capability through IT solutions and collaboration tools.

Our teams adapted quickly to repurpose 39 retail stores as Emergency Distribution Centres to provide hardware to customers with urgent needs.

Over 1,000

retail, call centre and Business Hub team members were set up with 'at-home kits' to help our customers remotely.



We've been doing our bit to help bridge the digital divide since 2016, when we first launched

JUMP

our 'not-for-profit' broadband service. Since the relaunch of the programme in March 2020 the reach of Jump has almost doubled to connect 9,559 homes by the end of FY20. This was achieved during COVID-19 by working in partnership with community organisations, and with the Ministry of Education to connect households with school-aged children around the country who didn't have an internet connection at home to ensure as many kids could participate in distance learning as possible.

To meet customer needs we

ADDED EXTRA CAPACITY

to 14 cell sites around the country and deployed six 'cell sites on wheels' (COWs) to further expand capacity in locations that were experiencing high network loading. These efforts resulted in speed increases of between 70% and 160% for these locations.

About this report

We are evolving our approach to reporting to show a more integrated view of our performance across financial and non-financial measures. Our 2019 Annual Report combined our financial statements with non-financial performance measures, adopting the Global Reporting Initiative (GRI) Standards, the most widely used global sustainability reporting standard.

This year's report is a further evolution and is our first integrated report. Integrated reporting considers the creation of value over the short, medium and long term, thinking holistically about the resources and relationships the organisation uses or affects, and the dependencies and trade-offs between them as value is created.

The report is prepared in accordance with the International <IR> Framework and the GRI Core Option. We have not sought external assurance for the non-financial information in this report.

This report covers the activities of Spark New Zealand Limited and its subsidiaries. The report is for the period 1 July 2019 to 30 June 2020. This report is dated 26 August 2020 and is signed on behalf of the Board of Spark New Zealand Limited by Justine Smyth, Chair and Charles Sitch, Chair, Audit and Risk Management Committee.

Justine Smyth, CNZM
Chair

Charles Sitch
Chair Audit and Risk Management Committee

Key Dates

Investor Strategy Briefing	**16 September 2020**
Annual Meeting	**6 November 2020**
FY21 half-year results announcement	**24 February 2021**
FY21 year-end results announcement	**18 August 2021**

Contents

How we create value

WHAT WE RELY ON

Social capital

Our customers

Consumers and organisations that are enabled by our products and services

Financial capital

Financial capital

Equity, debt and cash generated through our operations

Manufactured + intellectual capital

Our network and technology

Our mobile sites, data networks, systems, processes and digital services capability

Human + intellectual capital

Our people

Skilled, specialised and diverse workforce that is the heart of our business

Natural capital

Our environment

Energy, materials and impacts of our operations

Social + human capital

Our communities

Our communities around New Zealand and the communities across our global supply chain

OUR BUSINESS MODEL

Our Purpose

TO HELP ALL OF NEW ZEALAND WIN BIG IN A DIGITAL WORLD

Āwhinatia ngā tāngata katoa o Aotearoa kia matomato te tipu i te ao matihiko.

Our Values

Whakamana, We Empower
Matomato, We Succeed Together
Tūhono, We Connect
Māia, We are Bold

A culture that **develops and empowers our people**

OUTPUTS FY20

Connected customers

- 2.519 million mobile connections
- 709,000 broadband connections
- Increase in customer interaction Net Promoter Score
- Customers supported to adapt to COVID-19

Supporting our customers' own business models and their value creation for New Zealand

Financial returns

- $3,623 million operating revenues and other gains
- $427 million net earnings
- 25 cents per share dividend

Enhanced network and technology

- Resilient network through COVID-19
- 40% increase in wireless broadband traffic
- 60% increase in mobile calling at peak
- 5G rollout under way

Engaged workforce

- Positive growth in employee Net Promoter Score
- 50/50 gender split on Board and Leadership Squad
- Investment in training

Environmental impact

- Net emissions 26.9 kilotonnes CO_2-e
- 501 tonnes e-waste recovered
- 24,900 mobiles re-used/recycled

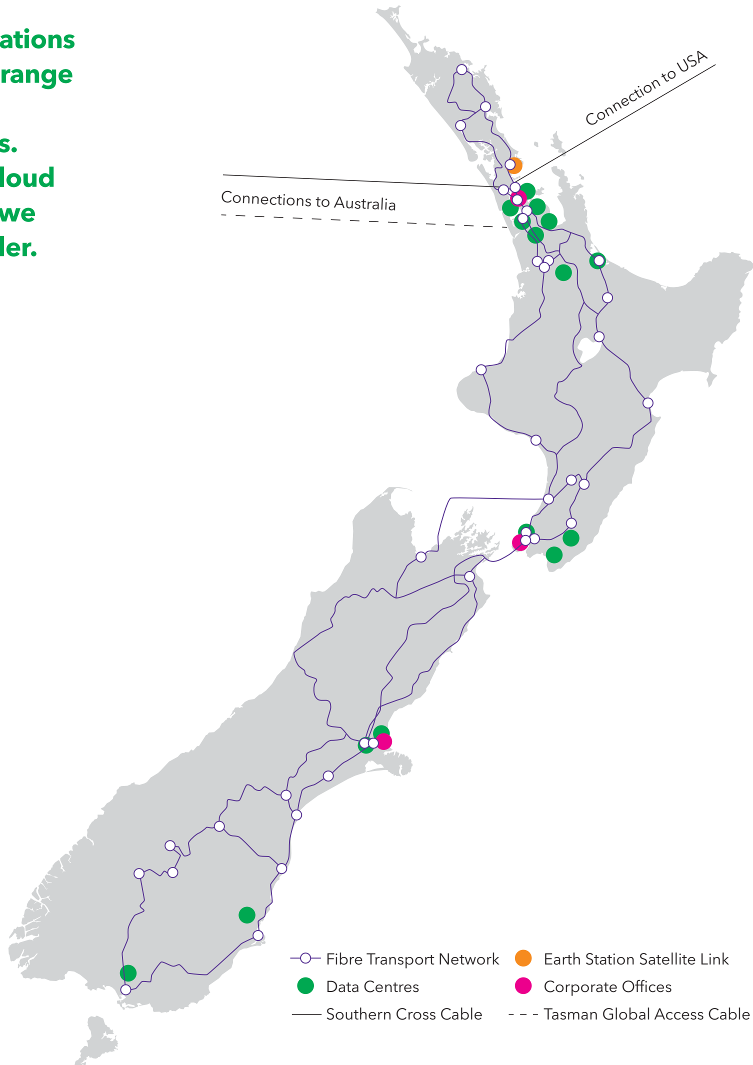
Supported communities

- Skinny Jump reaching 9,559 high-need households
- 501 employee volunteer days

OUTCOMES ON PAGES 8, 9 AND 13

About Spark

Spark is New Zealand's largest telecommunications and digital services company. Our customers range from consumers and households to small businesses, government and large enterprises. Across all our services – mobile, broadband, cloud services, digital services and entertainment – we have relevance for almost every New Zealander.



98%
of New Zealanders reached by our 4G network

66
Retail Stores

709K
broadband connections

5,224
New Zealand employees

2.519M
mobile connections

26
Regional Business Hubs

Brands and businesses

CCL Computer Concepts Limited	Digital Island	Skinny	Qrious	leaven.	Spark Sport	MATTR
IT infrastructure and cloud services	Business telecommunications provider	Pre-pay mobile and broadband	Big-data analytics business	Cloud consulting and Business Transformation	Sports streaming service	Digital trust and verifiable data

Spark performance snapshot FY20

Operating revenues and other gains	$3,623M	▲ 2.5%
EBITDAI[1]	$1,113M	▲ 2.1%
Net earnings	$427M	▲ 4.4%
Mobile revenue	$1,288M	▲ 1.3%
Broadband revenue	$680M	▼ -0.7%
Cloud security and service management revenue	$443M	▲ 10.8%
Voice revenue	$391M	▼ -11.3%
Capital expenditure[1]	$374M	▼ -10.3%
Consumer and small business iNPS[2]	+33	▲ 10 points
Employee NPS[3]	+66	▲ 25 points

1 Earnings before finance income and expense, income tax, depreciation, amortisation and net investment income (EBITDAI) and capital expenditure are non-Generally Accepted Accounting Practice (non-GAAP) measures. These measures are defined and reconciled in note 2.5 of the financial statements. Capital expenditure excludes spectrum additions of $13 million.

2 Interaction Net Promoter Score, a measure of customer engagement.

3 Net Promoter Score, a measure of employee engagement.

Connections matter

Tēnā koutou.

We started FY20 with a clear focus – delivering what we said we would in the final year of our three-year strategy and setting a path for the next three years, to take Spark into the future.

We got off to a fast start, delivering the strongest first half results in recent years. Revenues increased 4.0%, and we had a standout performance in mobile – capturing 90% of total market growth in high-margin service revenue, an increase of 5.5% on the prior year. Revenues also benefited from cloud, security and service management growth, the introduction of Spark Sport and a moderation in the rate of legacy voice declines as fixed-line voice becomes a smaller part of the business.

It is fair to say, however, that this year will be remembered more for the last quarter than the first three. When our country first faced one of the greatest health and economic challenges of our lifetimes, the way New Zealanders work, learn and connect changed dramatically overnight. For Spark, COVID-19 highlighted more than ever before the importance of our purpose – to help all New Zealanders win big in a digital world. At a time when a phone or internet connection is a lifeline to the outside world, and a pre-requisite to continue working and studying, we have been reminded just how much connections matter, and of the critical importance of the services we provide for our customers and our country.

Responding to COVID-19

Like many businesses we had to walk two paths simultaneously – responding to the situation in front of us, protecting our people and mitigating the immediate impact on our business, while planning for multiple potential futures.

The health and safety of our people was paramount, and we moved early to put in place appropriate protocols to reduce people movement, adhere to physical distancing requirements and to uphold strict hygiene standards. We identified team members who were more vulnerable to COVID-19 and worked with them to keep them safe.

As a lifeline utility we must maintain critical services during emergency situations, including all COVID-19 alert levels. To ensure we were able to do this we put additional protections in place to keep our critical services team members separated from our broader workforce, including our 111 team and Network Operations Centre. Our technology team monitored our network continually and increased capacity wherever it was needed – including 14 cell-site upgrades and the deployment of six 'cell sites on wheels' (COWs). Following years of sustained investment our network performed exceptionally well, despite our wireless broadband network traffic increasing by 40% and calling volumes on mobile increasing by 60% at peak during the lockdown.

We moved quickly to support our customers and communities, recognising how important our services were during these exceptional circumstances.

To ensure customers could stay connected we removed data limits on capped broadband plans, waived late payment fees, suspended disconnections, and put in place special measures for customers experiencing financial hardship. Our customers benefited from over 7,200 terabytes of free data to work, learn and connect from home.

Justine Smyth, Chair and
Jolie Hodson, Chief Executive

We also set up Emergency Distribution Centres to support customers with essential equipment needs, repurposing 39 retail stores across the country. Over 1,000 of our retail, call centre and Business Hub team members transitioned rapidly to new ways of working by supporting our customers from home. We worked in partnership with our business and enterprise customers to enable them to make the same shift, expanding and enabling secure remote working capability through IT solutions and collaboration tools.

The rapid shift from physical to digital also highlighted issues of digital equity and inclusion, one of our long-term focus areas. Since we launched Jump, our not-for-profit broadband service, in 2016, it had grown through our network of community partners to support 5,000 households across New Zealand. Since COVID-19 hit we have almost doubled the reach of Jump to connect another 4,500 homes. This included working with the Ministry of Education to support homes with school-aged children around the country who didn't have an internet connection, ensuring they could continue to participate as schools switched to digital learning.

A strong FY20 result in a challenging context

Our focus on delivery and execution of our strategy, our strong half-year performance, and the timing of COVID-19 impacts in the last quarter of the financial year meant we were well placed to adapt and respond to the impact of the pandemic on our business.

As a result, we delivered earnings above the mid-point of our financial guidance range and continued to pay shareholders a dividend.

Operating revenues and other gains grew 2.5%, or $90 million, with standout performances in mobile service revenue, and cloud, security and service management. Coupled with our continued focus on cost management, this resulted in a 2.1% growth in EBITDAI to $1,113 million.

The effects of COVID-19 did have an impact on our financial performance, predominantly through the loss of higher-margin roaming revenues, retail revenue reductions due to store closures, removing broadband data overage charges, and our Spark Sport platform being offered free of charge while live sport was suspended globally. At the same time we saw an increase in the demand for collaboration products to support the shift to working from home. Overall COVID-19 had a total negative EBITDAI impact of approximately $25 million in FY20.

A continued focus on tight cost management mitigated these impacts and enabled us to invest in current and future growth initiatives, which ultimately saw our total operating costs increase by $67 million or 2.7%. In FY20 these investments included the launch of cloud and business transformation consultancy Leaven, the growth of Spark Sport, the acquisition of NOW Consulting as part of data analytics business Qrious and the launch of emerging technology business, Mattr.

Over the year we also tightened our focus on our core business by completing the divestment of Lightbox and CCL's network assets and the successful integration of our cloud and ICT businesses Revera and CCL.

Our EBITDAI growth was partly offset by higher interest costs due to increased debt and lower investment income as Southern Cross dividends ceased. Our taxation expense reduced by $20 million (11.8%) due to the Government reinstatement of tax depreciation deductions on buildings and a higher portion of non-taxable other gains. As a result, net earnings were $427 million, up 4.4%.

Closing out our three-year strategy

This year marks the completion of our three-year strategy. This was a bold strategy to transform our business. We moved to Agile ways-of-working, which has improved our speed to market and customer focus, and our employee Net Promoter Score, which measures engagement, has risen year on year. We have grown market share and mobile services revenues while maintaining our focus on cost discipline. And we have diversified our business from traditional telecommunications services to operate as an end-to-end digital services company.

This hard work has translated into improved customer experiences. Our customer engagement scores for consumers and small businesses, measured in interaction NPS, rose 10 points over the year. This is supported by a reduction in the number of customers needing to contact us to troubleshoot issues, and an increase in the use of online support channels.

We invested in our network and our technology, re-engineering our IT stack and investing for capacity over a sustained period, which has built a point of competitive advantage. We launched 5G wireless broadband services in heartland New Zealand, and we are poised for a national rollout of both wireless broadband and mobile 5G services, enabled by the allocation of 5G spectrum announced in May 2020.

The rollout of 5G will support wireless broadband uptake, as the network delivers greater capacity and speeds over time. 5G will be a big part of how we will continue to create a wireless future for New Zealand.

Looking to the future – our next three-year strategy

We were due to launch our next three-year strategy to the market in April. However given the COVID-19 situation we needed to pause and review. We will now share our strategy on 16 September 2020.

Trends that have shaped our thinking for some time now are accelerating due to the disruption of COVID-19, including the acceleration of consumer services from physical to digital, the increasing pace of business transformation and digitisation, the exponential customer demand for data, and the greater emphasis being placed on connectivity as a basic social need. The recent return to Alert-Level 3 in Auckland, and Alert-Level 2 for the rest of the country, has reminded us that the immediate challenge of COVID-19 is not behind us. However, there is also a longer-term opportunity for New Zealand to accelerate its own digital transformation, and rebuild for a future that is more connected, productive and sustainable.

While we are operating in more uncertain times and preparing for a more challenging year ahead of us, we believe we are well positioned for the 'new normal' we find ourselves in. We have a strong balance sheet, a leading network, a diversified business and an agile team.

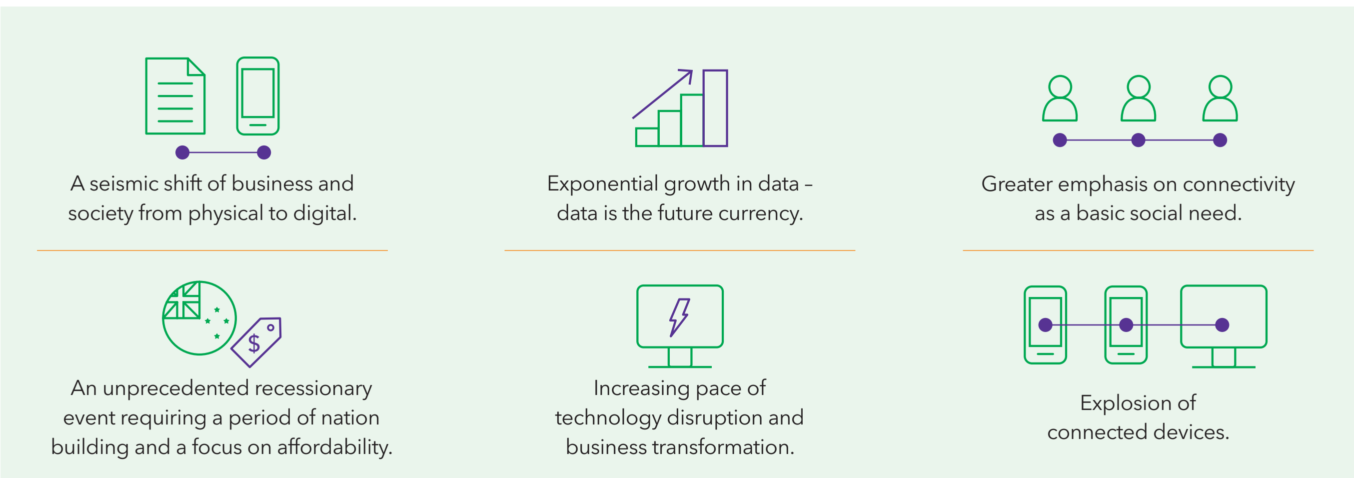
Our next three-year strategy will be an evolution of our current direction, building on the momentum of the prior three years and the evolving trends shaping our markets. It will be focused on a set of core capabilities that will underpin our continued strong performance in our key markets and in new markets where we see significant opportunity for growth, such as digital health and the Internet of Things (IoT).

Sustainability and our role in economic recovery

As New Zealand responds to COVID-19 sustainability will remain a core focus for our business. Rebuilding our economy will take concerted and coordinated effort. The country will be looking for leadership from businesses with the scale to make a difference.

As such we have reviewed and refined our approach to sustainability and updated our

Macro trends are accelerating



framework to reflect this new context and opportunity. A key focus is on our own sustainability, so that we can then support New Zealand's recovery and economic transformation. The principle of equity is at the heart of our approach, and we remain committed to working in partnership to make a positive contribution to digital equity and to continue our focus on diversity and inclusion.

Sustainability will be integrated into our new strategy as a key pillar, *A positive digital future for all of New Zealand*. This sits alongside the work of the Spark Foundation and *Te Korowai Tupo* – our Māori strategy. We recognise that how we work will be critical. We will work in partnerships based around shared values, underpinned by the principles of kaitiakitanga and manaakitanga.

Thank you

We are both personally very proud of how Spark has responded to the challenges of FY20 and, most importantly, how we have focused on supporting our customers at a time when connections mattered more than ever. This would not have been possible without the dedication and hard work of our own team of five thousand, who modelled our values and never lost sight of our purpose under challenging circumstances.

We would also like to thank our investors, customers and partners for their continued support of Spark.

Noho ora mai

Justine Smyth, CNZM
Chair

Jolie Hodson
Chief Executive

Our new sustainability framework

A POSITIVE DIGITAL FUTURE FOR ALL OF NEW ZEALAND

We will work **alongside New Zealand** to harness the **power of technology** and create a **positive digital future for all.**

Create a Sustainable Spark

Be bold in our business to have a positive impact on our **communities** and the **environment.**

- Invest in the capabilities of our people, equipping them to thrive in a digital future
- Reduce our footprint and meet our emissions target of -25% by 2025, investing in our fleet and infrastructure
- Be responsible, transparent and accountable for our social and environmental performance

Economic Recovery and Transformation

Help New Zealand **transform to a high-productivity, low-carbon economy.**

- Focus our infrastructure investment on supporting New Zealand's recovery and transformation
- Support Kiwi businesses to adapt to become more productive, resilient and sustainable through technology
- Support New Zealanders to upskill and adapt to new ways of working

Champion Digital Equity

Champion **digital equity** so all New Zealanders have the opportunity to **thrive in a digital future.**

- Extend the reach of Skinny Jump target to benefit more households – 20,000 by June 2021
- Partner alongside the Spark Foundation to address barriers to digital equity, including access, skills, trust and motivation
- Champion diversity and inclusion in our business and our communities

Our performance

Net earnings

$427M

▲ 4.4%

EBITDAI[1]

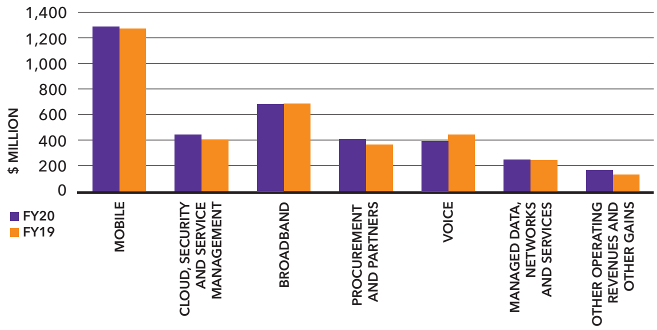
$1,113M

▲ 2.1%

Operating revenues and other gains

- Mobile service revenue growth of $32 million, or 3.9%, was driven by strong pay-monthly connection growth, up 79,000, or 6.3%, combined with increased adoption rates of our Endless plans[2]. Strong mobile service revenue growth in H1 FY20 of $22 million, or 5.5%, moderated in H2 FY20 to $10 million, or 2.4%, as a result of COVID-19 impacts, such as reduced roaming revenues.
- Cloud, security and service management revenue growth of $43 million, or 10.8%, was due to increased penetration of core cloud services and the ongoing shift of customers to more flexible and future-proofed cloud-based IT models, combined with the onboarding of new contracts.
- Procurement and partners revenue growth of $43 million, or 11.8%, was due to strong sales of software and hardware.
- Voice revenue declines due to a combination of connection loss and substitution moderated in FY20 to $50 million, or 11.3%, as voice revenue becomes a smaller part of the business, combined with increased conferencing and 0800 calling during the COVID-19 lockdown period.
- Other operating revenue grew $16 million, or 14.0%, largely due to strong contributions in our Spark Sport and Qrious growth businesses.

$3,623M up 2.5% year-on-year

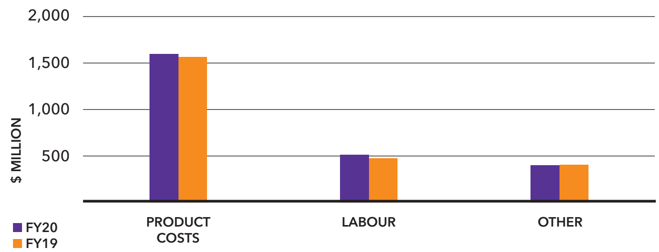


- Other gains of $35 million, up $20 million from FY19, were generated from the divestments of CCL's network asset business and Lightbox, the sale of surplus mobile network equipment and a fair value gain on exchange of spectrum.

Operating expenses

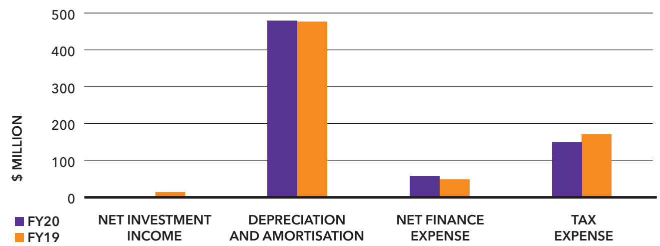
- Product costs increased $33 million, or 2.1%, broadly in line with revenue trends, with higher costs associated with cloud, security and service management, procurement and partners and Spark Sport content, being partly offset by lower mobile handset costs and voice product costs.
- Labour costs have increased $36 million, or 7.6%, due to increased investment in support of revenue growth in areas such as Cloud, and wage inflation. The portion of labour costs expensed following a shift in focus to optimising existing products instead of large capital programmes also drove an increase. The increase was partly offset by reduced labour costs in other parts of the business as legacy products shrink and interactions move to digital.
- Other operating expenses were broadly flat year-on-year, with lower marketing expenses being largely offset by an increase in bad debt provision levels, as a result of the economic impact of COVID-19.

$2,510M up 2.7% year-on-year



Other

- Net investment income was $13 million lower largely due to no Southern Cross dividends in FY20 as expected.
- Depreciation and amortisation was $15 million lower for property, plant and equipment and intangibles and $17 million higher for right-of-use assets and leased customer equipment assets.
- Net finance expense increased by $10 million due to the increase in average debt during the year.
- Tax expense decreased by $20 million primarily due to depreciation allowances being reintroduced for commercial building structures, as part of the assistance package offered by the Government on 25 March 2020 and a higher proportion of non-taxable gains.



1 EBITDAI is a non-Generally Accepted Accounting Practice (non-GAAP) measure and is not comparable to the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) measures. This measure is defined in note 2.5 of the financial statements.

2 Endless plans are Spark's mobile plans with unlimited calling minutes, unlimited SMS and an allowance of data to use at the maximum available speed, after which they are able to continue using mobile data but at a reduced speed.

Earnings per share

23.2 CENTS

▲ 4.0%

Dividends per share

25.0 CENTS

No change

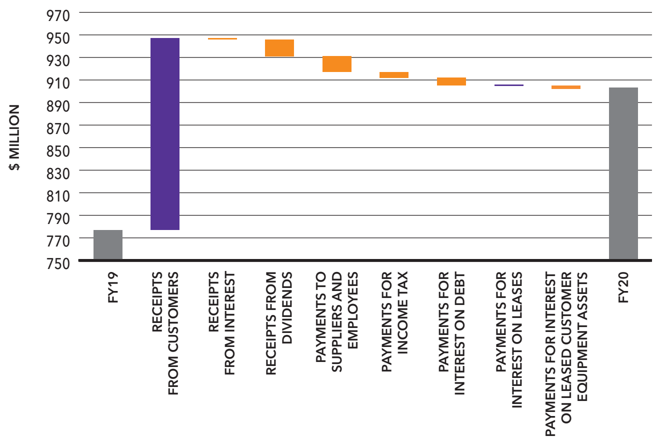
Cash flows

YEAR ENDED 30 JUNE	2020 $M	2019 $M
Net cash flows from operating activities	903	777
Net cash flows from investing activities	(411)	(426)
Net cash flows from financing activities	(493)	(352)
Net cash flows	**(1)**	**(1)**

- Operating cash flows increased by $126 million primarily due to higher receipts from customers, which is consistent with operating revenues and other gains for FY20 offset slightly by no Southern Cross dividend receipts in FY20.
- Investing cash outflows were relatively consistent with the prior year.
- Financing cash outflows increased by $141 million as less borrowing was required to support the dividend payments.

Operating cash flows

$903M up 16.2%



Capital expenditure[1]

$374M down 10.3%

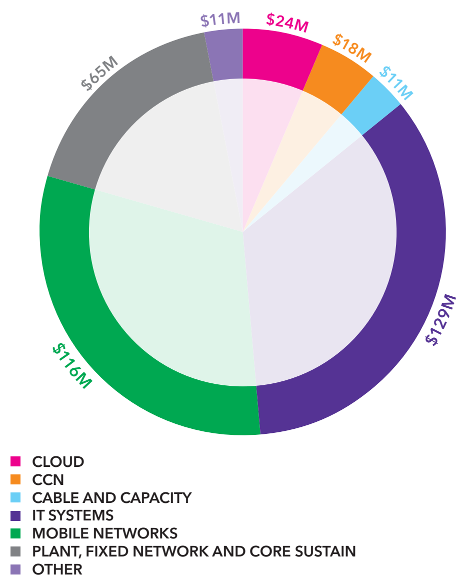
Key capital expenditure projects for the year included:

- Continued mobile network investment, including the deployment of 5G technology, increased capacity and coverage for wireless broadband and the introduction of Spark's sports streaming offering;
- IT systems investment included lifecycle investment and licensing for internal IT systems, enhancements to products and IT systems to improve customer experience and the implementation of the Spark Sport platform;
- Plant, fixed network and core sustain included investment in the fibre build programme, Optical Transport Network (OTN), fixed network broadband and Carrier Ethernet expansions to meet customer demand for services and traffic growth across the network (including the impact of introducing sports streaming). Various investments in Spark properties were also carried out, including the fit-out of Spark Square in Christchurch; and
- Continued investment in the converged communication network (CCN), which will replace the legacy PSTN network, and will enable us to deliver IP-based voice services in the future.

This excludes non-cash spectrum additions of $13 million.

Capital expenditure to operating revenues

10.3% (FY19 11.8%)



1 Capital expenditure is a non-GAAP measure and is defined in note 2.5 of the financial statements.

Our customers

We have supported our customers through COVID-19 by setting up our retail teams with at-home kits to work virtually from their own homes.

As New Zealand's largest telecommunications and digital services company, we have relevance for almost every New Zealander. From mobile, broadband, cloud services, security, digital services and live sports streaming, we have customers ranging from individuals and households through to small businesses, government and large enterprises. We know that as we respond to COVID-19 and Kiwis embark on the journey to recovery, the essential services that we provide are more important than ever to support our customers to create value for themselves and others. This is a responsibility that we take seriously.

We want to help New Zealand recover from COVID-19 and transform to a high-productivity, low-carbon economy. Through the products and services we provide we connect, empower and support our customers to adapt and become more sustainable through technology.

Customer experience

Over the course of FY20 we continued our strategy of shifting customers towards digital self-service interactions to improve customer experience by making queries simpler and easier to resolve online. This has seen an 18% increase in the use of chat interactions, including the MySpark App, online chat and our chatbot Ivy. In the last 12 months the amount of interactions resolved through Ivy without being redirected to our customer care team (deflection rate) has grown by 10% and currently sits at 53% of all incoming chat requests – a great result from a bot that was originally pitched to deliver 27% deflection. A combination of initiatives has reduced our monthly care volumes (inbound calls and chat) from 330,000 to 237,000 interactions, a 28% reduction.

We have increased our use of digital tools to keep customers informed throughout their customer journey while addressing complex issues. Through a focus on staffing and cross-skilling we have seen our call abandon rates more than halve. Calls being answered in a timely manner and having queries owned through to conclusion has helped deliver an increase of 10 points in iNPS (interaction Net Promoter Score – based on rating and feedback from customers after interaction with our team members) from consumer and small business customers in the last 12 months.

We continue to invest in our in-store experience with the opening of new stores in Dunedin and Whangarei and our Halo store in Newmarket. We look forward to our new Commercial Bay store opening in FY21.

+33 POINTS

Consumer and small business interaction Net Promoter Score (iNPS)

▲18%

increase in the use of chat interactions, including the MySpark App, online chat and our chatbot Ivy.

In June, in response to the disruption caused to our retail stores due to COVID-19, we launched New Zealand's first virtual shopping experience providing a similar customer journey to a retail store. We also launched 'Spark Studio' – an innovative take on virtual appointments that redesigns our retail experience to allow our customers to connect with our expert team remotely. This is currently being concept tested and we hope to roll it out nationwide soon.

We continued to make significant strides towards a 'unified frontline' – where our customer care and retail teams can easily be cross-skilled and move between different channels depending on where our customer demand lies. This is good for our customers, and also builds the skills and capabilities of our team members. The onset of COVID-19 accelerated our pace when it impacted our call centre in the Philippines. In response our retail teams were set up to help with inbound voice and chat enquiries from their own homes – with 589 retail team members receiving at-home kits to help our customers virtually. They joined our call centre and Business Hub teams to create a team of over 1,000. Over the long term this approach will build teams that are skilled at supporting our customers through a number of face-to-face and virtual channels, building diversity in our business and the speed at which we can support our customers.

Spark delivers Rugby World Cup 2019 for New Zealand

In September, we brought Rugby World Cup 2019 (RWC) to New Zealand through streaming.

To prepare for the tournament we made significant upgrades to our infrastructure, to ensure we had the capacity in our network to deliver a great viewing experience. We recognised that many Kiwis were new to streaming, so we undertook a nationwide education campaign to get New Zealand 'match fit', including partnerships with local retailers to facilitate in-home set ups. We also extended access to the game beyond our online platform by setting up 'Spark Sport for Schools' in rural areas – a programme that provided free RWC Tournament Passes to schools to hold viewings for their local communities – and by providing all RWC matches via pubs and clubs across the country.

Not all New Zealanders were able to stream on-line. Our partnership with TVNZ enabled those customers to watch broadcast delayed covereage of every All Blacks game on TVNZ One, as well as other key matches live. We also worked with TVNZ on our contingency plan in the event of any technical difficulties.

This plan was activated when we experienced a technical issue during the first All Blacks match resulting in the game being simulcast on TVNZ Duke. An urgent investigation identified the issue and our team worked to put a fix in place immediately. We apologised to our customers for the issue and provided a full or partial refund for those who were impacted. Our customer care teams also worked one-on-one with customers who were having issues with their in-home set-up, and in many instances conducted in-home visits to help resolve issues.

Introducing a new technology on a large scale brings its challenges – but as sports streaming is increasingly becoming the way sport and entertainment is delivered globally, we are pleased to have helped New Zealand to start the journey. And it's fair to say we learnt a few things along the way ourselves.

We celebrated several milestones during RWC 2019:

- **The All Blacks vs Ireland Quarter Final was the largest streamed sports event in New Zealand.**
- **The Wales vs France Quarter Final on 20 October set new Spark and Chorus data traffic records for each of their networks (a 40% increase on pre-RWC Sunday night traffic).**
- **New Zealanders had taken up just over 200,000 RWC subscriptions.**
- **Spark Sport streamed nearly six million hours of RWC content.**

Customer safety

Protecting customers from scams

Phone and email scams are an ongoing problem as scammers continue to evolve their approach in an effort to defraud Kiwis. We saw scammers use COVID-19 to take advantage of people while they worked from home.

We play an active role in limiting the amount of scam calls being received by our customers by monitoring unusual calling activity and having offending numbers blocked, as well as blocking those reported to us by customers. Where possible, our security and fraud teams work with law enforcement to identify and shut down scamming operations, but this is challenging when they are located offshore.

We are a member of the NZ Telecommunications Forum's (TCF) Scam Prevention Code, which improves the process for the telecommunications industry to identify and share scamming information. Offending numbers are shared with members to be blocked across all networks. These measures make a scammer's job more difficult and could deter them, however, sometimes they will continue using a different number.

We also work with the TCF to prevent customers receiving scam text messages. These are usually from four-digit numbers called 'short codes'. When we identify illegitimate activity we work with the aggregator that manages these messages, and the relationship with the content provider, to block the messages. We also block access to the URL featured in the scam text to prevent customers inadvertently clicking on the link. We are working with the industry to strengthen our processes and further reduce the likelihood of our customers receiving such messages.

The most effective way to keep our customers safe is through education and awareness. We take any opportunity to empower our customers to be vigilant when it comes to scams and keeping their personal information safe. This includes providing comprehensive information about scamming on our website: **www.spark.co.nz/help/scams-safety**

We have also partnered with Netsafe to produce an educational scam call brochure to distribute to organisations such as Age Concern and retirement villages. We include reminders to stay vigilant in direct customer communications and share alerts to widespread scams on our social media channels. During the Alert-Level 4 lockdown we created a factsheet with tips on how to avoid scams while working from home, which we shared across our website and social media channels.

Cyber security

Cyber security is an important issue and we invest heavily in managing risks to protect our customers' and our own data. We have one of New Zealand's largest security teams made up of qualified and experienced people working across engineering, analyst, operations and security assurance roles. Spark also provides security services for small, medium and enterprise organisations, including carrying out vulnerability assessments and providing managed security. We regularly test our systems and security capabilities and hold a number of industry recognised certifications that provide assurance to our customers on the strength and capability of our security abilities.

Products to support seniors

With over a million New Zealanders predicted to be aged 65 plus by 2032, it makes sense for Spark to provide solutions to address the needs of older customers. In July 2019, we announced two new products, Spark Gold Plans and Call Screen.

Spark Gold Plans

We introduced two pay-monthly mobile plans designed to meet the needs of those aged 65 years and over. Spark Gold Plans are only available to seniors, with a focus on excellent voice calling value over data, making one of the plans the most affordable advertised pay monthly mobile plan in the country at just $12.99 a month. More information on Spark's Gold plans can be found on our website: **www.spark.co.nz/shop/mobile-plans/gold-plans**

Call Screen

The number of phone scam victims in New Zealand has continued to grow. Many are still losing thousands of dollars after falling victim to scammers. And as frequent landline users, many of those who have fallen victim have been seniors. In the past year we launched New Zealand's first home phone with nuisance call blocking technology, Call Screen. Users can decide who they talk to by screening incoming calls, reducing the fear of becoming a victim of scammers. Most of the time scammers use robo-dialling software that automatically calls a series of numbers. An actual human scammer won't be prompted until a person answers one of the calls. A scammer's robo-dialling system isn't sophisticated enough to leave a name, a requirement of the Call Screen technology. That means the call won't connect and the home phone won't ring in the first place.

We empower our customers to be vigilant when it comes to online safety and include comprehensive information and education about scams on our website.

We are committed to respecting our customers' privacy and the personal information they share with us.

Marketing and legal compliance

Under our Code of Ethics all Spark people are responsible for ensuring we behave ethically and comply fully with all applicable laws and regulations. Spark's Legal and Compliance Policy sets out the specific accountabilities that our people have for complying with the law. Spark's people leaders make sure their people have the information and training necessary to meet these standards, and our Legal and Digital Trust teams support our people with comprehensive frameworks, tools, training and advice. Every employee is required to complete online training modules on the Code of Ethics and how to apply it, and we reinforce this training through regular one-on-one and broader internal communication across the business. See: **www.sparknz.co.nz/about/governance**

Spark continues to engage constructively with the Commerce Commission as appropriate, both proactively and reactively, on a case-by-case basis. Spark did not receive any formal sanction by the Commerce Commission in FY20. We also had no complaints upheld by the Advertising Standards Authority over the past year.

Product recall

In August 2019 we announced a product recall of a power back-up device that had been issued to approximately 14,000 wireless landline phone customers during the previous four months. The power back-up had been included to ensure that wireless landlines would continue working for up to four hours in a power cut. The recall followed the discovery of a manufacturing fault in some power back-ups that could cause the unit to overheat, leading to a fire risk. While we are unaware of any harm caused to our customers due to this issue, we made the decision to recall the device as our customers' safety is paramount. In issuing the recall, we contacted all affected customers and took comprehensive steps to arrange alternative technology for them as required. Spark sent ongoing recall reminders to customers throughout the remainder of 2019 and has observed a very high return rate of the recalled units.

Customer privacy

Our customers, along with all New Zealanders, value their privacy and they trust that we will protect and manage information about them in a way that aligns with their expectations. We are committed to respecting customer privacy and the personal information entrusted to us by customers. It is also Spark's focus to enable our customers to safely and easily manage their personal information. Providing transparency to customers about how we use and collect personal information is a key part of this.

Spark's Privacy Policy sets out our commitment to our customers when it comes to handling their information. The policy sets out transparently what data we collect and how we use that data. In our policy we commit to handling all personal information appropriately in compliance with the Privacy Act 1993 and our customers' expectations. We also set out customers' rights and choices in respect to their personal information. See: **www.spark.co.nz/help/other/terms/policies/privacy-policy**

All of our people are required to complete online privacy training and to treat customer information consistently with Spark's Privacy Policy. This includes following Spark's data governance processes and standards for the collection, use and disclosure of personal information and engaging with Spark's privacy and security teams. We are reviewing our systems, processes and training to ensure compliance with the Privacy Act 2020 when it comes into force in December 2020.

In FY20 there were no complaints from the Office of the Privacy Commissioner, however it raised two minor operational matters that Spark is addressing.

We are implementing reporting capability that will enable us to report on substantiated complaints received from customers in the future. There were no significant customer data breach incidents in FY20 but in line with Spark's commitment to transparency Spark did notify some data incidents to a small number of impacted customers as well as the Office of the Privacy Commissioner.

Customer terms and conditions

In FY20 we simplified our terms and conditions to make them easier for customers to understand. While the rights and obligations of Spark and our customers stayed the same, we restructured our terms and used clearer language. Spark customers were notified about the new terms and conditions on their bills throughout November 2019 and prepaid customers were sent an SMS with a link to the new terms and conditions. See: **www.spark.co.nz/help/other/terms**

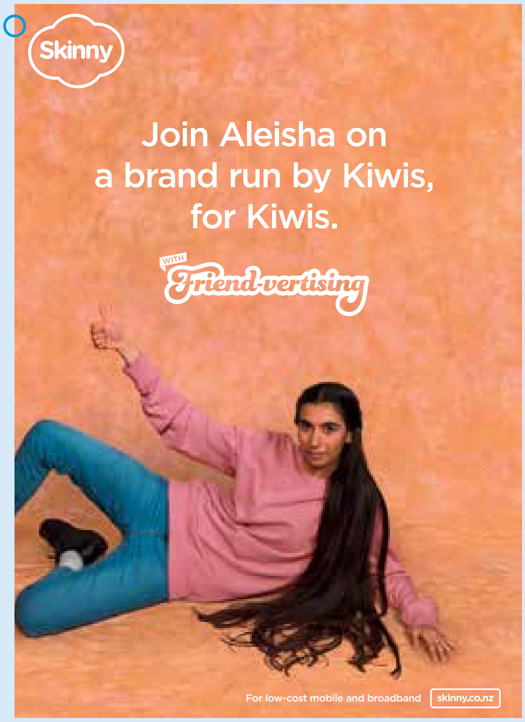
Bringing our brand to life

Spark had a huge year for brand and customer campaigns that continue to build an emotional connection with Kiwis.

We continued our affiliation with Pride Month through our documentary-style video fronted by gender non-conforming performer Gabriel, also known as Princess, who demonstrated some of the employment challenges that members of the LGBTQIA+ community faced.

Play by Spark was our initiative to help parents and kids find balance in their screen time usage. The advertisement campaign featured a heart-warming 'breaking-up' conversation between a young boy and his gaming avatar, that generated much-needed conversations online about striking the right balance between playtime and screen time.

Skinny had another busy year. After 18 months, the successful 'Famous Names' brand campaign came out of market. Utilising the brand's advocacy as a key strength, it was replaced with a new platform called Skinny Friend-vertising. This campaign was driven out of the insight that everyone in New Zealand is connected to each other and aims to reach all Kiwis with an advertisement for Skinny fronted by a person they know.



We had our biggest ever Summer of Music, supporting some of the best and most exciting shows around the country, including Six60, Splore and Laneways. At Bay Dreams we launched Fan Studio, our photographic platform that gives Spark customers the chance to win prizes, which now sits outside Spark Arena. When COVID-19 decimated the local live music industry, we created content platforms for our customers through Spark Sessions, bringing Kiwis the best of New Zealand's music scene straight into their living rooms.

Supporting New Zealand businesses

The Spark group had a busy year supporting our business partners and customers as they navigated an unprecedented year of disruption and recovery. Through our digital services expertise and network technology we helped them create value for their people and customers.

Wholesale

Our wholesale business continued to make progress in our growth products category. We continued to invest in new product capabilities across the Tasman Global Access (TGA) and Southern Cross (SX) cables, as well as corporate satellite, setting us up for future growth opportunities. We've also supported global Content Delivery Networks (CDNs) and cloud providers with their New Zealand co-location and connectivity requirements. During the Alert-Level 4 lockdown we supported our Service Providers (who were experiencing increased internet usage by their customers), by providing burstable domestic IP data free of charge. We also lifted data caps on wireless broadband plans resold by our Wireless Broadband partners.

Internet of Things (IoT)

In March we teamed up with Vector as the energy company moves to modernise the way energy consumption is measured in Kiwi homes and businesses. This deal has seen a significant number of Vector's New Zealand-based advanced meters connected to Spark's 4G-supported CAT M1 Internet of Things (IoT) network, with the ability to shift on to 5G connectivity as part of a multi-year rollout. While today's networks have limits on the number of simultaneous connections, the capacity and reliability of 5G technology will see it underpin mass deployment of IoT. 5G is designed to support connected device densities of up to 1 million devices per square kilometre on a continual basis.

Leaven

In August we announced the launch of Leaven, a new cloud and digital transformation consultancy built to help organisations make the shift to new and more digital ways of working.

As the world transitions to a digital era, organisations are looking for smarter ways to turn their aspirations for digital transformation into action, embracing the capabilities of public cloud services to become more efficient, reduce cost and create new services. This was accelerated with COVID-19, where businesses looked to cloud-based offerings to help them scale, work flexibly and have remote access to their technology services.

Leaven focuses on cloud adoption, digital innovation and business transformation, and empowers its clients to embrace public cloud technology and new ways of working, supported by all-important governance and compliance requirements.

Since its launch, Leaven has delivered its portfolio of services to a growing number of clients, ranging from large corporate and public sector to smaller organisations looking to maximise the value they get from the cloud.

Qrious

Qrious, our data, analytics and AI business, has continued helping New Zealand organisations navigate the changing business environment, using data and critical insight. It's been a huge year for Qrious, with the acquisition of NOW Consulting, being awarded ISO 27001 security certification, recognition by Inland Revenue (IRD) as an Approved Research Provider, as well as receiving the Snowflake 2020 Solution Partner of the Year (APAC) award. Qrious also launched its summer intern programme, which gave eight university students a rare opportunity to extend their skill-base and develop solutions for real-world problems through work experience in its Q.Lab Research Division.

CCL

Computer Concepts Limited (CCL) divested the operational parts of its network services division to a new business called Cello, formerly known as Octave. The decision is consistent with CCL's shift to a simpler operating model following the brand merger with Spark's wholly owned cloud business, Revera. CCL received the Strategic Partner of the Year award, recognising joint initiatives with CTP and Leaven at the Hewlett Packard Enterprise (HPE) annual partner awards where Revera, now operating under the CCL brand, was also awarded Service Provider of the Year. In March, CCL and Microsoft announced a three-year strategic partnership to drive New Zealand business and public sector migration to Microsoft Azure cloud technologies.

Streaming services

Spark Sport

Spark Sport kicked off with the start of the 2019-20 Premier League season in August, then, six months after launch, we brought New Zealand the Rugby World Cup 2019 via streaming.

Spark Sport also announced a six-year partnership with New Zealand Cricket as the official production and broadcast partner for all Blackcaps and White Ferns matches played in New Zealand.

When COVID-19 hit, major sports bodies were forced to cancel or postpone sporting events. As a result, we offered Spark Sport for no charge from mid-March until the end of June. While COVID-19 created challenges for all broadcasters carrying live sport it also significantly accelerated streaming connectivity in New Zealand homes. We now have a range of sports available on the platform, including rugby, football, cricket, tennis, motorsports, basketball, MMA, racing, boxing, golf, hockey, e-sports and athletics.

Lightbox

In December Spark announced it had entered an agreement for Sky Network Television Limited (Sky) to purchase its entertainment streaming business, Lightbox. This sale was completed in February and in June, Sky announced it was merging Lightbox with its Neon streaming service. Spark customers on selected broadband and Pay Monthly mobile plans continued to receive Lightbox "on us" until July 2020. Following this, Spark announced a partnership with Neon that allowed customers to trial the new service for three weeks and add Neon to their plans for a discounted rate of $9.95 per month.

Our network and technology

Our network and technology underpins our ability to help New Zealanders grow and stand strong in a digital world. This includes our mobile sites, data centres, networks, systems, processes and digital services capability. We create value for ourselves, our customers and our communities by investing in resilient, adaptable infrastructure for New Zealand's future and the products and services that connect and empower New Zealanders.

Investing in our network infrastructure

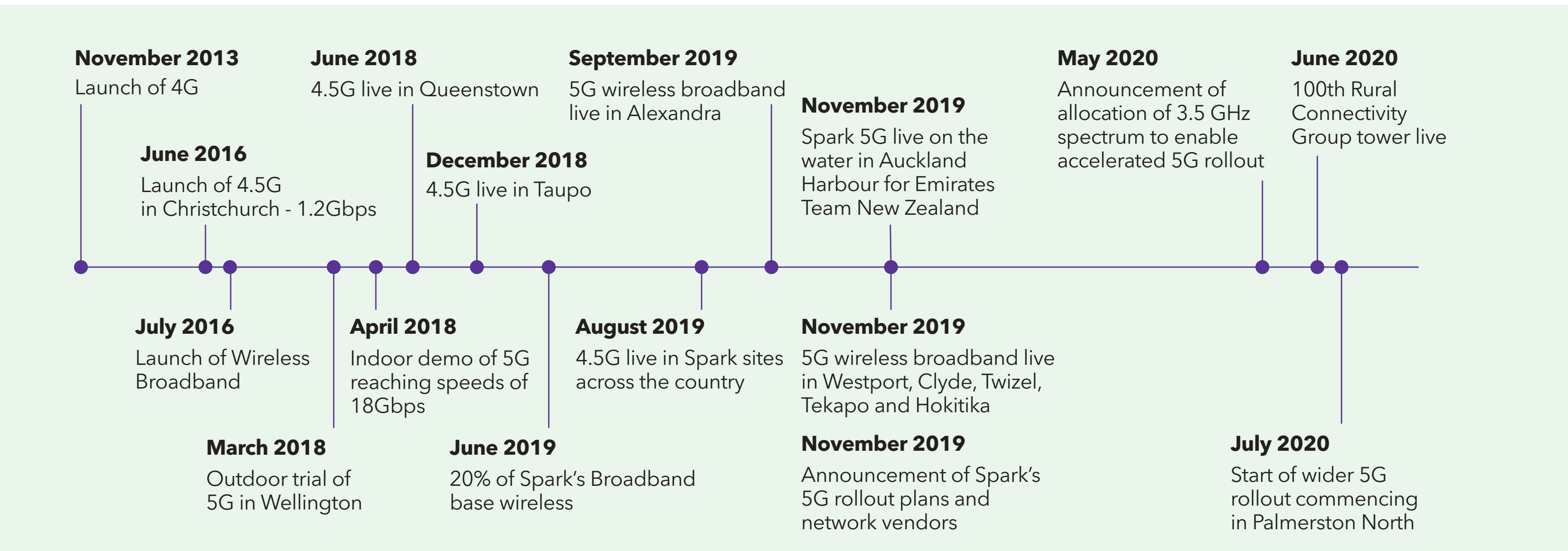
Digital technology is becoming ever-more essential to how we work, learn and connect, and New Zealanders rely on it every day. We see significant year-on-year growth in data usage on our mobile network. Over the past two years we have invested heavily, enhancing capacity by approximately 80%. This included building over 150 new cell sites and the extensive rollout of 4.5G, which significantly enhances network performance and capacity relative to conventional 4G.

COVID-19 was a test of the adaptability and resilience of our networks. During New Zealand's 33-day Alert-Level 4 lockdown data usage on Spark's broadband network resembled a seven-day weekend. Data usage each weekday was double the norm, and weekend peak usage was elevated further again. Even with volumes increasing to levels not seen before in New Zealand, the network performed very well.

Rolling out 5G

We launched our first 5G service in September 2019, with a number of business and consumer customers invited to trial high-speed 5G mobile broadband in Alexandra in Central Otago. We chose Alexandra as it has one of the highest uptake rates in the country for Spark's existing wireless broadband product. In November

The history of our network investment:



2019, we launched New Zealand's first commercial 5G wireless broadband service into selected areas of five heartland communities – Westport, Clyde, Twizel, Tekapo and Hokitika.

In May 2020 the New Zealand Government offered Spark the management rights to 60 MHz of 3.5 GHz (or C Band) spectrum until 31 October 2022. The spectrum allocation was completed in July 2020 and enables a significant investment by Spark in 5G infrastructure across the country over the coming year, which will play a critical role in New Zealand's response to, and recovery from, COVID-19.

The 3.5 GHz spectrum is crucial for the rollout of a full suite of 5G services. We plan to switch on 5G sites in a number of major centres and regions across the North and South islands over the next year. To maintain this momentum, we are keen to work with Government to accelerate the timeline for the longer-term spectrum auction, which is currently scheduled for November 2022.

We have continued with our multi-vendor strategy for our 5G rollout, using Nokia for our initial rollouts in Auckland and Palmerston North. We maintain an ongoing relationship with both Samsung and Huawei.

Electromagnetic fields (EMF) and health concerns

The rollout of 5G technology has raised community interest in electromagnetic fields (EMF) or radio waves and health. Misinformation across social media has caused confusion over the safety of the next-generation technology, resulting in the spread of dangerous and false theories linking 5G technology to COVID-19.

During the Alert-Level 4 lockdown there were a number of incidents of wilful damage to New Zealand's mobile networks, including several Spark cell towers. The vandalism resulted in damage to critical communications infrastructure during a time of national emergency, and in some cases resulted in short-term, localised outages.

Ensuring public confidence in the safety of mobile technology is important, and is potentially material to our capacity to invest and roll out improved network infrastructure.

We work individually and as an industry via the Telecommunications Forum (TCF) to help ensure information about 5G and safety is available to the public should they have any concerns. The New Zealand Ministry of Health and the Prime Minister's Chief Science Advisor have developed resources we frequently share with interested parties. Thousands of studies have been performed over the years into whether there is any health impact from radio waves, and to date no adverse health effect has been causally linked with exposures to wireless technologies that comply with the New Zealand limits, including 5G.

5G will initially use radio frequencies very similar to 3G and 4G, and while eventually it will use radio frequencies at higher levels (i.e. millimetre waves), this doesn't result in higher or more intense exposure. Exposure levels will remain well below limits set by the New Zealand Government in NZS2772.

To check that we meet our obligation to comply with national limits, Spark has commissioned independent monitoring of exposures to radio waves around our cell sites. You can read more about this programme here: **www.health.govt.nz/our-work/radiation-safety/non-ionising-radiation/independent-cellsite-monitoring**

5G starter fund

With the Government's 5G spectrum allocation announced and businesses now operating in a changed world, Spark reshaped and relaunched its 5G Starter Fund with an added focus on transforming health and wellness for all New Zealanders.

The Fund was initially launched in March with a prize pool of $500,000 but was put on hold due to COVID-19. The Fund was relaunched at the end of May with an increased prize of $625,000 for up to four Kiwi businesses to develop 5G applications that can help to support New Zealand's economic recovery. All winners will receive business and tech mentoring from industry leaders, as well as access to technology and equipment to test and build on Spark's 5G network.

"New Zealand is in a unique position – its size, cultural make-up and creativity means Kiwi businesses have a global edge.

"It's important, now more than ever, for companies to embrace the impact they can have in their own backyard, and on the world. As New Zealand responds to COVID-19 Kiwi entrepreneurs have an opportunity to use 5G to make a real difference to our future – those who will be successful will be passionate and willing to take a leap of faith, believing that their idea is the next big thing for New Zealand."

Ido Leffler, Spark director and 5G Starter Fund panellist

We got 5G out on the water with our Emirates Team New Zealand campaign.

Expanding rural broadband coverage

We work in collaboration with Vodafone, 2Degrees and Crown Infrastructure Partners (CIP) to build essential broadband and mobile services for rural New Zealand via the Rural Connectivity Group (RCG). The RCG is a joint venture between Spark, Vodafone and 2degrees, and has been contracted by CIP to deliver the Government's Rural Broadband Initiative Phase 2 (RBI2) and Mobile Black Spot Fund programmes.

The aim of the RCG project is to deliver new or improved mobile and wireless broadband coverage to over 30,000 rural homes and businesses. It also aims to provide further mobile coverage to over 1,000 kilometres of state highways and provide connectivity to over 100 New Zealand tourist destinations by December 2022. This means it will build over 400 cell sites across rural New Zealand delivering essential broadband and mobile services.

The connectivity is much needed to bridge the digital divide for rural communities and help the rural sector remain competitive. Bringing together the investment from Spark, Vodafone and 2degrees, along with the Government's RBI2 funding, has been the key to providing service into more challenging and remote areas of New Zealand.

To date, the RCG has built over 100 sites, delivering high-speed wireless broadband and quality mobile coverage to more than 8,121 homes and businesses, as well as 343km of state highway, improving safety on our roads and making them easier to access by emergency services.

The RCG network uses Nokia 4G Multi Operator Core Network (MOCN) which allows all three mobile networks to provide integrated services to these rural communities from just one cell site.

Network resilience

We recognise how important telecommunications and digital connectivity is to millions of New Zealanders and New Zealand businesses. We place great emphasis on the resilience and diversity of our networks.

We expanded our mobile network in the lead up to Rugby World Cup, this included the deployment of the single radio access network (SRAN) and Long-Term Evolution (LTE) sites, as well as significantly increasing capacity and coverage for wireless broadband.

We continued our work on Spark's fibre build programme, Optical Transport Network (OTN) and Carrier Ethernet expansion to meet customer demand for services and traffic growth across the network.

Investment also continued into the converged communication network (CCN) that will replace the legacy PSTN network and enable us to deliver IP-based voice services in the future.

During COVID-19 Alert-Level 4 there was a significant growth in daytime traffic, as well as increases to the peak evening load, as the whole country worked or learnt from home. The network had sufficient capacity to carry the load and was very stable across fixed and wireless broadband and mobile voice despite the increase in usage. Spark expanded capacity where needed with 'cell sites on wheels' (COWs), or by adding additional capacity onto individual cell sites.

Flooding in the South Island in December 2019 caused damage to both Spark's western and eastern fibre routes and resulted in outages to landline, mobile and broadband

Spark 5G helping Emirates Team New Zealand make the boat go faster

In November 2019 we started trialling a 5G service on the water for Emirates Team New Zealand, delivering on our promise to help make the boat go faster in the bid to defend the America's Cup.

The 5G service covers parts of Auckland Harbour, off Milford and Takapuna, where Emirates Team New Zealand do some of their test sailing. The faster speeds and higher bandwidth of 5G means the team can livestream data and video back to engineers and designers at the base straight off the AC75 boat, Te Aihe, while it's sailing. Real-time access to the data gives Emirates Team New Zealand a design advantage in preparing for the America's Cup racing.

"Before the team had access to 5G they had to get a hard disk with all the data off the sailing boat, then the chase boat took it back to the base, and a team member would run the hard disk up to the data server at the base. Design work using the data couldn't happen until well after the boat had docked.

"Now we have 5G on the water, there are hundreds of real-time data streams such as boat speed, ride height, and hydraulic pressure coming off the water and back to our design team at the base. Our team can do progressive design and development work during the day while the boat is sailing allowing our design-thinking to evolve much faster. We were never able to do this before 5G." **Dan Bernasconi, Head of Design for Emirates Team New Zealand.**

We have continued our programme to close the legacy PSTN (public switched telephone network).

Rural Connectivity Group (RCG) cell tower at Whangarei Heads.

services to customers in the lower South Island (although 111 calls were maintained as they were automatically rerouted onto other networks which were still operating). The Minister of Broadcasting, Communications and Digital Media, Kris Faafoi, subsequently announced plans for a new fibre optic route on the West Coast.

We recognise that an increase in extreme weather events is likely to increase as a climate-related risk. To learn more about our approach to risk, including climate-related risk, see page 48.

PSTN decommissioning: upgrading landline calling

Over the past year we have continued our programme to close the legacy PSTN (public switched telephone network) and transition to the new, IP-based CCN (converged communications network). We have now decommissioned 232 telephone exchange switches, which is 33% of the Spark PSTN.

Customers continue to move to wireless and fibre voice services, which are supported by the CCN technology. In the past financial year over 140,000 more customers have moved away from the PSTN. In July Spark announced the next phase of the PSTN closures project, which will begin in early FY21. In September 2020 Spark will launch a pilot project in Devonport, Auckland and Miramar, Wellington to move all customers off the local PSTN switches and over to the CCN. Once all customers have moved, the local PSTN switches will be decommissioned. The change will impact less than 1,000 customers across these two suburbs combined, and we will be working with our customers to ensure they have everything they need to stay connected before we make the switch.

The PSTN is nearing end-of-life, its components have not been manufactured since 2003, and the people with the skills needed to maintain this technology are also becoming scarce.

Spark will work closely with customers during the pilot project in Devonport and Miramar to test and learn how it can best guide customers through the process. We will take what we've learnt to inform our plans to make this same change, using an area-by-area approach, across New Zealand over the coming years.

4G voice services

We have activated 4G HD Voice on our network, otherwise known as Voice over LTE or VoLTE. Most phones we launch are now VoLTE capable, and we are progressing turning this on for capable handsets already in market. While 3G will continue to be a primary means of voice delivery in the immediate future, 4G voice provides fast call set up time and improved call quality, and will enable voice services for cell sites rolled out as part of the Rural Broadband Initiative 2 (RBI2), the majority of which are 4G only.

Agreements signed for build of new Southern Cross NEXT cable

Southern Cross Cable Network and its shareholders have signed agreements and gained the regulatory approvals needed to move into the construction phase for the NEXT cable between Australia and New Zealand to the United States. The cable is set for completion by early 2022 and will span Sydney to Los Angeles, via Auckland, Fiji, Tokelau, and Kiribati.

Alcatel Submarine Networks will build the cable that Southern Cross believes will have the lowest latency between Australia and New Zealand and the US. Telstra has bought a 25% stake in Southern Cross, reducing Spark's holding to around 40%. The other shareholders of Southern Cross are Singapore's Singtel and US communications technology company Verizon.

Our people

Our team of talented and diverse people are the heart of our business. Our business model relies on human and intellectual capital in our workforce and in our communities.

Our approach is to employ the best people we can and to invest in them to bring out their full potential. We aim to provide an employee experience aligned with our purpose, which enables our people to move fast, progress and focus on what matters for our customers.

We provide experiences and opportunities for our people to continuously learn. This will build the growth mindsets, behaviours and capabilities that will differentiate Spark's culture and support sustainable competitive advantage.

The outcome is fulfilling and rewarding employment which equips our people for a positive future of work, building human capital in Spark and New Zealand.

Spark Contribution Models

The Spark Contribution Models define the skills, knowledge, experience, behavioural and mindset requirements for people working in different teams across Spark. The models guide our people on what Spark values, giving a clear description of how they can progress their careers at Spark. The models also give our leaders a tool to help coach, review and support our people to grow their skills.

Employee Net Promoter Score (eNPS)

+66

▲ 25 points from FY19

Equality and objectivity are important elements of the contribution models. This is linked to our adoption of an Agile model that encourages flat organisational structures, valuing and growing people's individual 'craft' over traditional titles and hierarchy.

Continuous learning and development

Spark's development philosophy is based upon the 70/20/10 principle, where 70% is through on-the-job experiences, 20% through building and maintaining relationships with others, and 10% through formal development opportunities.

We operate formal development programmes for people in key roles. Our Leading Agility Foundations programme is targeted at Chapter Leads and Product Owners. The programme runs over three months, and combines self-directed learning with structured learning in cohorts of peers, with applied learning opportunities. In the past year 120 of our people completed the programme.

Our Agile Adaptive Leaders programme is for people in key leadership roles and individuals identified for development and succession planning. The programme runs over six months in cohort groups of up to 12 people, with diverse groups from across Spark coming together to learn via facilitated learning and exposure to leading-edge performance, visionary and thought leaders. This approach is to build a strong and cohesive leadership community within Spark.

Coaching is a core focus of the programme, with an objective to increase the capacity of

Our people celebrate Diwali at Spark City.

our leaders to coach and be coached. Experimentation is also part of the programme, where we give our leaders opportunities to apply their leadership insight and learnings to build and deliver a meaningful initiative that brings Spark's purpose to life.

To date five cohorts, and a total of 60 Leaders, have completed the programme. The success of the programme means we will continue to roll it out in FY21.

Spark Hauora – Health and Wellbeing

The health and wellbeing of our people is something we take very seriously. Over the past three years we have built up a volunteer wellbeing community of around 650 employees. In the past year we launched Spark Hauora, a Health and Wellbeing programme to encourage our people to lead healthy lifestyles, to care for themselves and others and to help them bring their best version of themselves to Spark and their families.

Almost 60% of staff now engage with our mental health community and related content. In the past year we were recognised for our mental health and wellbeing efforts by being named as a finalist in the Emerging Diversity and Inclusion Category at the 2019 Diversity Awards NZ, which honours a diversity and inclusion initiative that is less than two years old.

We recently signed the 'WorkWell Pledge', a wellbeing agreement to work collaboratively with Toi Te Ora Public Health, an organisation regarded as one of the leading health and wellbeing experts in New Zealand. In partnership with Toi Te Ora Public Health and Spark's own Health, Safety and Wellbeing ambassadors, we strive to continuously work with our people to evolve our wellbeing focus and maturity.

Supporting our people through COVID-19

The focus of our response to COVID-19 has been to keep our people safe and keep our business running as a critical lifeline utility. We have robust business continuity plans in place to ensure we can continue to provide services to our customers and New Zealand.

We activated our Business Continuity Plan in February 2020, well ahead of the New Zealand Alert-Level 4 lockdown. This meant stepping up preparations with our people, systems, customers and industry colleagues. Not all of our people were able to transition to working from home. A big focus was to protect our frontline teams who would have to keep working on site, such as those in network operations, data centres, exchanges and 111 operations.

Teams were split into three or four to ensure if the virus affected employees in one team the other teams could carry on. At an early stage, we also stopped visits by other people to those critical sites. We implemented rigorous cleaning, hygiene and social distancing controls in our workspaces, which were maintained as employees began to return as lockdown restrictions lifted.

To support our people in their transition to working from home we provided a number of set-up guides, and kept up regular communication from our leaders throughout lockdown. Topics included how to create the perfect space for home working, workstation ergonomics and tips for taking care of the health and wellbeing of themselves and others. We also shared guidance on scheduling days to create a routine with a clear start and end to the working day. This included a clear time to switch-off and keep a clear line between work and home life.

To support our people working from home we provided set-up guides and kept up regular communication from our leaders throughout lockdown.

We recognised the importance of individuals and teams staying connected, with our people making a smooth transition to online meeting and collaboration tools. People were encouraged to schedule regular chats with colleagues that replicated normal day-to-day contact in the workplace. We also promoted our network of support service providers for employees needing additional support.

Within the business we acted early to reduce potential long-term impacts of COVID-19 on our workforce. In April we announced that there will be no annual salary review increases for the next year for all Spark people, including the Leadership Squad and fees for the Board of Directors. We also put on hold external recruitment across the Spark group. Over the April 2020 Easter period we asked all of our people working in non-essential roles to take four days of annual leave.

As with many of our customers, the mass shift to home working forced a rapid adoption of online meeting and collaboration tools enabled by our technology. We will look to continue this discipline, to make these temporary habits permanent, to best use our technology and in turn reduce the cost and environmental impact of business travel.

Health and safety

Spark has well established Health and Safety (H&S) systems. These include processes for risk assessment, audit and employee training. We focus on continuous improvement of our performance through our H&S strategy, which is built around the four pillars of our Gold Standard:

- a strong health and safety management framework
- a proactive 'owners' approach to health and safety the management of critical hazards and associated risks
- a culture of empowerment at every level of the organisation
- a commitment by the business to ensuring the resources and capability are in place to deliver the health and safety strategy.

In FY20 we continued to take a detailed approach to applying good risk management practice and control for our most critical hazards and risks. This has seen H&S plans developed and implemented at all our office and exchange buildings, along with improved physical controls for working at height, confined spaces, and hazardous substances. We have also made Asbestos Management Plans available at relevant buildings for people working on-site. We are in the process of removing asbestos from some of our older sites.

Through employee consultation and participation, our most at-risk business areas – Critical Environments, Retail, Network Development and Technical Services – have built H&S Roadmaps to be implemented in the year ahead.

We also developed a new Supplier Consultation Process with our partners IMPAC. Together we developed a new online tool to deliver an interactive onboarding process for high-risk projects with our suppliers. This tool will be rolled out across our most at-risk business areas during FY21.

No Spark employees or contractors suffered work-related serious injury or death over the year, and our TRIFR (Total Recordable Incident Frequency Rate) was 3.58 for FY20, compared to 4.64 in FY19[1]. Our target for FY21 is to reduce our TRIFR to 3.0.

Another key measure of performance is our participation in the Accident Compensation Corporation's accredited employer programme. We achieved Tertiary level again in FY20, and reported our lowest number of claims and lowest costs relating to employee injury management of approximately $14,000, less than half the costs from previous years.

In FY21 we will continue our focus on improving systems around Spark's critical health and safety risks. We plan to implement our 'SparkSafe' capital programme for working at heights at problematic sites with access to mobile towers and continue to work across the business to ensure continuous improvement in our performance.

1 We have restated the FY19 TRIFR reported last year from 3.46 to 4.64 as we have shifted reporting to a rolling 12-month average.

Diversity and inclusion

Spark's Māori Strategy

Our Māori Strategy is about cultural transformation, finding the shared space between Te Ao Māori and the corporate world. It aims to build deeper more authentic partnerships with our communities, our customers and our people. More information is included in our community section on page 39.

Blue Heart programme

Our Blue Heart programme supports Spark's focus on a 'heart-led' approach to diversity and inclusion. It has evolved to be an icon for our wider approach to an inclusive and heart-led culture and our move to an Agile way of operating has helped us accelerate this shift. This approach has been instrumental in bringing together multi-functional squads across diverse cultural, ethnic and professional backgrounds.

Spark Pride

As a Rainbow Tick accredited company, we are incredibly proud of our ongoing commitment to the Rainbow community. We continued our support of the Rainbow community over the year, signing up as a major partner of Auckland Pride 2020 and launching the Pride & Spark Empowerment Initiative. The Initiative helped connect and resource Auckland's diverse rainbow communities by supporting those producing events for the festival. Support includes workshops, access to mentors and funding.

We also continued our ongoing support of OUTLine NZ, a national charity that offers a free support line for members of the LGBTQIA+ community and their friends and family. As part of the partnership we launched a new film focusing on recruitment of those within the LGBTQIA+ whānau. The film is a reminder for employers that individuality is a strength that should be welcomed, and that resources are available to support people foster more inclusive workplaces: **www.outline.org.nz/workplace**

RAINBOW TICK

New Christchurch office

In March 500 of our Christchurch employees moved into Spark Square, our new building in the city's Cathedral Square. Spark Square is the first new building completed by private developers in Cathedral Square since the earthquakes, and reflects our commitment to supporting the rejuvenation of Christchurch's central business district.

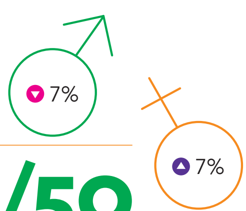
Gender diversity and gender pay gap

Over the past year we have seen positive improvements in our gender diversity and gender pay ratio measures. Our target for Board and leadership diversity is a 40:40:20 ratio. This refers to 40% men, 40% women, 20% of any gender.

The current composition of our Board is 50% female and 50% male, and FY20 changes to our Leadership Squad means this team is also comprised of 50% female and 50% male. We have also seen an increase in females in other senior roles, up 4% to 39%. Spark is the first large NZX-listed business to have both a female Chair and female CEO. Our Diversity and Inclusion Policy[1] sets out our framework in this area.

Spark's overall pay ratio of average female to average male pay for all employees is -17%. This is a slight improvement from our FY19 ratio of -18%. This is the first year we have reported the overall pay ratio of median female to median male pay, making Spark one of the first New Zealand companies to do so. For FY20 this figure is -26%.

The Spark Contribution Models are used to set salaries based on areas of expertise. This ensures that people assessed to make an equal contribution receive equal pay. A major contributor to this pay ratio differential is the make up of New Zealand's technology sector having a significantly higher proportion of males in technology roles. Spark has sought to reduce this ratio over time with initiatives such as Women in Technology scholarships and partnering with external technology educators, designed to proactively build a New Zealand-wide pipeline of female technology qualified employees.



50/50

Male/female ratio for our Board and Leadership Squad

1 https://www.sparknz.co.nz/content/dam/telecomcms/sparknz/content/governance/Diversity-Policy.pdf

Gender pay ratio

Category	Number of employees in category	Pay Ratio: Average[1]	Pay Ratio: Median[2]
Leadership: Spark's wider leadership group, including the Leadership Squad	57	2%	-2%
Technology: Employees that work in technology-focused areas of the business	2,296	-18%	-26%
Customer Channels: People primarily employed within our contact centres and retail operations	1,138	0%	0%
Rest of Spark[3]: including corporate, product, marketing and customer units	1,733	-15%	-21%
Total	**5,224**	**-17%**	**-26%**

1 Pay Ratio = (average female salary – average male salary) / average male salary.
2 Pay Ratio = (median female salary – median male salary) / median male salary.
3 In future reporting we will provide more detail on the 'Rest of Spark' category, to understand our performance and inform actions to drive change over the medium term.

Calculated using hourly On Target Earnings or Total Base Remuneration plus Short Term Incentive Target values.

Parental leave

Spark provides a parental leave policy for eligible employees, regardless of gender, sexuality, age or whether the employee is giving birth or adopting a child. If an employee has been employed by Spark for a minimum of 12 months then Spark will top up the Government's parental leave payments so the employee receives 80% of their salary. In line with Government changes we have extended this period from 22 weeks to 26 weeks from 1 July 2020. As a guaranteed minimum, Spark ensures that the total amount someone receives, less any Government paid primary carer's payments, will not be less than the equivalent of six weeks of ordinary salary.

Eligibility for Parental Leave is in accordance with Government legislation.

	Female	Male[1]
Employees that took parental leave	94	3
Employees that returned to work after taking parental leave	71	3
Employees that returned to work after taking parental leave that remain employed 12 months after their return to work	41	2
Return to work rate[2]	93%	100%
Retention rate[3]	66%	100%

1 Males that took less than 30 days paternity leave have been excluded.
2 Return to work rate = Total number of employees that did return to work after parental leave divided by the total number of employees due to return to work after taking parental leave.
3 Retention rate = Total number of employees retained 12 months after returning to work following a period of parental leave divided by the total number of employees returning from parental leave in the prior reporting period.

Demographics of our workforce

Including permanent and fixed-term employees of Spark and its directors, as at 30 June 2020.

		Gender				Age		
	Number of people (year-on-year change)	Female % (year-on-year change)	Female #	Male % (year-on-year change)	Male #	Under 30 years old (year-on-year change)	30 – 50 years old (year-on-year change)	Over 50 years old (year-on-year change)
Directors[1]	8 (no change)	50% (+7%)	FY20: 4 FY19: 3	50% (-7%)	FY20: 4 FY19: 4	0% (no change)	25% (11%)	75% (-11%)
Leadership Squad[2]	8 (+1)	50% (+7%)	FY20: 4 FY19: 3	50% (-7%)	FY20: 4 FY19: 4	0% (no change)	100% (14%)	0% (-14%)
Other leadership roles[3]	57 (+3)	39% (+4%)	FY20: 22 FY19: 18	61% (-4%)	FY20: 35 FY19: 33	0% (no change)	79% (-1%)	21% (1%)
Permanent starters	729 (-367)	35% (-3%)	FY20: 258 FY19: 419	65% (3%)	FY20: 471 FY19: 677	41% (-5%)	51% (2%)	8% (3%)
Permanent leavers	944 (-320)	43% (1%)	FY20: 402 FY19: 531	57% (-1%)	FY20: 542 FY19: 733	33% (no change)	54% (1%)	13% (-1%)
Total[4]	5,231 (-148)	34% (-2%)	FY20: 1,769 FY19: 1,917	66% (2%)	FY20: 3,462 FY19: 3,467	21% (-2%)	57% (no change)	22% (2%)

1 Mr Bray and Ms Hodson commenced as directors on 23 September 2019.
2 Excludes the CEO (for FY20) and former Managing Director (for FY19) as they are included as directors in the line above. The Leadership Squad is considered 'senior managers' for the purposes of the Financial Markets Conduct Act 2013 and 'senior executives' for the purposes of the ASX Corporate Governance Council's Principles and Recommendations.
3 Substantive roles that report directly to members of the Leadership Squad.
4 Includes non-executive directors. Spark's employee headcount, including our CEO, is reported as 5,224.

80%

Spark tops up Government parental leave payments to 80% of salary

93%

Return to work rate of female employees after taking parental leave

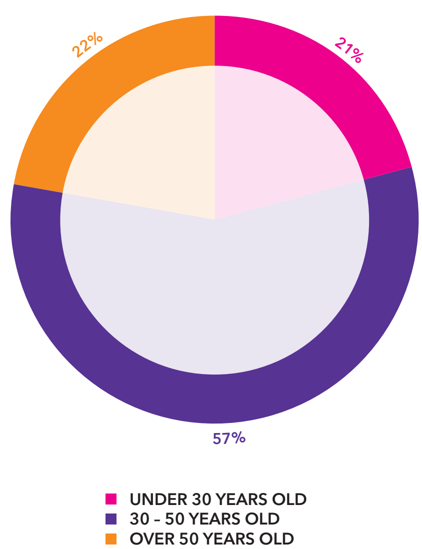
5,224

Total number of employees

2,296

Employees that work in technology focused areas of the business

Age of permanent and fixed-term employees of Spark as at 30 June 2020



Our environment

Our environment refers to natural capital, the resources that make up and power our network and technology, and the physical environment and hazards that it operates within.

Our approach is to operate our business efficiently and responsibly, and account for the indirect environmental impacts of our products and services. This includes the opportunity to use technology to improve efficiency and address environmental challenges.

Maturing our approach to environmental management is an area of focus. We have strong processes in place to manage many of our environmental impacts. However, we recognise we need to make improvements in some areas, including our policies and our reporting.

Our approach to climate-related risk is also maturing. We have considered the requirements of the Taskforce on Climate-related Financial Disclosures (TCFD) in this year's report. See pages 46-48 to understand our approach to risk, including climate-related risk.

Our climate change commitment

As a founding member of the Climate Leaders Coalition (CLC) we are committed to business leadership and collective action when it comes to addressing climate change.

In 2016 we set a target to reduce our emissions by 25% by 2025 against FY16 baseline. This is a credible and ambitious target. However, it is not aligned with the latest science-based targets which typically set more ambitious reduction goals over a longer period of time in order to contribute to limiting warming to 1.5 degrees.

We have recently committed to the 2019 CLC pledge that raises our ambition. This requires us to set a target grounded in science that will deliver substantial emissions reductions to contribute to New Zealand being carbon neutral by 2050.

In practice this will mean a more ambitious target, over a longer period to 2030 and beyond. We remain committed to our current target. By setting a new target, and creating a pathway towards it, we will also accelerate our progress towards our 2025 reduction target, which will require significant work to achieve. We will also improve our external climate change reporting by seeking independent verification of our emissions.

Reducing our network emissions

Our main source of emissions is our use of electricity. We consume the most electricity in powering our networks and technology, including data centres and switches.

Traffic over our networks increases significantly each year. To keep up with demand we have been investing in expanding coverage and increasing capacity in our core networks, including adding 150 new mobile sites over the past two years. It's important that we meet our customers' needs for digital connectivity. However, we recognise that we must invest and expand our network in a way that also reduces its footprint.

Global consultancy Bell Labs conducted an independent review of our efficiency, which found our data centre and network building power usage effectiveness (PUE) to be "very good" and our traffic-vs-power growth-ratio vs industry standards to be "outstanding" when measured against our international peers.

One way to reduce electricity consumption is to migrate to more efficient systems. Many

GREENHOUSE GAS EMISSIONS

Kilotonnes-CO_2-equivalents	FY16 BASE	FY17	FY18	FY19	FY20	CHANGE FY16 - FY20
Direct Emissions (Scope 1)[1]	3.4	3.6	3.6	3.5	3.6	+7%
Electricity Emissions (Scope 2)	16.6	13.4	16.2	16.8	17.5	+5%
Value Chain Emissions (Scope 3)[2]	6.9	6.9	8.3	5.7	5.7	-17%
Gross Emissions	27.0	23.9	28.1	28.4	28.2	+5%
Carbon Offsets				(2.4)	(1.3)	
Net emissions	**27.0**	**23.9**	**28.1**	**26.0**[3]	**26.9**	**0%**

1 We have applied higher default refrigerant leakage estimates this year and restated Scope 1 refrigerant emissions for prior years following the same methodology
2 This year we have applied significantly lower emission factors for New Zealand domestic air travel, based on new Government guidance following a 2016 Ministry of Transport study of aviation fuel consumption in New Zealand
3 Adjusted from previously reported figure to include offsetting

In collecting activity data to calculate scope 1 and scope 2 emissions Spark has used ISO 14064-1, New Zealand Guidance for Voluntary, Corporate Greenhouse Gas Reporting and The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition).

Electricity emissions are calculated based on grid electricity consumption and the transmission and distribution losses emission factor as described in: Ministry for the Environment Measuring Emissions: A Guide for Organisations: 2019 detailed guide. Wellington: Ministry for the Environment.

Kiwis have already made the switch to get their landline and broadband delivered over newer technologies like fibre or wireless broadband, or have simply dropped their landline completely in favour of using their mobile. However, in many areas of New Zealand our landline voice calling is still running on the legacy public switched telephone network (PSTN) that is nearing the end of its life.

Since 2017 more than half a million Kiwis have moved over to the newer Converged Communications Network (CCN). The CCN is a more resilient and fully digital technology that handles all the different services our customers will expect and demand – fixed, mobile, video, collaboration, Voice over LTE (VoLTE) and future services like Voice over WiFi.

In the year ahead we plan to step up our work to move customers over to the CCN. We will take an area-by-area approach. For most customers the change will be a very simple process. We will support customers to make an informed choice about what service they would like to move to, and we have put in place a team of support people who can find solutions for those with more complex needs.

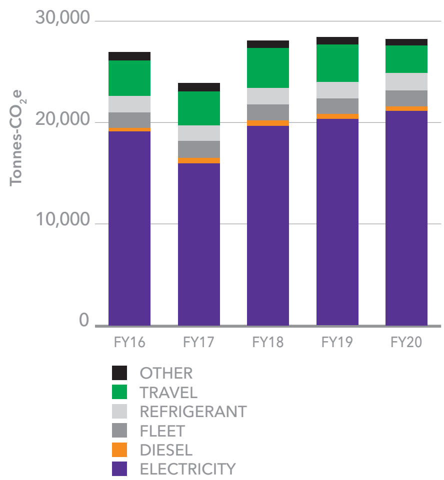
At the end of FY20 232 PSTN switches had been retired across New Zealand, which accounts for 33% of PSTN switches. Decommissioning the PSTN switches results in significant reduction in electricity usage. We save around 60,000kWh each year in a typical urban PSTN exchange building or as much as 1 GWh each year in our largest exchanges, around 16 times more. This year we've achieved further annual savings of around 3 GWh through these energy efficiency improvements, totalling 3% in the past two years.

Our FY20 emissions

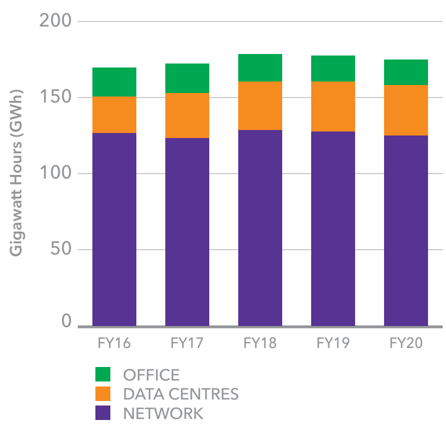
Over the past year our gross carbon emissions were unchanged from FY19. Electricity emissions increased this year due to higher carbon intensity in the national grid, offset in part by electricity efficiency improvements achieved in the network. Travel emissions reduced by 26%. Refrigerant leakage increased 4% this year, and emissions from diesel for generators were unchanged. Waste reduced 16% in FY20 with fewer people going to the office.

Spark is now offsetting travel emissions by purchasing carbon credits through Air New Zealand's FlyNeutral programme. We are including these in our emissions reporting for the first time, covering flights for the FY19 and FY20 period. Including these offsets, our FY20 net emissions were around the same level as the FY16 base year, with the carbon credits offsetting growth in other areas of the business.

GREENHOUSE GAS EMISSIONS BY SOURCE



ELECTRICITY CONSUMPTION



Air travel

In FY20 the COVID-19 alert levels had a significant impact on our emissions. We stopped all international air travel, and domestic travel has been significantly reduced.

We want to embed the good practices we adopted through lockdown, which forced many of our teams, and many of our interactions with customers and other stakeholders, online. For FY21 we have put tighter controls in place over air travel and are aiming to significantly reduce our flight spend compared to pre-lockdown patterns.

Our fleet

Spark has a core fleet of around 240 vehicles operating across New Zealand, and a further 214 vehicles assigned to subsidiaries and business partners. Our fleet emissions are around 6% of our total emissions. This means we have an important opportunity to make meaningful reductions in emissions by changing the composition of our fleet and our usage patterns.

We have a long-term focus on increasing fleet efficiency. We introduced 47 hybrid vehicles into our fleet in 2015, and in 2016 we made a commitment to convert 30% of our core fleet to PHEV (Plug in Hybrid Electric Vehicles) or fully electric vehicles. We achieved this target in FY20, having replaced 86 vehicles with PHEVs, representing 32% of our core fleet.

The majority of these vehicles were Mini Countrymen PHEVs. When compared to pure EVs, PHEVs are higher-emitting. However, they are the most practical solution for Spark currently because many of our sales and service staff using the vehicles are required to travel large distances in areas where charging infrastructure is not yet fully available.

We want to continue this momentum and we will use what we have learned from the roll out of PHEVs to support change across our broader fleet. We are committed to increasing the number of EVs and higher-range PHEVs in our fleet over time and to reporting transparently on this. At the end of FY20 19% of our broader fleet was PHEV or EV. Our long-term target is 30%.

Health and safety is another priority in our fleet management, with vehicle safety a key element in our vehicle choice. In FY20 we rolled out GPS systems across our fleet. These systems inform us immediately if any drivers have been involved in an accident (if the vehicle has rolled or flipped), if our vehicles have any unusual speeding or deceleration activity and if the device has been removed. Another advantage is that data from the GPS is enabling us to better understand the distances that each vehicle covers. This data is helping to determine future buying decisions, such as where to deploy EV or PHEV vehicles in each location.

E-waste and network recycling

Spark has a comprehensive programme for managing end-of-life network equipment and technology. This is separated into different waste streams – such as mobile phones, printed circuit boards, copper cables, lead batteries and all types of metals. The different items are sorted, processed by our recycling partners and then some components are sent overseas for recycling, reselling or reusing.

In FY20 we recovered a total of 501 tonnes of e-waste, an increase of 36% on last year. Of this, 198 tonnes was network e-waste (up 420% on FY19), and 303 tonnes was metals, cables and batteries (down 8%). The increase in network e-waste is due to network projects,

In FY20 we added Mini Countrymen PHEVs to our core fleet.

We introduced environmentally friendly shopping bags made from 100% recycled paper at our stores.

such as the decommissioning of our PSTN network. To improve collection we have focused on education within Spark, and we have begun to work with some of our larger customers to support them to responsibly recycle their surplus equipment.

Mobile phone recycling

Spark is a member of the Telecommunication Forum's (TCF) RE:MOBILE product stewardship scheme. The scheme takes unused mobile phones, and either refurbishes and on-sells them in overseas markets or recycles them. Any profits from the scheme are donated to the charity Sustainable Coastlines.

In FY20, 24,900 mobile phones or other devices were reused or recycled through this scheme. This has increased from 17,500 in FY19.

To support this scheme we have recycling bins in our stores and offices around New Zealand. We are working with our industry partners and the TCF to boost the awareness of the scheme and overcoming the barriers consumers feel in recycling their devices. In the past year this included promoting the scheme to our mobile customers by mailing out 80,000 RE:MOBILE recycling envelopes, and raising awareness with our retail staff. The programme also signed Olympic pole-vaulter Eliza McCartney as brand ambassador for RE:MOBILE.

Packaging and consumer waste

Reducing the environmental impact of our products and packaging is a long-term focus. This includes making decisions that reduce packaging bulk, use recycled or recyclable materials and avoid the use of plastics. The environmental impacts of these decisions are considered against packaging function, branding requirements and cost. We recognise that this is an area of growing interest to our customers, and that we have the opportunity to do more.

We work with our third-party suppliers to reduce packaging and the use of plastics in our products. We have recently created our first environmentally friendly packaging for our 5G modems, which use recycled paper and a design that reduces the amount of bleaching in the production processes.

In November we introduced new environmentally friendly shopping bags at our stores. The new bags are made from recycled paper and are fully recyclable. We chose a bag made from 100% recycled paper because it has a low impact in its production as well as a low end-of-life impact. The bags use vegetable-based inks and are free from any plastics.

Our communities

We work alongside New Zealand to harness the power of technology for a positive digital future for all.

Our products and services help our communities to stay connected and enable the provision of community services. Beyond the direct impacts of our products we want to reach out to play a role in building healthy, connected, and equitable communities. This is how we create value and build social and human capital.

We know that the impact of COVID-19 will be felt across New Zealand and that some communities will be more impacted than others. The role of digital technology in New Zealand's recovery and transformation brings the issue of digital equity into the spotlight. We want a positive digital future in which every Kiwi has the opportunity to thrive.

Digital equity

Spark works alongside the Spark Foundation to address barriers to digital equity. The Government's Digital Inclusion Blueprint[1] identifies four elements essential to digital equity:

- **Access:** for everyone to be able to enjoy the benefits of the digital world we need to ensure connectivity, affordability and accessibility
- **Motivation:** people need to understand the benefits of the digital world to have a meaningful reason to engage with it
- **Skills:** the know-how to use the internet and digital technology in ways that are appropriate and beneficial
- **Trust:** having trust in the internet and online services and the digital literacy to manage personal information and avoid potential harm

1 Available at https://www.digital.govt.nz/assets/Documents/113Digital-Inclusion-BlueprintTe-Mahere-mo-te-Whakaurunga-Matihiko.pdf

Spark Foundation

Spark Foundation's partnership with The Electric Garden mixes growing food with digital technology to support learning.

Spark Foundation is the charitable organisation supported by Spark New Zealand, taking the lead in delivering Spark's community work. The Foundation's vision is that no New Zealander is left behind in a digital world. Its mission is to accelerate towards digital equity, including access, skills, capabilities and wellbeing in the digital age.

Spark Foundation supports the delivery of Skinny Jump, managing the partnerships that deliver the programme in the community. Spark Foundation also allocates funding for programmes through a strategic partnership approach, focusing on partnering with organisations whose work is aligned to its strategy.

In FY20 Spark Foundation sold the Givealittle crowd funding platform. Spark Foundation acquired Givealittle in 2012 with the aim of growing a generosity platform that would make a difference to New Zealand. Over that time donations through the platform grew from $650,000 to $33 million in FY19.

The decision to sell Givealittle was taken after a review of Spark Foundation's strategy, to help ensure Givealittle's continued growth and better enable Spark Foundation's resources to invest in accelerating digital equity in New Zealand.

Accelerating digital equity through Skinny Jump

Census data estimates that around 211,000 New Zealand homes don't have access to broadband. Research from Internet NZ indicates that cost is the biggest barrier to this access.

To help bridge the digital divide Spark Foundation launched Jump in 2016, providing internet access to those who go without. Jump was first targeted at families with school-aged children.

In March 2020 Jump was relaunched as Skinny Jump, as Jump runs on the Skinny mobile broadband network. Eligibility for Skinny Jump was extended to include job seekers, senior citizens, refugees, new migrants, people recently released from prison, people with disabilities and people living in social housing.

With the launch of the new Skinny Jump the cost was also halved, to $5 for 30GB of data, with the option to renew up to five times a month. The service is entirely prepaid, so there are no long-term contracts or credit checks needed, and all it takes to get set up is registering through a partner and plugging in the modem.

Skinny Jump is available through a community partner network, which is overseen by Digital Inclusion Alliance Aotearoa (DIAA) and includes 176 local partners nationwide spanning community libraries and community hubs amongst others.

Since the relaunch in March the Skinny Jump customer base has nearly doubled to reach 9,559 by the end of FY20. The aspiration is to reach 20,000 homes by the end of FY21.

In response to COVID-19 Skinny Jump also worked in partnership with the Ministry of Education and AUT to connect school and university students in need of broadband at home free of charge.

See: **www.skinny.co.nz/jump**

"Digital equity is a critical issue in New Zealand, but something most of us take for granted. If you can't get online, then you're already ten steps behind the person who can – so it's exciting to see Skinny Jump being offered to more groups of Kiwis who are currently missing out. We've witnessed first-hand the incredible difference that Jump has made to the lives of the school-aged families who've been on the programme and can't wait to see the impact it will have on the lives of so many other New Zealanders."

Sue Kini, Digital Inclusion Alliance Aotearoa (DIAA)

"Jump has been absolutely life-changing for me and my whānau. We live rurally and once we got our modem, we were able to plug in and get online straight away. My kids are smart but without access to the internet at home I was worried that they would fall behind in their schoolwork. It's been such a fantastic tool for my whānau that I promote it to other Kiwis, just like us, who might be struggling to afford an internet connection at home. No one should miss out on having access to the internet because of the cost."

Shona Te Huki, a Taranaki mother with school-aged kids who has been on the Jump programme since 2018.

Volunteering and Payroll Giving

Our approach to staff volunteering

Spark employees are able to take one volunteer day each year. The Spark Foundation encourages skills and mission-based volunteering. Skill-based volunteering means our people focus on opportunities that take advantage of their specialised skills and talents to assist not-for-profits. Mission-based volunteering means volunteering with organisations whose work aligns with the purpose of Spark – to help all of New Zealand win big in a digital world.

The Spark Foundation works with our people to help them find an appropriate skill or mission-based volunteering opportunities. The Foundation works with two partners, Helptank and Voluntari.ly, to help drive greater uptake of the Spark volunteer day and also greater impact from the volunteering our people do.

COVID-19 was a catalyst for many of our employees to consider what they could do to support their communities. Many employees were seconded to volunteer to support the expanded Skinny Jump. However, our decision to put our volunteer programme on hold in lockdown between March and June has contributed to a drop in employee participation.

We are also working to align digital equity work with employee volunteering to offer support to seniors and other groups. We are piloting a digital mentoring programme to match our employees with seniors who are new Skinny Jump customers who request support making the most of the digital world.

Employee volunteering for the year

Total staff eligible for volunteering[1]

4,383

Total employee participation

501

(2019: 806)

% of employee participation

11%

(2019: 18%)

Spark Give results for the year

Employee donations

$269,328

(FY19: $481k)

Spark's matching

$172,692

(FY19: $221k)

Number of employees participating

488

(FY19: 735)

Spark Give

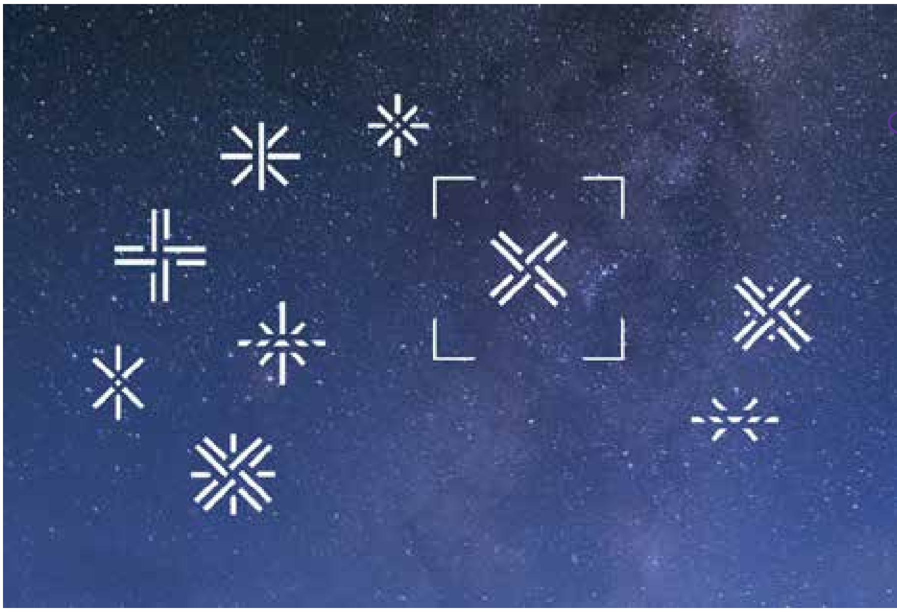
Our payroll giving programme, Spark Give, enables our people to donate to schools and charities via their pay, with benefits for doing so. Spark Foundation matches the amount employees donate dollar-for-dollar up to $500 per employee per annual year. Since this programme was established in July 2011 over $6 million has been donated to New Zealand schools and charities. We are currently reviewing how the Spark Give programme aligns to Spark Foundation's new strategy and digital equity focus. Because of this we haven't actively promoted payroll giving to our employees in FY20, and we have seen our employee giving reduced compared to FY19.

Emergency Phone programme for victims of domestic violence

At the start of Alert-Level 4 lockdown, Spark was approached by Shine and Women's Refuge NZ to provide mobile phones loaded with prepaid credit for individuals who were fleeing domestic violence during lockdown. As part of this, 40 mobile phones with prepaid credit were sent to Women's Refuge centres around the country.

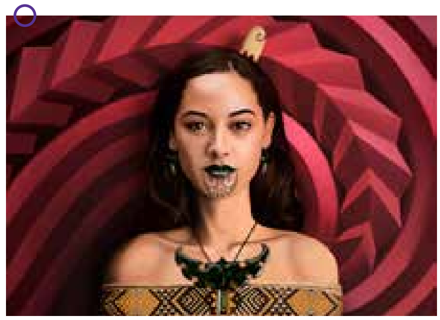
Spark Foundation has now set up an ongoing Emergency Phone programme to support domestic violence groups across New Zealand. The programme is a joint venture between Spark Foundation and 100 domestic violence support organisations. As part of the new initiative, 570 Skinny Tahi Phones with $20 Skinny prepaid credit will be made available to support our most at-risk New Zealanders.

1 Excludes selected subsidiaries and fixed-term employees.



We celebrate Matariki to recognise our unique Māori identity and continue building our inclusive Blue Heart culture.

We launched an updated version of ‘Kupu’ for use on tablets and desktops.



Spark’s Māori Strategy

Our Māori Strategy is about cultural transformation, finding the shared space between Te Ao Māori and the corporate world. It aims to build deeper more authentic partnerships with our communities, our customers and our people.

Spark’s first Māori Business Strategy, Te Pou Arataki, was launched in 2017. A key focus was ‘Kanohi Kitea’– for our people to be seen, empowered and connected. Over the past three years the strategy has been successful in driving change across Spark through programmes such as our Te Reo Māori Plan, providing cultural responsiveness training to key Spark people, and delivering a self-directed Māori Made Easy programme to 75 tauira (students). Spark has also formed partnership to support our communities, including the Marae Digital Connectivity project, and supporting Kapa Haka, Matariki and Te wiki o Te Reo Māori.

In the year ahead our focus is moving to further growth by developing strategic partnerships with Māori, supporting the development of, and unleashing, the Māori economy. To do so we are evolving Spark’s Māori Strategy. We have taken Te Pou Arataki and reimagined Te Korowai Tupu o Kora Aotearoa, the cloak of growth of Spark New Zealand. Te Korowai Tupu is inspired, driven, and led by kawa (protocol), tikanga (process) and kaupapa Māori and takes the threads of a tangata whenua world view that can be woven across Kora Aotearoa, into our strategic pillars, business strategies, Spark values and shared Māori values to embrace the physical and spiritual nature of te ao Māori. Our success will be measured through authentic partnerships delivering great outcomes for Māori and Aotearoa.

Te Korowai Tupu has three key threads (hukahuka) within the strategy. Toitū – sustainability, Te Tiriti o Waitangi – The Treaty of Waitangi, and Mana Taurite – Equity. We aim to work in partnership with Māori to effect change to unleash the potential of Māori Business and all New Zealanders as a driver for economic, cultural, environmental and social growth.

Spark’s role in the Marae Digital Connectivity initiative

We are working with the Government to bring our broadband and technology capabilities to the Marae Digital Connectivity initiative as a key connectivity partner.

A Digital Marae is a marae with reliable digital connectivity that allows communities to be more connected than ever before, providing pathways to digital health, economic, social and educational services. Technology can enable stronger, safer, more connected communities, even in the most remote rural areas.

Spark has taken an approach guided by tikanga Māori to deliver this programme alongside Crown Infrastructure Partners (CIP) and Te Puni Kōkiri.

Kupu 2.0 to support Te Reo Māori in the classroom

Spark’s Kupu is a breakthrough mobile app that helps people learn Te Reo Māori by translating photos of objects around them. In the past year we’ve launched an improved version that can now be used across more schools in Aotearoa, thanks to the launch of a new version for use on tablets and desktops.

Kupu is a free and easy app for teachers to use. It is powered by Google cloud vision technology, combining with Te Aka Māori Dictionary translations.

Our Board

1. Justine Smyth, CNZM

Chair

Justine joined the Board of Spark New Zealand in December 2011 and became Chair in 2017. She has extensive experience in governance, mergers and acquisitions, taxation and financial performance of large corporate enterprises, as well as actively investing in small and medium enterprises (SMEs). Her background is in finance and business management, having been a Partner with Deloitte and Group Finance Director at Lion Nathan. She is currently a director of Auckland International Airport Limited, and Chair of The Breast Cancer Foundation New Zealand. Justine has a Bachelor of Commerce from the University of Auckland and is a Fellow of Chartered Accountants of Australia and New Zealand and a Chartered Fellow of the Institute of Directors. In 2020 Justine was appointed a Companion of the New Zealand Order of Merit for services to governance and women.

2. Alison Barrass

Non-executive Director

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

3. Paul Berriman

Non-executive Director

Paul joined the Board in December 2011, bringing over 35 years of international experience in telecommunications, media and convergence. Since 2002 he has been Group Chief Technology Officer of the HKT Trust, where he's responsible for leading the group's product and technology roadmap and strategic development. Prior to this he was Managing Director of management consultancy Arthur D. Little in Hong Kong and he has held roles in Reuters and several major Hong Kong service providers. In 2009 Paul was recognised by the IPTV World Forum with its Special Merit Award for Outstanding Industry Contribution and in 2008 he was listed as one of the Global Telecoms Business Magazine's top 100 "most influential persons in telecoms". He is a Chartered Engineer who holds a Bachelor of Science in electro-acoustics from the University of Salford (UK) and a Masters in Business Administration from the University of Hong Kong. Paul is a Director of Rain Networks in South Africa, and the global Next Generation Mobile Networks Alliance of mobile network operators.

4. Warwick Bray

Non-executive Director

Warwick joined the Board in September 2019. He brings over four decades of experience in the international telecommunications, technology and media sectors, most recently in senior executive roles at Telstra. During his nine years at Telstra up until 2018, his executive roles comprised Chief Financial Officer, Group Managing Director Product, Executive Director Mobile and Head of Corporate Strategy. Earlier in his career, he was a managing director at JP Morgan (London) and Dresdner Kleinwort Wasserstein (London) in telecommunications equity research. He also worked at McKinsey & Company in Europe, advising telecommunications companies on strategy, regulation and operational improvement, and as a network systems engineer at Hewlett Packard. Warwick has served on the GSMA strategy committee, the boards of Hong Kong mobile business CSL and Australian pay TV operator Foxtel and as Chairman of the Australian Mobile Telecommunications Association. He holds a Bachelor of Science (Hons) and a Masters in Business Administration from the University of Melbourne.

5. Pip Greenwood

Non-executive Director

Pip joined the Spark Board in April 2018, bringing significant experience in capital markets, mergers and acquisitions, telecommunications and governance. She was formerly interim CEO of Russell McVeagh and a senior partner at the firm, with over ten years experience on the firm's Board including time as its Chair. Over the years Pip has advised on many high-profile New Zealand corporate transactions that have changed the face of industries. She was a member of the New Zealand Takeovers Panel from 2007 to 2011 and is a current director of Fisher & Paykel Healthcare, Westpac New Zealand, The a2 Milk Company and a trustee of the Auckland Writers Festival. Pip has a Bachelor of Laws from the University of Canterbury.

6. Jolie Hodson

Chief Executive and Executive Director

Jolie joined the Board in September 2019. As Chief Executive Officer Jolie is responsible for ensuring Spark has a sound strategy and applies her leadership to delivering on that strategy, while building a leadership team around her and a business that is able to adapt to the fast-changing world of digital services. Jolie became CEO on 1 July 2019. Prior to that she was Spark's Customer Director. Jolie joined Spark in 2013 as CFO before becoming CEO Spark Digital in October 2016 – and in both roles played a pivotal part in transforming Spark from a legacy telco to a growing digital service company. Prior to this, she worked for 20 years in a range of senior finance roles for the Lion Group and Deloitte. She has a Bachelor of Commerce from the University of Auckland, and is a Fellow of Chartered Accountants of Australia and New Zealand.

7. Ido Leffler

Non-executive Director

Ido joined the Board in June 2014. He brings experience in developing digital brands and extensive networks in the start-up communities of Silicon Valley and Australasia. Ido is the co-founder and Chief Executive Officer at Yoobi, a US based school supplies company that engages kids through bright colours, cool designs and, most importantly, cause. He is also Co-founder of Yes To Inc – a leading global natural beauty brand, and the Co-Founder of Beach House Group – a global consumer products solutions house. He has a Bachelor of Business from the University of Technology in Sydney.

8. Charles Sitch

Non-executive Director

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

Our Spark City building in Auckland.

Strategic role of the Board

Spark's Board plays a critical role in helping to guide and test company strategy, by engaging in an ongoing conversation with the Leadership Squad around key strategic decisions. These decisions are in relation to the long-term strategic planning and direction of the business, including non-financial performance and our ability to create value in the medium and long term. This includes customer experience, environmental, social and governance measures.

During FY20 the Board provided oversight and strategic support to assess the impacts of COVID-19 on Spark's business. Regular briefing calls were held with management to discuss Spark's response, including steps taken to protect our people and keep our business running as a critical lifeline utility. As the body elected by shareholders to protect and enhance the value of Spark's assets, the Board has oversight of Spark's financials and the annual and three-year planning processes. Board members engage in robust discussions with management around the strategic direction of the business to test and ensure investment is going towards the things that will deliver the best outcomes for the company and shareholders. This flows through to Spark's remuneration policies where there is Board involvement in setting targets and hurdles for short-term and long-term incentives.

The Spark Board has a strong focus on improving diversity and inclusion across Spark – and in particular improving a balanced gender representation at senior levels. This has been led by Justine Smyth in her previous role as Chair of the HRCC and more recently in her current role as Board Chair. Justine and her fellow Board members have ensured diversity and gender equality are true priorities at Spark, have challenged the business to set stretch targets in this regard and have helped lay the foundations for the culture of diversity and inclusion that is now flourishing across the business.

Board changes

The Board appointed Warwick Bray, as a non-executive director, and Chief Executive Jolie Hodson, as an executive director, to the Board effective from 23 September 2019.

Future Director

Spark also supports the Future Directors programme and appointed its second Future Director Ana Wight effective 1 February 2020 for a period of 12 months.

Board succession

Spark's Board has an appropriate mix of tenure, skills, diversity and experience. This allows the Board to be ambitious and to deliver on those ambitions and to enable Spark to tackle the challenges and opportunities of the digital era.

The Board skills matrix on the following page outlines the qualifications, capabilities, geographical location, tenure and gender of each member of the Board.

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.

Board skills matrix

	Justine Smyth	Alison Barrass	Paul Berriman	Ido Leffler	Charles Sitch	Pip Greenwood	Warwick Bray	Jolie Hodson
Qualifications	BCOM, FCA, CFINSD	BSC, DIP BUS, MARKETING	MBA, BSC, CENG	BBS	MBA, LLB, BCOM	LLB	BSC, MBA	BCOM, FCA
Capability								
Strategic knowledge for scale telco/ technology businesses	○		●	○	●		●	●
Financial / commercial	●				●		●	●
Risk management / legal / regulatory and/or sustainability			●			●		
Customer insight / retail / brand		●	○	●				○
People leadership and culture		○		●		○		○
Listed company governance	●	●			○	○		
Capital markets / capital structure	○					●	○	
Digital / data / media / new markets		○	○	○	○		○	
Geographical location	NZ	NZ	Hong Kong	Australia	Australia	NZ	Australia	NZ
Tenure (years)	**8.7**	**3.9**	**8.7**	**6.2**	**8.7**	**2.3**	**0.9**	**0.9**
Gender	**F**	**F**	**M**	**M**	**M**	**F**	**M**	**F**

The Board skills matrix identifies the predominant skills of each director. The Board has specifically limited high capability and medium capability to both having a maximum of two areas for each director.

KEY: ● HIGH CAPABILITY
○ MEDIUM CAPABILITY

Definitions of categories of capability:

Strategic knowledge for scale telco/ technology businesses: experience as a senior executive in, or as a strategy professional advisor to, large telco/ technology businesses.

Financial / commercial: a strong accounting and finance background, most likely being a chartered accountant, having held the position of CFO in a significant publicly listed company, or leadership position in professional services/advisory firm.

Risk management / legal / regulatory and/or sustainability: experience in identifying and mitigating both financial and non-financial risks / extensive legal experience / experience with influencing public and regulatory policy decisions and outcomes / experience in the design and application of sustainability frameworks.

Customer insight / retail / brand: experience as a senior executive responsible for driving customer experience including by effectively using insights, optimising customer journeys and building brand experience for customers.

People leadership and culture: experience as a CEO of a significant publicly listed company or large private stand-alone company. Leadership skills including the ability to set appropriate organisation culture.

Listed company governance: listed company Board experience other than Spark, experience with sophisticated governance structures.

Capital markets / capital structure: strong knowledge of debt and equity capital markets, and experience with mergers and acquisitions / experience dealing with a range of funding sources and capital structuring models.

Digital / data / media / new markets: experience as a senior executive in, or as a professional advisor to, digital, data and/or media business, or businesses in emerging new markets. Experience in the use of digital channels and the latest innovative and digital technologies.

Our Leadership Squad

1. Melissa Anastasiou

General Counsel

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

2. Matt Bain

Marketing Director

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

3. Mark Beder

Technology Director

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

4. Leela Gantman

Corporate Relations Director

Leela joined Spark as Corporate Relations Director in January 2020, bringing with her over 18 years experience in corporate and agency roles in New Zealand and Australia.

Prior to joining Spark Leela was Head of Communications at Fletcher Building, and before this External Relations Director at beverages group Lion in Australia.

As Spark's Corporate Relations Director Leela is responsible for reputation management, internal communications, government, industry and community engagement as well as the charitable activities of the Spark Foundation. She also oversees the Company's sustainability strategy. Leela holds a Bachelor of Arts in Communications from the University of Technology Sydney.

5. Stefan Knight

Finance Director

Stefan was appointed Finance Director in March 2020. Stefan has been with Spark since 2003 and has worked across a range of finance and business performance-related roles. He played a key role over recent years in important Spark initiatives, including the Turnaround and Quantum business improvement programmes and, more recently, was part of the leadership group that helped shape the organisation's move to an Agile way of working. Stefan has held senior roles across the business including leading the Spark Digital Finance function and leading reviews that drove significant improvements in customer profitability. Prior to that Stefan held roles in Strategy and in Investor Relations where he managed relationships with both debt and equity investors. Stefan is a Chartered Accountant, and began his career at Deloitte working across both Audit and Corporate Finance. Stefan has a Bachelor of Commerce in Accounting and Finance from the University of Auckland.

6. Grant McBeath

Customer Director

As Customer Director at Spark New Zealand Grant leads the customer facing teams and is focused on developing clear insight into what customers value and helping the teams deliver it.

Grant joined Spark in 2013 as General Manager of Sales for the Spark Consumer and SMB business. The role grew and he picked up the Consumer and SME Sales, Service and Operations teams, and he had a period of six months as acting CEO for Spark Home, Mobile and Business in 2018 prior to Spark transitioning to Agile ways of working.

Prior to working for Spark, Grant held a number of global roles at Nokia throughout Asia, and other global roles with Chevron Texaco, Coca-Cola and Cadbury in New Zealand. Grant completed a BCom at the University of Auckland, and also completed his MBA from the Helsinki School of Economics.

7. Heather Polglase

Human Resources Director

Heather was appointed HR Director in September 2019. Heather joined Spark in 2013 and has over 20 years international HR experience, with a proven track record for business transformation, talent management, leadership development and succession planning across a range of industries including FMCG, retail, hospitality, technology and telecommunications.

At Spark, Heather has held various senior HR positions and delivered a number of critical initiatives, including Spark's Leadership and Development programme to build high-performing teams and leaders.

Prior to joining Spark, Heather was a senior HR leader for almost a decade within Progressive Enterprises including two years in Australia leading HR, Strategy & Change Management at Dan Murphy's. She has a Bachelor of Business Studies Degree (Hospitality Management) from Auckland University of Technology.

8. Tessa Tierney

Product Director

As Product Director Tessa is responsible for designing and delivering products and service experiences that customers value. Tessa is also responsible for shaping Spark's investments and maturing capability in digital, IT, data and experience design to deliver on future business needs.

Tessa joined Spark in 2015 as the Manager of Brand, Communications and Events for Spark Digital before moving on to become Business Manager. In 2017, Tessa joined the team that was responsible for successfully transitioning Spark into an Agile organisation, and is regarded as one of New Zealand's leading Agile and product development practitioners.

Tessa brings to the role more than 16 years of experience in information and communication technologies, having previously held a variety of roles at Vodafone New Zealand. She has a Diploma in Communications Studies from Manukau Institute of Technology.

Our governance and risk management

To achieve our purpose, Spark must successfully execute our business strategy while maintaining high standards of operational performance and corporate governance.

Maintaining high standards of corporate governance

The Board regularly reviews and assesses Spark's governance structures and processes to ensure that they are consistent with international best practice, in both form and substance.

Spark has complied with the recommendations of the NZX Corporate Governance Code and substantially complied with the principles and recommendations of the ASX Corporate Governance Councils Principles and Recommendations (4th Edition) for the FY20 reporting period. You can read about how we have complied with these recommendations and principles in Spark's Annual Corporate Governance Statement 2020 at: **https://www.sparknz.co.nz/about/governance**

Copies of, and details about, Spark's corporate governance policies, practices and processes can be found on our website at: **https://www.sparknz.co.nz/about/governance**

Non-financial performance and reporting

In addition to our focus on strong corporate governance, Spark seeks to present a clear and transparent assessment of our environmental and social performance over the year. In FY19 we integrated elements of the GRI Standards into our annual report. In FY20 we strengthened this by adopting elements of the Integrated Reporting International <IR> Framework.

The Spark Board has endorsed this progressive approach to building our non-financial reporting. Members of the Board have been involved in developing our approach to adopting the Integrated Reporting International <IR> Framework, and have approved the content of this report. As we mature our reporting approach we will include a formal statement regarding the Board's involvement in the preparation and presentation of the report in accordance with the Integrated Reporting International <IR> Framework.

Managing risk

Our managing risk policy and framework helps people to manage uncertainty and challenges as they pursue Spark's strategy and business objectives.

The policy, overseen by the Audit and Risk Management Committee (ARMC), confirms the objectives for identifying and managing risks that can impact Spark's organisational performance. For clarity, organisational performance includes all stated objectives and targets in Spark's strategy and business plans. The policy also includes a confirmed set of roles and responsibilities to clarify what activities need to be undertaken by each function.

The policy and framework are benchmarked to COSO ERM 2017 (COSO), a leading practice risk management standard. Spark has used this standard since July 2018 when we transitioned to the Agile Operating Model.

Spark's framework is structured into five risk management domains:

- **Governance and Culture**

  This domain reinforces the importance of risk management and influences how people apply the framework. Examples include the policy and the defined governance structure that supports its application across Spark.

- **Strategy and Objective Setting**

  This domain focuses on integrating risk management into strategy setting and business planning. Examples include timing the collation of risk information so that it is considered by the Leadership Squad when they are considering opportunities, analysing performance and allocating resources.

- **Performance**

  This domain involves maintaining a portfolio view of risks under active management. Examples include the principal risk profile that is maintained and used by the Leadership Squad and the ARMC to understand relevant risks and how they are being managed.

- **Review and Revision**

  This domain involves identifying and implementing opportunities to continuously improve risk management practices. Examples include regular assessments of the policy and framework.

- **Information, Reporting and Communication**

  This domain focuses on guiding Spark on how to use the policy and framework. Examples include information pages, access to support channels and education sessions.

All five domains working together enables a robust system for risk management at Spark. More information on the roles and responsibilities are included in the table on page 112.

The policy and framework are assessed annually, and externally every three years to ensure they remain effective. All assessment results and agreed actions are shared with the ARMC to ensure they remain informed about the status of the policy and framework.

Spark's principal business risks

A principal risk update was completed in June 2020. The principal risks identified were:

Estimating impacts and responding with balanced judgement to COVID-19

Estimating the impacts that COVID-19 will have on the New Zealand economy and Spark is challenging. Risk factors include over or under-estimating the revenue impacts and not taking advantage of opportunities and preserving the health and safety of our people. Examples include maintaining momentum in core segments and managing customer financial hardship issues and leading with health and safety policies that effectively balance the needs of all stakeholders. To mitigate this risk, Spark has identified probable scenarios and response plans, and tuned its performance monitoring to track measures that indicate if anticipated impacts are arriving so that we have early warning signals and response options. Continuous investment into maturing Spark's health and safety framework ensures that people are at the centre of decision making at all levels within the business.

Executing simplification projects

Spark is planning to simplify its portfolio of products and migrate customers to new plans. This objective introduces revenue and customer experience risks because execution requires cooperation by a complex set of stakeholders (e.g. customers, regulatory bodies, suppliers and internal teams) and retiring legacy products is challenging. Mitigations include further investment in Agile maturity, and structured governance and delivery methods for simplification projects.

Delivering technology and network leadership within constraints

Proven delivery methods for large projects such as the 5G transition help de-risk new delivery and sustain existing technology. With a high share of operational cost, the Technology Units will also have to continue executing net-cost reduction while maintaining operational standards. In addition to cost optimisation mitigations, technology units have strengthened operational risk management to ensure visibility and coordinate risk response actions.

Maintaining customer trust in our information security and privacy controls

Evolving external threats, internal changes, changing legislation and high expectations from customers and stakeholders may create delivery challenges. Security and Privacy roadmaps jointly created with Agile Units and strong governance involving the Leadership Squad help to ensure that significant risks are managed. The Security Tribe is responsible for critical operational controls to ensure standards and compliance are upheld. Our Digital Trust team sets privacy frameworks and standards that Agile Units need to apply to maintain appropriate operational controls for privacy.

Cost optimisation while maintaining operational standards

While executing net cost reduction is a strength for Spark, it needs to be done safely so that operational delivery standards for customers are maintained. Inherent risks include unintended consequences from initiatives, brand reputation damage and accelerated regulatory intervention. To mitigate this risk, the Leadership Squad has established a formal delivery structure. This structure includes strong governance and all initiatives using road-tested execution methodologies. Trajectory toward targets is measured, which in turn enables intervention and course corrections when required.

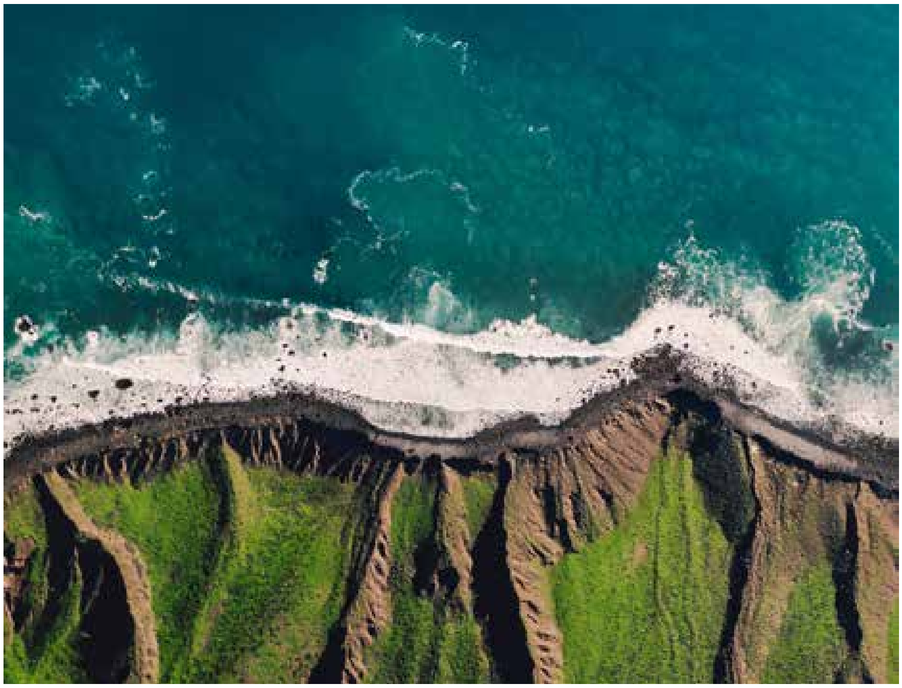
Business continuity and crisis management

The Business Continuity and Crisis Management Policy protects customers from the impact of disruptive events, ensures value generating activities are resilient and complies with relevant external standards, for example Civil Defence and 111 obligations.

Spark's framework is benchmarked to ISO22301 and ISO22313, which are acknowledged as leading practice standards for business continuity. The core elements of the framework are crisis management, incident and problem management, business continuity plans, network and technology disaster recovery plans, work area recovery sites and readiness and assurance activities.

Spark's business continuity framework performed well when called upon in the COVID-19 pandemic. The Leadership Squad supported by the business were able to navigate the rapidly evolving situation and take steps to protect people and continue supporting customer delivery. Pandemic management continues to occur as discussed in the risk section above.

Managing climate-related risk



Climate change has potential to disrupt business operations and our customers. We have considered the requirements of the Taskforce on Climate-related Financial Disclosures (TCFD) in this year's report.

Short-term risks include impacts on energy costs, the cost of achieving our emissions reduction targets and one-off impacts of extreme weather events. Longer-term risks include increasing frequency and severity of extreme weather events, climate-related impact on network demand and usage patterns, including land-use change and sea level rise.

Managing the risk of network outage and availability of services is core to Spark's business. Our risk and business continuity plans incorporate the impacts of weather-related events which we expect to be the biggest risk to our business from climate change.

Climate-related regulatory risks are evaluated in our business planning process. We do not directly participate in the NZ Emissions Trading Scheme. However, we are exposed to a carbon price through our supply chain purchasing, mainly through electricity and fuel.

Spark also has an opportunity to create climate-related financial value which potentially could materially increase our revenue. This would be through the provision of digital services to support customers to mitigate and adapt to climate change. We plan to evaluate revenue opportunities as compared to adaptation costs in future.

Information on our network efficiency and energy consumption is included on page 33. Information on network resilience is included on page 24.

Our suppliers

Our business relies on over 2,000 local and global suppliers. Each year we spend over $2 billion to support our business and meet our customers' needs.

Our supply chain is complex, as our direct suppliers often have suppliers of their own. We work hard to ensure integrity in our supply chain, using our Supplier Code of Conduct and regular business reviews with key suppliers.

We also recognise the importance of doing the right thing by our suppliers, particularly our smaller, local suppliers. That includes paying suppliers in a timely fashion. Our standard payment terms are the 20th of the month following the month of the invoice date.

We manage supplier relationships based on the strategic importance to Spark and our customers. This is split across two management frameworks – Strategic Partnership Management and Strategic Supplier Management. Our Strategic Partnership Management framework is how we partner with suppliers that directly impact our customers. The primary goal is to maintain, grow and seek out partnerships that enable beneficial growth in new and existing markets and provide value-added services to customers.

Our Strategic Supplier Management framework allows us to focus on key relationships by building and maintaining world-class services with cost leadership and resilience as a significant focus.

Spark's Supplier Code of Conduct

Spark is committed to sourcing our products and services from suppliers that provide safe working conditions, treat workers with respect and dignity and conduct business in an environmentally and socially responsible manner. Our Supplier Code of Conduct sets out the minimum standards we expect from all of our suppliers across labour and human rights, health and safety, environmental sustainability and ethical business practices. See: **www.sparknz.co.nz/suppliers/**

All new suppliers are requested to sign up to the Code as part of their onboarding process. In FY20 the only suppliers who did not sign up to Spark's Code were either global suppliers that have their own code of conduct which Spark deemed equivalent to the Spark Code, or suppliers deemed low-risk based on the services provided and the nature of the supplier.

If a supplier is unable to meet the requirements of the Code, we work with them to implement our process of remediation plans and timeframes. We have ongoing conversations with suppliers that are managed in our framework. In FY20 we recorded no serious breaches of the Code.

The Supplier Code of Conduct was introduced in FY18. To embed the Code we worked with our top 100 suppliers by contract value to ensure they were signed up to the Code or could demonstrate they are adhering to an existing equivalent code of practice. We also used the Code as a basis for four comprehensive audits of large, offshore-based suppliers. These were significant suppliers operating in high-risk locations, according to FTSE4Good criteria.

In last year's report we had committed to four further 'deep dive' audits in FY20. These were not completed. Our focus instead was on incorporating environmental, social and ethical considerations into our supplier selection processes. From FY20 onwards we are now including a scored section in our Request for Proposal (RFP) process where we seek information from suppliers on their non-financial performance and credentials.

Leadership and Board remuneration

Spark seeks to remunerate our people with competitive salaries, paying in line with the market so we can recruit and retain the best talent. In keeping with our focus on customer experience, we incorporate customer satisfaction measures into our performance incentives.

In April 2020 we announced that due to COVID-19 there will be no annual salary review increases for all Spark people, including the Leadership Squad and fees for the Board of Directors.

Leadership Squad remuneration

Remuneration mix

The table below shows the standard FY20 remuneration mix for the majority of the Leadership Squad expressed as a percentage of fixed remuneration. The Short-Term Incentive (STI) scheme, is expressed at target, which is 50% of the maximum opportunity, and the Long-Term Incentive scheme (LTI) values represent the maximum LTI value.

Leadership Squad remuneration

Long-Term Incentive	40% of base
Short-Term Incentive	50% of base
Salary	Base

Fixed remuneration

All Spark employee packages – including the CEO and Leadership Squad – include a fixed remuneration component that is set based on contribution, experience and market relativities. Fixed remuneration supports the attraction, motivation and retention of highly skilled executives.

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

Short-term Incentive schemes

Spark operates a small number of short-term incentive schemes, from monthly and quarterly 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 leaders, including the Leadership Squad, a component of their remuneration package is at risk in the form of an annual cash-based short-term incentive. Spark's STI scheme rewards senior leaders 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. The actual payment to individuals is at the sole discretion of Spark and takes into account contributing factors such as performance and the performance of individual parts of the business. The Board will assess performance at the end of the financial year to determine the actual payment, which will be in the range of 0% to 200% of the target.

Eligibility to participate in the STI scheme is at the discretion of the company and is targeted at individuals in senior roles who play a significant role in driving the overall performance of Spark.

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

FY20 Short-term Incentive scheme outcomes

For FY20 substantively all STI participants shared the same Spark Group targets comprising of EBITDAI, and Customer Experience measures, as well as an additional measure based on Spark Sport – RWC performance.

The FY20 Group performance outcome, as approved by the Board is summarised as follows:

Performance metric	%	Outcome	Result
Group EBITDAI	50%	41.25%	Threshold met
Customer Experience	30%	41.75%	Above target
Spark Sport – RWC	20%	0.00%	Threshold not met
Total	100%	83%	

Based on the above result, the total available funding pool for all eligible STI participants across Spark for FY20 was $4.25 million. Total payments cannot exceed $4.25 million.

FY21 Short-term Incentive scheme target

The mechanics of the FY21 STI will be similar to FY20. Group results will be the main determinate of the STI pool, with substantially all participants sharing the same Group measures. The FY21 Group measures will be a combination of EBITDAI and Customer Experience as in FY20, and an additional measure based on our three-year strategy.

Long-term Incentive schemes

Spark believes that senior leaders should have part of their remuneration linked to the long-term performance of the company, so for the Leadership Squad and a select group of senior leaders, a long-term incentive forms part of their remuneration package. In FY20, the company operated one main scheme: the Spark New Zealand Long Term Incentive Scheme.

FY20 / FY21 Long-term Incentive scheme

For FY20, members of the Leadership Squad (including the CEO) and selected senior leaders were granted options under the Spark Long-Term Incentive Scheme. Under the scheme, participants were granted options at the start of the three-year vesting period. The number of options granted equalled the gross LTI value divided by the volume weighted average price of Spark New Zealand shares for the 20 days prior to the grant date. Subject to satisfaction of the performance hurdle and continued employment, at vesting each option converts to a Spark share based on a zero exercise price. If the target is not met (or the participant leaves) then the options simply lapse.

For FY21, members of the Leadership Squad (including the CEO) and selected senior leaders will be granted options under the same scheme as FY20.

FY20 and FY21 Long-term Incentive performance measure

Vesting of the FY20 LTI grant (September 2019 grant) is contingent on participants' continued employment with Spark through to September 2022 and the company achieving a Total Shareholder Return (TSR) performance hurdle. TSR is a measure of share price appreciation and dividends paid over the three-year period of the grant. The target for this hurdle is Spark's cost of equity plus 1% compounding annually.

For FY21, the Long-term Incentive performance measure remains unchanged from FY20.

Performance evaluation

The CEO annually reviews the performance of her direct reports. The evaluation is undertaken using criteria set by the CEO, 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 Squad evaluations were undertaken during June 2020. Spark undertakes appropriate checks before appointing someone onto the Leadership Squad.

CEO remuneration

Remuneration policy, strategy and governance

CEO Jolie Hodson's remuneration package reflects the scope and complexity of her role and is set by the Board with reference to the remuneration of CEOs of similarly sized organisations.

CEO Remuneration FY20

For FY20 the CEO's remuneration package comprised of a fixed cash component, an at-risk short-term incentive, and an at-risk long-term incentive (to be awarded under the Spark Long-term Incentive Scheme). The construct of the CEO's remuneration package is such that 60% of her remuneration package is at risk. The table below shows the at target remuneration mix:

Long-term Incentive	75% of base
Short-term Incentive	75% of base
Salary	Base

The CEO is also expected to maintain a holding of Spark shares as set out on page 104 of this report.

Remuneration components

Short-term Incentive scheme

The CEO is a participant in the Spark STI scheme, 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. For FY20 the performance objectives and the outcomes achieved are described earlier in this section.

Long-term Incentive scheme

For FY20 the CEO's annual LTI was granted as share options under the Spark Long Term Incentive Scheme. Under the scheme participants are granted options at the start of the three-year vesting period. The number of

Our team of talented and diverse people are the heart of our business.

options granted equals the gross LTI value divided by the volume weighted average price of Spark shares for the 20 days prior to the grant date. Subject to satisfaction of the performance hurdle and continued employment, at vesting each option converts to a Spark share based on a zero exercise price. If the target is not met (or the participant leaves) then the rights simply lapse.

The LTI component of the CEO's remuneration package is designed to link part of her remuneration to the long-term performance of Spark, and align her interests with those of shareholders, through the grant of options with a post-allocation performance hurdle.

Performance hurdle

A performance hurdle applies to long-term incentives made to the CEO. 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, for the LTI to be eligible to vest. For FY20, a performance hurdle of Spark's TSR applies. The target for this hurdle is Spark's cost of equity plus 1% compounding annually.

Spark's TSR must meet or exceed this target over the period of the grant (from the date the options are granted to the date three years after that date) for the options to vest. If Spark's TSR does not meet this target, all of the options 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 CEO can exercise the options or whether the options will lapse.

CEO termination

Spark may terminate the CEO's employment with three months notice. A payment of nine months base remuneration will be made, plus entitlements for annual performance incentives and long-term incentives subject to the rules relating to these incentives, in the case of termination by Spark, other than for termination for cause.

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

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

Board remuneration

Remuneration and strategy

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

Apart from the CEO, no director of Spark receives compensation in the form of share options or restricted shares nor do they participate in any bonus or profit-sharing plan. That said, non-executive directors are expected to maintain a holding of Spark shares as set out on page 110 of this report. As is the case for employees, directors are required to comply with the Insider Trading Policy when buying or selling Spark shares and any such transactions are disclosed to the market.

Remuneration components

No superannuation or retirement allowance was paid to any Spark director during FY20. Spark does not have service contracts with any director (apart from the CEO) that provide for any benefits or remuneration in the event that a director's service with Spark is terminated. New Zealand-based non-executive directors are eligible for Spark-funded medical insurance, and all non-executive directors are also eligible for Spark-funded life insurance.

Financial statements

Statement of profit or loss and other comprehensive income

YEAR ENDED 30 JUNE

	NOTES	2020 $M	2019 $M
Operating revenues and other gains	2.2	3,623	3,533
Operating expenses	2.3	(2,510)	(2,443)
Earnings before finance income and expense, income tax, depreciation, amortisation and net investment income (EBITDAI)		1,113	1,090
Finance income	2.4	36	37
Finance expense	2.4	(94)	(85)
Depreciation and amortisation	2.4	(479)	(477)
Net investment income	2.4	1	14
Net earnings before income tax		577	579
Income tax expense	6.1	(150)	(170)
Net earnings		**427**	**409**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Revaluation of long-term investments designated at fair value through other comprehensive income	3.3	91	87
Items that may be reclassified to profit or loss:			
Cash flow hedges net of tax	5.1	(35)	(59)
Other comprehensive income		56	28
Total comprehensive income		**483**	**437**

		2020	2019
Earnings per share			
Basic and diluted earnings per share (cents)		23.2	22.3
Weighted average ordinary shares (millions)		1,837	1,836
Weighted average ordinary shares and options (millions)		1,838	1,836

See accompanying notes to the financial statements.

Statement of financial position

	NOTES	AS AT 30 JUNE 2020 $M	AS AT 30 JUNE 2019 $M
Current assets			
Cash		53	54
Short-term receivables and prepayments	3.1	777	755
Short-term derivative assets	5.1	1	2
Inventories	3.2	96	100
Taxation recoverable		1	–
Total current assets		**928**	**911**
Non-current assets			
Long-term receivables and prepayments	3.1	284	291
Long-term derivative assets	5.1	60	32
Long-term investments	3.3	308	182
Right-of-use assets	3.4	698	625
Leased customer equipment assets	3.5	86	55
Property, plant and equipment	3.6	1,015	1,012
Intangible assets	3.7	968	987
Total non-current assets		**3,419**	**3,184**
Total assets		**4,347**	**4,095**
Current liabilities			
Short-term payables, accruals and provisions	4.1	463	447
Taxation payable		44	19
Short-term derivative liabilities	5.1	5	14
Short-term lease liabilities	4.2	41	31
Debt due within one year	4.3	228	433
Total current liabilities		**781**	**944**
Non-current liabilities			
Long-term payables, accruals and provisions	4.1	81	68
Long-term derivative liabilities	5.1	156	111
Long-term lease liabilities	4.2	531	459
Long-term debt	4.3	1,244	962
Deferred tax liabilities	6.1	61	86
Total non-current liabilities		**2,073**	**1,686**
Total liabilities		**2,854**	**2,630**
Equity			
Share capital		949	945
Reserves		(353)	(409)
Retained earnings		897	929
Total equity		**1,493**	**1,465**
Total liabilities and equity		**4,347**	**4,095**

See accompanying notes to the financial statements.

On behalf of the Board

Justine Smyth, CNZM
Chair
Authorised for issue on 26 August 2020

Jolie Hodson
Chief Executive

Statement of changes in equity

YEAR ENDED 30 JUNE 2020	NOTE	SHARE CAPITAL $M	RETAINED EARNINGS $M	HEDGE RESERVE $M	SHARE-BASED COMPEN-SATION RESERVE $M	REVALUATION RESERVE $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	TOTAL $M
Balance at 1 July 2019		**945**	**929**	**(85)**	**2**	**(303)**	**(23)**	**1,465**
Net earnings		-	427	–	–	–	–	427
Other comprehensive income/(loss)		-	–	(35)	–	91	–	56
Total comprehensive income/(loss)		**-**	**427**	**(35)**	**-**	**91**	**-**	**483**
Contributions by, and distributions to, owners:								
Dividends	4.5	-	(459)	–	–	–	–	(459)
Supplementary dividends		-	(39)	–	–	–	–	(39)
Tax credit on supplementary dividends		-	39	–	–	–	–	39
Issuance of shares under share schemes		4	–	–	–	–	–	4
Total transactions with owners		**4**	**(459)**	**-**	**-**	**-**	**-**	**(455)**
Balance at 30 June 2020		**949**	**897**	**(120)**	**2**	**(212)**	**(23)**	**1,493**

YEAR ENDED 30 JUNE 2019	NOTE	SHARE CAPITAL $M	RETAINED EARNINGS $M	HEDGE RESERVE $M	SHARE-BASED COMPEN-SATION RESERVE $M	REVALUATION RESERVE $M	FOREIGN CURRENCY TRANSLATION RESERVE $M	TOTAL $M
Balance at 1 July 2018		**941**	**979**	**(26)**	**2**	**(390)**	**(23)**	**1,483**
Net earnings		–	409	–	–	–	–	409
Other comprehensive income/(loss)		–	–	(59)	–	87	–	28
Total comprehensive income/(loss)		**-**	**409**	**(59)**	**-**	**87**	**-**	**437**
Contributions by, and distributions to, owners:								
Dividends	4.5	–	(459)	–	–	–	–	(459)
Supplementary dividends		–	(42)	–	–	–	–	(42)
Tax credit on supplementary dividends		–	42	–	–	–	–	42
Issuance of shares under share schemes		4	–	–	–	–	–	4
Total transactions with owners		**4**	**(459)**	**-**	**-**	**-**	**-**	**(455)**
Balance at 30 June 2019		**945**	**929**	**(85)**	**2**	**(303)**	**(23)**	**1,465**

See accompanying notes to the financial statements.

Statement of cash flows

YEAR ENDED 30 JUNE

	NOTES	2020 $M	2019 $M
Cash flows from operating activities			
Receipts from customers		3,594	3,424
Receipts from interest		34	35
Receipts from dividends		–	15
Payments to suppliers and employees		(2,497)	(2,483)
Payments for income tax		(140)	(135)
Payments for interest on debt		(52)	(45)
Payments for interest on leases		(30)	(30)
Payments for interest on leased customer equipment assets		(6)	(4)
Net cash flows from operating activities	6.5	**903**	**777**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		13	1
Proceeds from sale of business		23	–
Proceeds from long-term investments		–	2
Payments for purchase of business		(11)	–
Payments for, and advances to, long-term investments		(35)	(6)
Payments for purchase of property, plant and equipment, intangibles and capacity		(393)	(415)
Payments for capitalised interest		(8)	(8)
Net cash flows from investing activities		**(411)**	**(426)**
Cash flows from financing activities			
Net proceeds from debt	4.4	30	154
Receipts from finance leases		6	6
Payments for dividends		(459)	(459)
Payments for leases		(42)	(36)
Payments for leased customer equipment assets		(28)	(17)
Net cash flows from financing activities		**(493)**	**(352)**
Net cash flows		**(1)**	**(1)**
Opening cash position		54	55
Closing cash position		**53**	**54**

See accompanying notes to the financial statements.

Notes to the financial statements: General information

Section 1 General information

1.1 About this report

Reporting entity

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

Spark is a major supplier of telecommunications and digital services in New Zealand. Spark provides a full range of telecommunications, information technology, media and other digital products and services, including: mobile services; voice services; broadband services; internet TV; cloud, security and service management services; procurement and partner services and managed data, networks and services.

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

Basis of preparation

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

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

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

New and amended standards adopted by Spark

Early adoption of Definition of Material (Amendments to NZ IAS 1 and NZ IAS 8)

Spark early adopted amendments to NZ IAS 1 *Presentation of Financial Statements* and NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* from the year ended 30 June 2019. The amendments clarify the definition of 'material' in respect of information in the financial statements and notes that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Spark has used this amended definition of material in determining the disclosures to be included within these financial statements.

1.2 Key estimates and assumptions

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

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

- Note 2.2 Operating revenues and other gains
- Note 3.1 Receivables and prepayments
- Note 3.4 Right-of-use assets
- Note 3.6 Property, plant and equipment
- Note 3.7 Intangible assets
- Note 4.2 Lease liabilities.

1.3 Significant transactions and events in the financial year

The following significant transactions and events affected the financial performance and financial position of Spark for the year ended 30 June 2020:

Debt programme (see note 4.3)

- On 18 September 2019 Spark issued A$125 million of unsecured and unsubordinated fixed-rate bonds with a coupon rate of 2.60% maturing on 18 March 2030.
- On 25 October 2019, $250 million of unsecured fixed-rate bonds with a coupon rate of 5.25% matured.
- On 2 April 2020 Spark established two new committed revolving bank facilities; $75 million with Westpac New Zealand Limited and $75 million with ANZ Bank New Zealand Limited. These facilities will mature on 2 October 2021.
- On 6 April 2020, GBP18 million of unsecured and unsubordinated fixed-rate medium term notes with a coupon rate of 5.75% matured.
- On 5 June 2020 Spark issued A$100 million of unsecured and unsubordinated fixed-rate bonds with a coupon rate of 1.90% maturing on 5 June 2026.

Other payables (see note 4.1)

- On 24 June 2020 Spark entered into a repurchase arrangement whereby $25 million of network equipment was sold to a third party and immediately repurchased at the sale price plus a fee on deferred payment terms over 18 months.

Long-term investments (see note 3.3)

- On 30 June 2020, TPG Telecom Limited (formerly Vodafone Hutchinson Australia) announced that it has been admitted to the Australian Stock Exchange (ASX) and that on 13 July 2020 it will merge with TPG Corporation Limited (formerly TPG Telecom Limited). As at 30 June 2020 the fair value of Spark's investment was $247 million and the increase of $91 million during the year has been recognised within other comprehensive income.
- Spark's net earnings for the year includes $1 million from our share of the net profits of associates and joint ventures.

Capital expenditure (see notes 2.5, 3.4, 3.6 and 3.7)

- Spark's additions to property, plant and equipment, intangible assets (excluding spectrum) and capacity right-of-use assets were $374 million, details of which are provided in notes 3.4, 3.6 and 3.7 and on page 15 of this annual report.

Dividends (see note 4.5)

- Dividends paid during the year ended 30 June 2020 in relation to the H2 FY19 second-half dividend (ordinary dividend of 11 cents per share and special dividend of 1.5 cents per share) and H1 FY20 first-half dividend (ordinary dividend of 12.5 cents per share) totalled $459 million or 25.0 cents per share.

Divestments (see note 2.2)

- On 31 January 2020 Spark sold its entertainment streaming business Lightbox New Zealand Limited (Lightbox) to Sky Network Television Limited.
- On 31 January 2020 Computer Concepts Limited (CCL), Spark's wholly owned provider of cloud and ICT services, completed the transaction to divest the operational parts of its network services division (which were duplicated elsewhere in the Group).

Acquisitions (see note 3.7)

- On 5 September 2019 Spark's subsidiary Qrious Limited completed the acquisition of NOW Consulting, the New Zealand-based data consulting division of WhereScape Software, which gives a unique data and analytics offering in the New Zealand market.

Southern Cross NEXT Cable (see note 3.3)

- On 1 October 2019 Spark announced that agreements had been signed and regulatory approvals received for the build of the Southern Cross NEXT undersea data cable (SX NEXT) and the introduction of Telstra as a 25% shareholder of Southern Cross and anchor customer of SX NEXT. SX NEXT has been developed as an extension of the existing Southern Cross cable ecosystem. When completed it is expected to be the lowest latency path from Australia and New Zealand to the United States.
- Spark's shareholding in Southern Cross has reduced from 50% to approximately 40% as a result of Telstra becoming a shareholder.
- The SX NEXT build commenced during FY20, although progress has been interrupted due to the COVID-19 pandemic.
- Spark contributed $22 million of equity during FY20 and may need to contribute additional equity depending on the level of SX NEXT pre-sales that are secured. No further equity contributions are expected to be made in FY21.
- No dividends were received from Southern Cross during FY20. Dividends have been suspended for the duration of the SX NEXT build phase and are not expected to resume until FY23.

Changes in segments (see note 2.1)

- Spark has reclassified the comparative segment results to reflect minor changes in the management of videoconferencing and other collaboration services from voice to managed data, networks and services.

Notes to the financial statements: General information

1.3 Significant transactions and events in the financial year (continued)

Impact of COVID-19

On 11 March 2020 the World Health Organisation declared a global pandemic due to the outbreak of COVID-19. On 25 March 2020 New Zealand entered Government-directed Alert-Level 4 lockdown resulting in the shut down in all but essential services until 27 April 2020. The supply of telecommunications and digital services is considered an essential service therefore Spark was able to continue trading throughout all alert levels, with restrictions around retail stores.

The table below provides an assessment of the impact of COVID-19 on Spark's statement of financial position.

ITEM	COVID-19 ASSESSMENT	NOTE
Cash	No impact to the carrying value held.	
Receivables and prepayments	Spark has recognised an additional $6 million expected credit loss provision primarily driven by the additional risk arising from forecasts in future economic conditions. Contract assets have been reviewed for impairment in respect of contracts that may become onerous as a result of COVID-19 and none have been identified.	3.1
Inventories	Content rights in relation to events postponed due to COVID-19 and goods held for resale are not considered to be impaired at balance date.	3.2
Long-term investments	Where investments are accounted for at fair value the carrying value reflects the share price at balance date. All remaining investments are equity accounted for. No investments are considered impaired as a result of COVID-19.	3.3
Property, plant and equipment	Spark's assets are held at cost less accumulated depreciation. Spark has not identified any indicators that these assets are impaired as a result of COVID-19.	3.6
Intangible assets	Spark has performed an impairment assessment of goodwill using a COVID-19 adjusted forecast. No impairment was recognised following this assessment.	3.7
Lease liabilities	As a result of COVID-19 Spark received a number of rent concessions. Spark has elected, as a practical expedient under NZ IFRS 16, not to assess whether particular rent concessions occurring as a direct consequence of COVID-19 are lease modifications and instead accounted for those rent concessions directly in the statement of profit or loss.	4.2
Debt	Debt is held at amortised cost plus, for hedged liabilities that are in a fair value hedging relationship, adjustments for fair value changes attributable to the risk being hedged. Interest rates and foreign exchange rates have been impacted by COVID-19 and reflected in the carrying value at balance date.	4.3
Derivative financial instruments	COVID-19 has impacted interest rates, foreign exchange rates and electricity prices. Derivatives are recorded at fair value; the carrying value reflects these changes at balance date.	5.1
Taxation	The reintroduction of depreciation allowances for commercial building structures impacts deferred tax assets and tax expense estimates for future periods.	6.1

Section 2 Financial performance information

2.1 Segment information

The segment results disclosed are based on those reported to the Chief Executive and are how Spark reviews its performance.

Spark's segments are measured based on product margin, which includes product operating revenues and direct product costs. The segment result excludes other gains, labour, operating expenses, depreciation and amortisation, net investment income, finance income and expense and income tax expense, as these are assessed at an overall Group level by the Chief Executive.

Comparative segment results

Spark has reclassified the comparative segment results to reflect minor changes in the management of videoconferencing and other collaboration services from voice to managed data, networks and services. There is no change to the overall Spark reported result because of these changes.

	2020			2019		
YEAR ENDED 30 JUNE	OPERATING REVENUES $M	PRODUCT COSTS $M	PRODUCT MARGIN $M	OPERATING REVENUES $M	PRODUCT COSTS $M	PRODUCT MARGIN $M
Mobile	1,288	(459)	829	1,271	(496)	775
Voice	391	(146)	245	441	(159)	282
Broadband	680	(339)	341	685	(341)	344
Cloud, security and service management	443	(90)	353	400	(73)	327
Procurement and partners	408	(362)	46	365	(322)	43
Managed data, networks and services	248	(119)	129	242	(110)	132
Other operating revenues	130	(82)	48	114	(63)	51
Segment result	**3,588**	**(1,597)**	**1,991**	**3,518**	**(1,564)**	**1,954**

Reconciliation from segment product margin to consolidated net earnings before income tax

YEAR ENDED 30 JUNE	2020 $M	2019 $M
Segment product margin	1,991	1,954
Other gains	35	15
Labour	(511)	(475)
Other operating expenses (note 2.3)	(402)	(404)
Earnings before finance income and expense, income tax, depreciation, amortisation and net investment income (EBITDAI)	1,113	1,090
Finance income	36	37
Finance expense	(94)	(85)
Depreciation and amortisation	(479)	(477)
Net investment income	1	14
Net earnings before income tax	**577**	**579**

Notes to the financial statements: Financial performance information

2.2 Operating revenues and other gains

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

Contracts with customers
Spark records revenue from contracts with customers in accordance with the five steps in NZ IFRS 15:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price, which is the total consideration provided by the customer;
4. Allocate the transaction price amount to the performance obligations in the contract based on their relative stand-alone selling prices; and
5. Recognise revenue when or as the performance obligation is satisfied.

Spark often provides products and services in bundled arrangements (for example, a broadband modem together with a broadband service). Where multiple products or services are sold in a single arrangement, revenue is recognised in relation to each distinct good or service. A product or service is distinct where, amongst other criteria, a customer can benefit from it on its own or together with other resources that are readily available. Revenue is allocated to each distinct product or service in proportion to its stand-alone selling price and recognised when, or as, control is transferred to the customer.

Where contracts require the customer to commit to a minimum level of service or a minimum monthly payment amount that cannot be decreased without terminating the contract, revenue is allocated to performance obligations using the minimum enforceable rights and obligations and any excess amount is recognised as revenue as it is earned.

Generally, control for products is transferred and revenue recognised at the point in time it is delivered to the customer and for services, control is transferred, and revenue recognised, over time as the service is provided. These services are typically provided, and thus recognised, on a monthly basis. Control of products is typically transferred when the customer has physical possession of the goods. The nature of the various performance obligations in our contracts with customers and when revenue is recognised is outlined below:

PERFORMANCE OBLIGATIONS FROM CONTRACTS WITH CUSTOMERS	TIMING OF SATISFACTION OF THE PERFORMANCE OBLIGATION AND PAYMENT
Mobile services, broadband services, media services, cloud, security and service management services, managed data services and rental of equipment	As the service is provided (usually monthly). Generally billed and paid on a monthly basis.
Usage, other optional or non-subscription services, and pay-per-use services	As the service is provided. Generally billed and paid on a monthly basis.
Fixed modems, mobile handsets and other distinct goods	When control is passed to the customer, generally when the customer takes possession of the goods. For goods sold in packages or on interest-free terms, customers usually pay in equal instalments over 6 to 36 months.
Installation or set-up services (where distinct)	As the service is provided. Generally billed and paid following the provision of the service.

Performance obligations, where Spark acts as an agent, includes some third-party media services and certain cloud, security and service management contracts. Contracts with significant payment terms include those that have goods that were purchased on interest-free payment terms of greater than 12 months.

2.2 Operating revenues and other gains (continued)

YEAR ENDED 30 JUNE	2020 $M	2019 $M
Operating revenues		
Mobile	1,288	1,271
Voice	391	441
Broadband	680	685
Cloud, security and service management	443	400
Procurement and partners	408	365
Managed data, networks and services	248	242
Other operating revenues	130	114
	3,588	**3,518**
Other gains		
Net gain on sale of long-term investments/businesses	5	2
Gain on sale and exchange of property, plant and equipment and intangibles	28	11
Gain on lease modifications and terminations	2	2
	35	**15**
Total operating revenues and other gains	**3,623**	**3,533**

2

Other gains

In the year ended 30 June 2020 other gains includes a net $5 million gain from the sale of the operational parts of the network services division of Computer Concepts Limited (CCL) Spark's wholly owned subsidiary and the sale of Spark's entertainment streaming business Lightbox, $16 million from the sale of property, plant and equipment (primarily in relation to mobile network equipment), $12 million gain on exchange of intangible assets (primarily spectrum assets) and gains from lease modifications and terminations of $2 million.

In the year ended 30 June 2019 other gains comprised a $2 million gain from the sale of Feenix Communications Limited, $11 million from the sale of property, plant and equipment (primarily in relation to mobile network equipment) and gains from lease modifications and terminations of $2 million.

Notes to the financial statements: Financial performance information

2.2 Operating revenues and other gains (continued)

Key estimates and assumptions

Determining the transaction price

Determining the transaction price of Spark's contracts requires judgement in estimating the amount of revenue we expect to be entitled to for delivering the performance obligations within a contract. The transaction price is the amount of consideration that is enforceable and to which we expect to be entitled in exchange for the goods and services we have promised to our customer. We determine the transaction price by considering the terms of the contract and business practices that are customary within that product, as well as adjusting the transaction price for estimated variable consideration and for any effects of the time value of money. The expected value or most likely amount methods are used to determine variable consideration and any amount where it is determined that it is highly probable a revenue reversal will not subsequently occur is included in the transaction price. In making this determination, consideration is given to the likelihood and potential magnitude of the revenue reversal, as well as factors outside of Spark's influence, the time when the uncertainty is expected to be resolved and Spark's experience with similar types of contracts. Judgement is required to determine the discount rate underlying any time value of money calculations, as well as whether the financing component in a contract is significant. Discounts, rebates, refunds, credits, price concessions, incentives, penalties and other similar items are reflected in the transaction price at contract inception.

Determining the stand-alone selling price and the allocation of the transaction price

Determining the stand-alone selling price of performance obligations and the allocation of the transaction price between performance obligations involves judgement. The transaction price is allocated to performance obligations based on the relative stand-alone selling prices of the distinct goods or services in the contract. The best evidence of a stand-alone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers. If a stand-alone selling price is not directly observable, we estimate the stand-alone selling price taking into account reasonably available information relating to the market conditions, entity-specific factors and the class of customer. In determining the stand-alone selling price, we allocate revenue between performance obligations based on expected minimum enforceable amounts to which Spark is entitled. Any amounts above the minimum enforceable amounts are recognised as revenue as they are earned.

Distinct goods and services

We make judgements in determining whether a promise to deliver goods or services is considered distinct. We account for individual products and services separately if they are distinct (i.e. if a product or service is separately identifiable from other items in the bundled package and if the customer can benefit from it). The consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices.

Timing of satisfaction of performance obligations

We make judgements in determining whether performance obligations are satisfied over time or at a point in time, as well as the methods used for measuring progress towards completed satisfaction of performance obligations. Revenue for performance obligations satisfied over time is recognised using the resources consumed by customers method or the time-elapsed method, as these best depict the transfer of goods or services to customers. Revenue for performance obligations satisfied at a point in time is recognised when control of the good or service is transferred to the customer, which is typically when the customer takes possession of the good.

2.3 Operating expenses

YEAR ENDED 30 JUNE	2020 $M	2019 $M
Product costs	1,597	1,564
Labour	511	475
Other operating expenses		
Network support costs	65	61
Computer costs	98	93
Accommodation costs	63	67
Advertising, promotions and communication	78	87
Bad debts	17	12
Impairment expense	2	3
Other	79	81
Total other operating expenses	**402**	**404**
Total operating expenses	**2,510**	**2,443**

Cost of inventories recognised as an expense

The cost of inventories recognised as an expense in relation to broadband modems, mobile devices and other accessories was $353 million (30 June 2019: $391 million).

Lease expenses

Expenses relating to short-term leases and leases of low-value assets were $8 million (30 June 2019: $6 million). Rent concessions of $2 million were received as a result of COVID-19 and treated as a reduction of expenses.

Donations

Donations for the year ended 30 June 2020 were $2,306,000, comprised of Spark's donation to Spark Foundation of $2,249,000 and other donations of $57,000 (30 June 2019: $2,246,000, comprised of Spark's donation to the Spark Foundation of $2,207,000 and other donations of $39,000). Spark made no donations to political parties in the years ended 30 June 2020 or 30 June 2019.

Auditor's remuneration

YEAR ENDED 30 JUNE	2020 $'000	2019 $'000
Audit of financial statements		
Audit and review of financial statements[1]	1,096	1,085
Other services		
Regulatory audit work[2]	65	54
Other assurance services[3]	–	121
Other non-assurance services[4]	10	–
Total fees paid to auditor	**1,171**	**1,260**

1 The audit fee includes fees for both the annual audit of the financial statements and the review of the interim financial statements.
2 Regulatory audit work consists of the audit of telecommunications-related regulatory disclosures and reporting on trust deed requirements and solvency returns.
3 Other assurance services relate to reporting on other compliance services.
4 Other non-assurance services relate to tax services.

Notes to the financial statements: Financial performance information

2.4 Finance income, finance expense, depreciation, amortisation and net investment income

YEAR ENDED 30 JUNE	NOTES	2020 $M	2019 $M
Finance income			
Finance lease interest income		13	14
Other interest income		23	23
		36	**37**
Finance expense			
Finance expense on long-term debt[1]		(53)	(48)
Lease interest expense	4.2	(31)	(30)
Leased customer equipment interest expense		(6)	(4)
Other interest and finance expenses		(12)	(11)
		(102)	(93)
Plus: interest capitalised[2]		8	8
		(94)	**(85)**
Depreciation and amortisation expense			
Depreciation - property, plant and equipment	3.6	(233)	(246)
Depreciation - right-of-use assets	3.4	(64)	(56)
Depreciation - leased customer equipment assets	3.5	(27)	(18)
Amortisation - intangible assets	3.7	(155)	(157)
		(479)	**(477)**
Net investment income			
Dividend income		–	15
Share of associates' and joint ventures' net losses	3.3	1	(1)
		1	**14**

1 Includes $8 million transferred from the cash flow hedge reserve for the year ended 30 June 2020 (30 June 2019: $3 million).
2 Interest was capitalised on property, plant and equipment and intangible assets under development for the year ended 30 June 2020 at an annualised rate of 4.4% (30 June 2019: 4.2%).

2.5 Non-GAAP measures

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

Spark's policy is to present 'adjusted EBITDAI' and 'adjusted net earnings' when a financial year includes significant items (such as gains, expenses and impairments) greater than $25 million. There are no adjusting items for the years ended 30 June 2020 or 30 June 2019.

2

Earnings before finance income and expense, income tax, depreciation, amortisation and net investment income (EBITDAI)

Spark calculates EBITDAI by adding back depreciation and amortisation, finance expense and income tax expense and subtracting finance income and net investment income (which includes dividend income and Spark's share of net profits or losses from associates and joint ventures) to net earnings. A reconciliation of Spark's EBITDAI is provided below and based on amounts taken from, and consistent with, those presented in these financial statements.

YEAR ENDED 30 JUNE	2020 $M	2019 $M
Net earnings reported under NZ IFRS	427	409
Less: finance income	(36)	(37)
Add back: finance expense	94	85
Add back: depreciation and amortisation	479	477
Less: net investment income	(1)	(14)
Add back: income tax expense	150	170
EBITDAI	**1,113**	**1,090**

Capital expenditure

Capital expenditure is the additions to property, plant and equipment and intangible assets (excluding goodwill, acquisitions and other non-cash additions that may be required by NZ IFRS, such as decommissioning costs) and additions to capacity right-of-use assets where such additions are paid up front.

YEAR ENDED 30 JUNE	NOTES	2020 $M	2019 $M
Additions to property, plant and equipment	3.6	242	217
Additions to intangible assets	3.7	134	189
Additions to capacity right-of-use assets	3.4	11	11
Capital expenditure including spectrum		**387**	**417**
Less spectrum additions	3.7	(13)	–
Capital expenditure excluding spectrum		**374**	**417**

Notes to the financial statements: Assets

Section 3 Assets

3.1 Receivables and prepayments

AS AT 30 JUNE	2020 $M	2019 $M
Short-term receivables and prepayments		
Trade receivables	289	335
Prepayments	140	93
Short-term unbilled revenue	231	234
Short-term contract assets	11	15
Short-term contract costs	47	47
Short-term finance lease receivables	16	12
Other short-term receivables	43	19
	777	**755**
Long-term receivables and prepayments		
Long-term unbilled revenue	52	50
Long-term contract costs	66	81
Long-term finance lease receivables	144	144
Other long-term receivables	22	16
	284	**291**

Amounts are stated at their net carrying value, including expected credit loss allowance provisions. The fair value of finance lease receivables is estimated to be $163 million (30 June 2019: $255 million) and the carrying amount of all other receivables, measured at amortised cost, are approximately equivalent to their fair value because of the short term to maturity.

Contract assets

Contract assets primarily relate to Spark's rights to consideration for performance obligations delivered but not billed at the reporting date. Contract assets are transferred to receivables when the rights become unconditional. The following summarises significant changes in those balances:

YEAR ENDED 30 JUNE	2020 $M	2019 $M
Opening balance as at 1 July	15	29
Additions from new contracts with customers, net of terminations and renewals	17	26
Transfer of contract assets to trade receivables	(21)	(40)
Closing balance as at 30 June	**11**	**15**

3.1 Receivables and prepayments (continued)

Contract costs

Contract costs include costs to obtain a contract (such as commission costs) and costs to fulfil a contract. These costs are expected to be recovered and are therefore initially deferred and then recognised within operating expenses on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. The following summarises significant changes in those balances:

	2020			2019		
	COSTS TO OBTAIN A CONTRACT	COSTS TO FULFIL A CONTRACT	TOTAL	COSTS TO OBTAIN A CONTRACT	COSTS TO FULFIL A CONTRACT	TOTAL
YEAR ENDED 30 JUNE	$M	$M	$M	$M	$M	$M
Opening balance as at 1 July	37	91	128	41	80	121
Additions	12	25	37	17	37	54
Amortisation recognised in operating expenses	(21)	(31)	(52)	(21)	(26)	(47)
Closing balance as at 30 June	**28**	**85**	**113**	**37**	**91**	**128**
Short-term contract costs	15	32	47	18	29	47
Long-term contract costs	13	53	66	19	62	81

Key estimates and assumptions

Determining the costs we incur to obtain or fulfil a contract that meet the deferral criteria within NZ IFRS 15 requires us to make significant judgements. Further, where such costs can be deferred, determining the appropriate amortisation period to recognise the costs within operating expenses requires management judgement, including assessing the expected average customer tenure for consumer customers and the expected contract term for enterprise customers.

Expected credit loss allowance provision

Movements in the loss allowance provision are as follows:

YEAR ENDED 30 JUNE	2020 $M	2019 $M
Opening balance as at 1 July	30	31
Charged to costs and expenses[1]	24	19
Bad debts recovered	(4)	(5)
Utilised	(19)	(15)
Closing balance as at 30 June	**31**	**30**

1 Includes $6 million reflecting increased expected credit losses above our standard provisioning policies primarily as a result of COVID-19.

Notes to the financial statements: Assets

3.1 Receivables and prepayments (continued)

Spark has applied the simplified approach to providing for expected credit losses, which requires the recognition of a lifetime expected loss provision for trade receivables, unbilled revenue, contract assets, contract costs, finance lease receivables and other receivables. The calculation of the allowance provision incorporates forward-looking information, such as forecasted economic conditions.

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

AS AT 30 JUNE 2020	CURRENT $M	≤ 1 MONTH $M	> 1 MONTH $M	TOTAL $M
Expected loss rate	2.9%	2.6%	13.5%	3.3%
Gross carrying amount	876	39	37	952
Expected credit loss allowance provision	**25**	**1**	**5**	**31**
Short-term loss allowance provision	20	1	5	26
Long-term loss allowance provision	5	–	–	5

The expected credit loss provision prior to assessing the impacts of COVID-19 reduced by $5 million to $25 million due to lower receivable balances which in turn reduced the provision level required. At 30 June 2020 an additional $6 million expected credit loss provision was recognised primarily due to forecasted changes in unemployment rates and gross domestic product in New Zealand resulting from COVID-19. As a result, the expected credit loss provision increased by a net $1 million during the year to $31 million.

AS AT 30 JUNE 2019	$M	$M	$M	$M
Expected loss rate	2.4%	5.4%	22.7%	3.1%
Gross carrying amount	905	56	22	983
Expected credit loss allowance provision	**22**	**3**	**5**	**30**
Short-term loss allowance provision	14	3	5	22
Long-term loss allowance provision	8	–	–	8

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

AS AT 30 JUNE	2020 $M	2019 $M
Trade receivables	13	13
Unbilled revenue	13	10
Contract assets and contract costs	3	2
Finance lease receivables	2	5
Expected credit loss allowance provision	**31**	**30**

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities to comply with the Group's procedures for recovery of amounts due.

Key estimates and assumptions

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

3.1 Receivables and prepayments (continued)

Finance lease receivables

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

In addition, Spark sub-leases a number of office building floors. Where sub-leases are for the whole of the remaining non-cancellable term of the head lease, these are classified as a finance lease.

The profile of lease net receipts is set out below:

	2020		2019	
	UNDISCOUNTED	DISCOUNTED	UNDISCOUNTED	DISCOUNTED
AS AT 30 JUNE	$M	$M	$M	$M
Less than one year	17	16	13	12
Between one and five years	66	52	67	52
More than five years	309	92	322	92
Finance lease receivables	**392**	**160**	**402**	**156**
Less unearned finance income	(232)	–	(246)	–
Present value of finance lease receivables	**160**	**160**	**156**	**156**
Short-term finance lease receivables		16		12
Long-term finance lease receivables		144		144

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

3.2 Inventories

AS AT 30 JUNE	2020 $M	2019 $M
Goods held for resale	86	63
Content rights inventory	8	35
Maintenance materials and consumables	2	2
Total inventories	**96**	**100**

Content rights inventory

Spark enters into contracts for the right to stream digital content for sport and previously to subscribers of Lightbox. Content rights are stated at the lower of cost and net realisable value, less accumulated amortisation and includes prepaid content that is not yet available for broadcast.

The amortisation of content rights is recognised within operating expenses on a straight-line basis over their licence periods or, for live sports content, over its broadcast period. The content rights amortisation charge for the year ended 30 June 2020 was $40 million (30 June 2019: $24 million).

Notes to the financial statements: Assets

3.3 Long-term investments

AS AT 30 JUNE	2020 $M	2019 $M
Shares in Hutchison	247	156
Investment in associates and joint ventures	54	21
Other long-term investments	7	5
	308	**182**

Spark holds a 10% interest in Hutchison Telecommunications Australia Limited (Hutchison) which is quoted on the Australian Securities Exchange (ASX) and its fair value is measured using the observable market share price as quoted on the ASX, classified as being within level one of the fair value hierarchy. As at 30 June 2020 the quoted price of Hutchison's shares on the ASX was AUD$0.170 (30 June 2019: AUD$0.110). The increase in fair value of $91 million is recognised in other comprehensive income (30 June 2019: $87 million increase).

Investment in associates and joint ventures

Spark's investment in associates and joint ventures at 30 June 2020 consists of the following:

NAME	TYPE	COUNTRY	OWNERSHIP	PRINCIPAL ACTIVITY
Connect 8 Limited	Joint Venture	New Zealand	50%	Fibre network construction
Flok Limited	Associate	New Zealand	38%	Hardware and software development
Lightbox Sport General Partner Limited	Joint Venture	New Zealand	50%	A holding company
NOW New Zealand Limited	Associate	New Zealand	36%	Internet service provider
Pacific Carriage Holdings Limited	Associate	Bermuda	38%	A holding company
Pacific Carriage Holdings Limited Inc	Associate	United States	35%	A holding company
PropertyNZ Limited (homes.co.nz)	Associate	New Zealand	22%	Property data website
Rural Connectivity Group Limited	Joint Venture	New Zealand	33%	Rural broadband
Southern Cross Cables Holdings Limited	Associate	Bermuda	35%	A holding company
TNAS Limited	Joint Venture	New Zealand	50%	Telecommunications development

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

	2020			2019		
YEAR ENDED 30 JUNE	ASSOCIATES $M	JOINT VENTURES $M	TOTAL $M	ASSOCIATES $M	JOINT VENTURES $M	TOTAL $M
Opening balance as at 1 July	9	12	21	10	11	21
Opening value on transfer to equity method	–	–	–	–	–	–
Additional investment during the year	22	10	32	2	1	3
Disposals	–	–	–	(2)	–	(2)
Share of net profits/(losses)	–	1	1	(1)	–	(1)
Closing balance as at 30 June	**31**	**23**	**54**	**9**	**12**	**21**

Spark has suspended equity accounting for Pacific Carriage Holdings Limited and Southern Cross Cables Holdings Limited (together 'Southern Cross') as their carrying values were reduced to nil. Spark has no obligation to fund Southern Cross' deficits or repay dividends. For the year ended 30 June 2020 Spark's share of Southern Cross profits not recognised due to the existence of historic cumulative Southern Cross deficits was $51 million (30 June 2019: $57 million).

3.4 Right-of-use assets

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

- Property – Spark leases a number of office buildings and retail stores. These leases generally have rights of renewal that are reasonably certain to be exercised and therefore may have long effective lease terms;
- Capacity arrangements – Spark enters into a number of indefeasible right of use capacity arrangements for cable capacity;
- Mobile sites – Spark has entered into a number of agreements to allow the operation of mobile network infrastructure throughout New Zealand;
- Motor vehicles – Spark leases motor vehicles for use in sales, field operations and maintenance of infrastructure equipment; and
- Other – Spark leases equipment that is held at Spark premises and used to provide services to customers.

Movements in right-of-use assets are summarised below:

YEAR ENDED 30 JUNE 2020	PROPERTY $M	CAPACITY $M	MOBILE SITES $M	MOTOR VEHICLES $M	OTHER $M	TOTAL $M
Opening net book value	287	243	94	1	–	625
Additions	79	11	13	2	33	138
Disposals	(8)	–	–	–	–	(8)
Remeasurements	2	–	5	–	–	7
Depreciation charge	(27)	(21)	(10)	(1)	(5)	(64)
Closing net book value	**333**	**233**	**102**	**2**	**28**	**698**

YEAR ENDED 30 JUNE 2019	PROPERTY $M	CAPACITY $M	MOBILE SITES $M	MOTOR VEHICLES $M	OTHER	TOTAL $M
Opening net book value	306	254	65	2	–	627
Additions	5	11	28	–	–	44
Remeasurements	2	–	8	–	–	10
Depreciation charge	(26)	(22)	(7)	(1)	–	(56)
Closing net book value	**287**	**243**	**94**	**1**	**–**	**625**

All capacity additions for the year ended 30 June 2020 were fully paid on control being obtained and therefore deemed capital expenditure as reconciled in note 2.5 (30 June 2019: all fully paid and deemed capital expenditure).

Income from sub-leasing right-of-use assets for the year ended 30 June 2020 was $1 million (30 June 2019: $3 million).

Notes to the financial statements: Assets

3.4 Right-of-use assets (continued)

Key estimates and assumptions

At inception of a contract Spark assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Spark assesses whether:

- The contract involves the use of an identified asset;
- Spark has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- Spark has the right to direct the use of the asset.

At inception or on reassessment of a contract that contains a lease component, Spark allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. Spark recognises a right-of-use asset at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically assessed for impairment losses and adjusted for certain remeasurements of the lease liability.

3.5 Leased customer equipment assets

Spark acts as the intermediate party (as a lessee and a lessor) in a number of back-to-back lease arrangements for customer premises equipment. Such arrangements may also include an initial sale and leaseback transaction. A sale and leaseback transaction contains a genuine sale if control of an asset is transferred under NZ IFRS 15. For Spark's back-to-back lease arrangements we have assessed that a sale does not occur as control over the equipment remains with Spark instead of passing to the buyer-lessor.

Spark as the seller-lessee continues to recognise the leased customer equipment asset, which is initially measured at cost. The asset is subsequently depreciated using the straight-line method based on the expected lease term. Movements in leased customer equipment assets are summarised below:

YEAR ENDED 30 JUNE	2020 $M	2019 $M
Opening net book value	55	31
Additions	61	42
Disposals	(3)	–
Depreciation charge	(27)	(18)
Closing net book value	**86**	**55**

AS AT 30 JUNE	2020 $M	2019 $M
Cost	158	100
Accumulated depreciation and impairment losses	(72)	(45)
Closing net book value	**86**	**55**

Leased customer equipment assets are on-leased to customers under operating leases. Amounts recovered from customers for the year ended 30 June 2020 were $31 million (30 June 2019: $19 million).

3.6 Property, plant and equipment

YEAR ENDED 30 JUNE 2020	TELECOMMUNI-CATIONS EQUIPMENT AND PLANT $M	FREEHOLD LAND $M	BUILDINGS $M	OTHER ASSETS $M	WORK IN PROGRESS $M	TOTAL $M
Opening net book value	623	60	199	125	5	1,012
Additions	–	–	29	–	213	242
Transfers	166	–	1	49	(216)	–
Disposals	–	–	–	(6)	–	(6)
Depreciation charge	(148)	–	(31)	(54)	–	(233)
Closing net book value	**641**	**60**	**198**	**114**	**2**	**1,015**
AS AT 30 JUNE 2020						
Cost	3,818	60	562	569	2	5,011
Accumulated depreciation and impairment losses	(3,177)	–	(364)	(455)	–	(3,996)
Closing net book value	**641**	**60**	**198**	**114**	**2**	**1,015**

YEAR ENDED 30 JUNE 2019	TELECOMMUNI-CATIONS EQUIPMENT AND PLANT $M	FREEHOLD LAND $M	BUILDINGS $M	OTHER ASSETS $M	WORK IN PROGRESS $M	TOTAL $M
Opening net book value	638	60	208	126	7	1,039
Additions	–	–	21	–	196	217
Transfers	146	–	–	52	(198)	–
Impairments	–	–	2	–	–	2
Depreciation charge	(161)	–	(32)	(53)	–	(246)
Closing net book value	**623**	**60**	**199**	**125**	**5**	**1,012**
AS AT 30 JUNE 2019						
Cost	4,035	60	561	649	5	5,310
Accumulated depreciation and impairment losses	(3,412)	–	(362)	(524)	–	(4,298)
Closing net book value	**623**	**60**	**199**	**125**	**5**	**1,012**

3

Notes to the financial statements: Assets

3.6 Property, plant and equipment (continued)

Joint arrangement

Spark has entered into a joint arrangement in relation to the construction and operation of the Tasman Global Access fibre-optic submarine cable between Australia and New Zealand. As at 30 June 2020 the carrying value of Spark's share of property, plant and equipment and intangible assets in the joint operation was $31 million (30 June 2019: $33 million).

Key estimates and assumptions

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

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

Telecommunications equipment and plant	
Junctions and trunk transmission systems	10 – 50 years
Switching equipment	5 – 12 years
Customer premises equipment	3 – 5 years
Airconditioning equipment	10 – 20 years
Network management systems	2 – 5 years
Batteries	5 – 15 years
Power and building equipment	10 – 25 years
Buildings	9 – 50 years
Other assets	
Motor vehicles	6 years
Furniture and fittings	2 – 25 years
Computer equipment	3 – 5 years

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

3.7 Intangible assets

YEAR ENDED 30 JUNE 2020	SOFTWARE $M	SPECTRUM LICENCES $M	OTHER INTANGIBLES $M	GOODWILL $M	WORK IN PROGRESS $M	TOTAL $M
Opening net book value	312	163	78	213	221	987
Additions[1]	–	13	–	–	121	134
Transfers	173	–	10	–	(183)	–
Acquisitions	–	–	1	9	–	10
Disposals	(5)	(1)	–	–	–	(6)
Impairments	(2)	–	–	–	–	(2)
Amortisation charge	(127)	(17)	(11)	–	–	(155)
Closing net book value	**351**	**158**	**78**	**222**	**159**	**968**
AS AT 30 JUNE 2020						
Cost	1,985	282	141	270	159	2,837
Accumulated amortisation and impairment losses	(1,634)	(124)	(63)	(48)	–	(1,869)
Closing net book value	**351**	**158**	**78**	**222**	**159**	**968**

1 Total software capitalised in the year ended 30 June 2020 includes $42 million of internally generated assets. Other software capitalised in the year includes software licenses and externally supplied labour.

YEAR ENDED 30 JUNE 2019	SOFTWARE $M	SPECTRUM LICENCES $M	OTHER INTANGIBLES $M	GOODWILL $M	WORK IN PROGRESS $M	TOTAL $M
Opening net book value	314	179	82	213	168	956
Additions[1]	–	–	–	–	189	189
Transfers	132	–	4	–	(136)	–
Disposals	(1)	–	–	–	–	(1)
Amortisation charge	(133)	(16)	(8)	–	–	(157)
Closing net book value	**312**	**163**	**78**	**213**	**221**	**987**
AS AT 30 JUNE 2019						
Cost	2,071	271	131	261	221	2,955
Accumulated amortisation and impairment losses	(1,759)	(108)	(53)	(48)	–	(1,968)
Closing net book value	**312**	**163**	**78**	**213**	**221**	**987**

1 Total software capitalised in the year ended 30 June 2019 includes $19 million of internally generated assets. Other software capitalised in the year includes software licenses and externally supplied labour.

Key estimates and assumptions

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

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

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

Notes to the financial statements: Assets

3.7 Intangible assets (continued)

Goodwill

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

AS AT 30 JUNE	2020 $M	2019 $M
Mobile	28	28
Cloud, security and service management	167	167
Qrious	14	5
Digital Island	13	13
	222	**213**

During the years ended 30 June 2020 and 30 June 2019 no impairment arose as a result of the assessment of goodwill. Headroom currently exists in each CGU and, based on sensitivity analysis performed, no reasonably possible changes in the assumptions, including anticipated COVID-19 impact, would cause the carrying amount of the CGUs to exceed their recoverable amounts.

Key estimates and assumptions

Goodwill is assessed annually for impairment by estimating the future cash flows, based on Board-approved business plans, which reflect the anticipated impact of COVID-19, with key assumptions being forecast earnings and capital expenditure for each CGU. The forecast financial information is based on both past experience and future expectations of CGU performance. The major inputs and assumptions used in performing an impairment assessment that require judgement include revenue forecasts, operating cost projections, customer numbers and customer churn, discount rates, growth rates and future technology paths.

Nil terminal growth was applied to all CGUs and a pre-tax discount rate of 8.8% was utilised for the year ended 30 June 2020 (30 June 2019: 10.1%).

3.8 Net tangible assets

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

AS AT 30 JUNE	2020 $M	2019 $M
Total assets	4,347	4,095
Less intangible assets	(968)	(987)
Less total liabilities	(2,854)	(2,630)
Net tangible assets	**525**	**478**
Number of shares outstanding (in millions)	1,837	1,836
Net tangible assets per share	**$0.29**	**$0.26**

Net tangible assets per share is a non-GAAP financial measure that is not defined in NZ IFRS. Total assets includes right-of-use assets and total liabilities includes lease liabilities.

Section 4 Liabilities and equity

4.1 Payables, accruals and provisions

AS AT 30 JUNE	2020 $M	2019 $M
Short-term payables, accruals and provisions		
Trade accounts payable	237	258
Revenue billed in advance	74	84
Accrued personnel costs	38	45
Accrued interest	2	4
GST payable	37	35
Short-term sale and leaseback liabilities	31	14
Short-term provisions	6	3
Other short-term payables and accruals	38	4
	463	**447**
Long-term payables, accruals and provisions		
Long-term sale and leaseback liabilities	58	43
Long-term provisions	5	4
Other long-term payables & accruals	18	21
	81	**68**

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

Provisions

Total provisions as at 30 June 2020 were $11 million (30 June 2019: $7 million). New provisions of $7 million were made during the year (30 June 2019: $3 million) and provisions of $3 million were utilised or released (30 June 2019: $15 million).

The largest portion of the provisions relate to make-good provisions of $7 million (30 June 2019: $4 million).

Notes to the financial statements: Liabilities and equity

4.2 Lease liabilities

YEAR ENDED 30 JUNE 2020	PROPERTY $M	CAPACITY $M	MOBILE SITES $M	MOTOR VEHICLES $M	OTHER $M	TOTAL $M
Opening lease liability balance	394	2	93	1	–	490
Leases entered into during the year	77	–	9	2	31	119
Disposals	(9)	–	–	–	–	(9)
Interest expense	24	–	6	–	1	31
Principal repayments	(46)	–	(14)	(1)	(6)	(67)
Remeasurements	3	–	5	–	–	8
Closing lease liability balance	**443**	**2**	**99**	**2**	**26**	**572**
Short-term lease liabilities	25	–	8	1	7	41
Long-term lease liabilities	418	2	91	1	19	531
Lease liabilities – non-cancellable commitments[1]	**198**	**2**	**13**	**2**	**26**	**241**

YEAR ENDED 30 JUNE 2019	PROPERTY $M	CAPACITY $M	MOBILE SITES $M	MOTOR VEHICLES $M	OTHER $M	TOTAL $M
Opening lease liability balance	406	2	64	2	–	474
Leases entered into during the year	5	–	28	–	–	33
Interest expense	25	–	5	–	–	30
Principal repayments	(44)	–	(11)	(1)	–	(56)
Remeasurements	2	–	7	–	–	9
Closing lease liability balance	**394**	**2**	**93**	**1**	**–**	**490**
Short-term lease liabilities	23	–	7	1	–	31
Long-term lease liabilities	371	2	86	–	–	459
Lease liabilities – non-cancellable commitments[1]	**189**	**2**	**37**	**1**	**–**	**229**

1 Relates to the discounted lease liability for future minimum rental commitments for non-cancellable periods of leases, excluding rights of renewal, which are at Spark's option.

4.2 Lease liabilities (continued)

Key estimates and assumptions

Spark recognises a lease liability at the lease commencement date. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Spark's incremental borrowing rate. Generally, Spark uses its incremental borrowing rate as the discount rate, with adjustments for the type and term of the lease.

Lease payments included in the measurement of the lease liability comprise:

- Fixed payments, including in–substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee;
- The exercise price under a purchase option that Spark is reasonably certain to exercise; and
- Lease payments in an optional renewal period if Spark is reasonably certain to exercise an extension option.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in Spark's estimate of the amount expected to be payable under a residual value guarantee or if Spark changes its assessment of whether it will exercise a purchase or extension option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right–of–use asset or is recorded in profit or loss if the carrying amount of the right–of–use asset has been reduced to zero.

Spark has elected not to recognise right–of–use assets and lease liabilities for short–term leases that have lease terms of 12 months or less and leases of low–value assets. Spark recognises the lease payments associated with these leases within operating expenses on a straight–line basis over their lease terms.

Notes to the financial statements: Liabilities and equity

4.3 Debt

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

AS AT 30 JUNE				2020 $M	2019 $M
FACE VALUE	FACILITY	COUPON RATE	MATURITY		
Short-term debt					
Commercial paper		Variable	< 5 months	228	150
				228	150
Bank funding					
The Hongkong and Shanghai Banking Corporation Limited	100 million NZD	Variable	30/11/2021	50	40
MUFG Bank, Ltd	125 million NZD	Variable	30/11/2022	100	100
				150	140
Domestic notes					
250 million NZD		5.25%	25/10/2019	–	250
100 million NZD		4.50%	25/03/2022	103	103
100 million NZD		4.51%	10/03/2023	108	107
125 million NZD		3.37%	07/03/2024	135	130
125 million NZD		3.94%	07/09/2026	140	131
				486	721
Foreign currency Medium Term Notes					
Euro Medium Term Notes – 18 million GBP[1]		5.75%	06/04/2020	–	33
Australian Medium Term Notes – 100 million AUD		1.90%	05/06/2026	107	–
Australian Medium Term Notes – 150 million AUD		4.00%	20/10/2027	185	173
Australian Medium Term Notes – 125 million AUD		2.60%	18/03/2030	139	–
Norwegian Medium Term Notes – 1 billion NOK[2]		3.07%	19/03/2029	177	178
				608	384
				1,472	**1,395**
Debt due within one year				228	433
Long-term debt				1,244	962

1 British pounds sterling.
2 Norwegian krone.

None of Spark's debt is secured and all debt ranks equally with other liabilities. There are no financial covenants over Spark's debt, however, there are certain triggers in the event of default, as defined in the various debt agreements. There have been no events of default over Spark's debt in the years ended 30 June 2020 and 30 June 2019.

The fair value of long-term debt, including long-term debt due within one year, (calculated based on the present value of future principal and interest cash flows, discounted at market interest rates at balance date) was $1,254 million compared to a carrying value of $1,244 million as at 30 June 2020 (30 June 2019: fair value of $1,258 million compared to a carrying value of $1,245 million).

AS AT 30 JUNE	2020 $M	2019 $M
Total debt	1,472	1,395
Less short-term debt	(228)	(150)
Total long-term debt (including long-term debt due within one year)	**1,244**	**1,245**

4.4 Capital risk management

Spark manages its capital considering shareholders' interests, the value of Spark's assets and the Company's credit rating. The Board continues to be committed to the Company maintaining a single 'A Band' credit rating and its capital management policies are designed to ensure this objective is met. As part of this commitment Spark manages its debt levels to ensure that the ratio of net debt at hedged rates (being inclusive of associated derivatives) to EBITDAI does not materially exceed 1.4 times on a long-run basis, which, for credit rating agency purposes, Spark estimates equates approximately to adjusted debt to EBITDA of 1.7 times. The difference between these two ratios is primarily due to the credit rating agency making adjustments for leases and captive finance operations.

As at 30 June 2020 the Company's Standard & Poor's credit ratings for long-term and short-term debt was A- and A-2 respectively, with outlook stable (30 June 2019: same).

Net debt

Net debt at hedged rates, the primary net debt measure Spark monitors, includes long-term debt at the value of hedged cash flows due to arise on maturity, plus short-term debt, less any cash. Net debt at carrying value includes the non-cash impact of fair value hedge adjustments and any unamortised discount.

Net debt at hedged rates is a non-GAAP measure and is not defined in accordance with NZ IFRS but is a measure used by management. A reconciliation of net debt at hedged rates and net debt at carrying value is provided below:

AS AT 30 JUNE	2020 $M	2019 $M
Cash	(53)	(54)
Short-term debt at face value	228	150
Long-term debt at face value	1,162	1,205
Net debt at face value	1,337	1,301
To retranslate debt balances at swap rates where hedged by currency swaps	12	15
Net debt at hedged rates[1]	**1,349**	**1,316**
Non-cash adjustments		
Impact of fair value hedge adjustments[2]	48	31
Unamortised discount	–	–
Net debt at carrying value	**1,397**	**1,347**

1 Net debt at the value of hedged cash flows due to arise on maturity and includes adjustment to state principal of foreign currency medium term notes at the hedged currency rate.

2 Fair value hedge adjustments arise on domestic notes in fair value hedges and foreign currency medium term notes in dual fair value and cash flow hedges. These have no impact on the cash flows to arise on maturity.

A reconciliation of movements in net debt is provided below:

		CASH FLOWS		NON-CASH MOVEMENTS				
YEAR ENDED 30 JUNE 2020	AS AT 1 JULY 2019 $M	PROCEEDS $M	PAYMENTS $M	INTEREST AMORTISATION $M	FAIR VALUE CHANGES $M	FOREIGN EXCHANGE MOVEMENT $M	OTHER $M	AS AT 30 JUNE 2020 $M
Cash	(54)	(6,945)	6,946	–	–	–	–	(53)
Short-term debt	150	1,150	(1,075)	3	–	–	–	228
Long-term debt	1,245	1,847	(1,882)	–	44	(9)	(1)	1,244
Derivatives	6	278	(288)	–	(27)	9	–	(22)
Net debt	**1,347**	**(3,670)**	**3,701**	**3**	**17**	**–**	**(1)**	**1,397**

		CASH FLOWS		NON-CASH MOVEMENTS				
YEAR ENDED 30 JUNE 2019	AS AT 1 JULY 2018 $M	PROCEEDS $M	PAYMENTS $M	INTEREST AMORTISATION $M	FAIR VALUE CHANGES $M	FOREIGN EXCHANGE MOVEMENT $M	OTHER $M	AS AT 30 JUNE 2019 $M
Cash	(55)	(7,049)	7,050	–	–	–	–	(54)
Short-term debt	149	1,358	(1,361)	4	–	–	–	150
Long-term debt	1,048	2,039	(1,880)	2	38	(1)	(1)	1,245
Derivatives	14	169	(171)	–	(9)	3	–	6
Net debt	**1,156**	**(3,483)**	**3,638**	**6**	**29**	**2**	**(1)**	**1,347**

Notes to the financial statements: Liabilities and equity

4.5 Equity and dividends

Share capital

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

YEAR ENDED 30 JUNE	2020 NUMBER	2019 NUMBER
Shares at the beginning of the year	1,836,191,581	1,835,390,783
Issuance of shares under share schemes and other transfers	853,362	800,798
Shares at the end of the year	**1,837,044,943**	**1,836,191,581**

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

Dividends declared and paid

	2020		2019	
YEAR ENDED 30 JUNE	CENTS PER SHARE	$M	CENTS PER SHARE	$M
Previous year second half-year dividend paid	12.5	230	12.5	229
First half-year dividend paid	12.5	229	12.5	230
Total dividends paid in the year	**25.0**	**459**	**25.0**	**459**
Second half-year dividend declared subsequent to balance date not provided for	12.5	230	12.5	230

Events after balance date

On 26 August 2020 the Board approved the payment of a second-half ordinary dividend of 12.5 cents per share or approximately $230 million. This ordinary dividend will be 100% imputed. In addition, supplementary dividends totalling approximately $26 million will be payable to shareholders who are not resident in New Zealand. In accordance with the Income Tax Act 2007, Spark will receive a tax credit from Inland Revenue equivalent to the amount of supplementary dividends paid.

4.5 Equity and dividends (continued)

	H1 FY20 ORDINARY DIVIDENDS	H2 FY20 ORDINARY DIVIDENDS
Dividends declared		
Ordinary shares	12.5 cents	12.5 cents
American Depositary Shares[1]	36.69 US cents	41.03 US cents
Imputation		
Percentage imputed	75%	100%
Imputation credits per share	3.6458 cents	4.8611 cents
Supplementary dividend per share[2]	1.6544 cents	2.2059 cents
'Ex' dividend dates		
New Zealand Stock Exchange	12/03/20	17/09/2020
Australian Securities Exchange	12/03/20	17/09/2020
American Depositary Shares	12/03/20	17/09/2020
Record dates		
New Zealand Stock Exchange	13/03/20	18/09/2020
Australian Securities Exchange	13/03/20	18/09/2020
American Depositary Shares	13/03/20	18/09/2020
Payment dates		
New Zealand and Australia	3/04/20	2/10/2020
American Depositary Shares	17/04/20	13/10/2020

1 For H2 FY20 these are based on the exchange rate at 20 August 2020 of NZ$1 to US$0.6564 and a ratio of five ordinary shares per one American Depositary Share. The actual exchange rate used for conversion is determined in the week prior to payment when the Bank of New York performs the physical currency conversion.
2 Supplementary dividends are paid to non–resident shareholders.

Dividend Reinvestment Plan

The dividend reinvestment plan has been reinstated for the H2 FY20 dividend after being suspended in 2015. Shares issued under the dividend reinvestment plan will be issued at a 2% discount to the prevailing market price around the time of issue. The last date for shareholders to elect to participate in the dividend reinvestment plan for the H2 FY20 dividend is 21 September 2020.

If shareholders previously participated in the dividend reinvestment plan they will need to re-elect to participate. Previous elections have not been retained.

Spark's Dividend Reinvestment Plan Offer Document and Participation Notice can be found on Spark's Investor Centre Website: **investors.sparknz.co.nz**.

Notes to the financial statements: Financial instruments

Section 5 Financial instruments

5.1 Derivatives and hedge accounting

	2020		2019	
	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES	DERIVATIVE ASSETS	DERIVATIVE LIABILITIES
AS AT 30 JUNE	$M	$M	$M	$M
Designated in a cash flow hedge	1	(155)	4	(119)
Designated in a fair value hedge	35	–	21	–
Designated in a dual fair value and cash flow hedge	22	–	6	–
Other	3	(6)	3	(6)
	61	**(161)**	**34**	**(125)**
Short-term derivatives	1	(5)	2	(14)
Long-term derivatives	60	(156)	32	(111)

Spark's derivatives are held at fair value, calculated using discounted cash flow models and observable market rates of interest and foreign exchange and electricity prices. This represents a level two measurement under the fair value measurement hierarchy, being inputs other than quoted prices included within level one that are observable for the asset or liability. As at 30 June 2020 and 30 June 2019 no derivative financial assets or derivative financial liabilities have been offset in the statement of financial position. The potential for offsetting of any derivative financial instruments is $39 million (30 June 2019: was deemed immaterial).

Hedge accounting

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

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

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

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

Cash flow hedges

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

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

Electricity hedge contracts are designated in cash flow hedges to reduce electricity price risk from price fluctuations. These hedge contracts establish the price at which future specified quantities of electricity are purchased and settled. Any resulting differential to be paid or received is recognised as a component of electricity costs through the term of the contracts.

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

5.1 Derivatives and hedge accounting (continued)

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

YEAR ENDED 30 JUNE	2020 $M	2019 $M
Opening balance as at 1 July	(85)	(26)
Loss recognised in other comprehensive income	(49)	(63)
Amount reclassified to finance expense	8	3
Amount reclassified to property, plant and equipment/intangible assets and inventory	6	1
Total movements to other comprehensive loss	**(35)**	**(59)**
Closing balance as at 30 June	**(120)**	**(85)**

Other amounts deferred in equity will be transferred to the statement of profit or loss over the next five years (30 June 2019: six years). As at 30 June 2020 the cost of hedging reserve was $2 million (30 June 2019: $1 million). The movement in the hedge reserves includes $49 million in the change in fair value of interest rate swaps less $14 million associated deferred tax.

Fair value hedges

Interest rate swaps are designated in a fair value hedge to manage interest rate risk in relation to debt. The gain or loss from remeasuring the interest rate swaps and debt at fair value is recognised in the statement of profit or loss and other comprehensive income. During the year ended 30 June 2020 there has been no material ineffectiveness on fair value hedging relationships (30 June 2019: no material ineffectiveness).

Dual fair value and cash flow hedges

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

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

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

Notes to the financial statements: Financial instruments

5.1 Derivatives and hedge accounting (continued)

The details of the hedging instruments are as follows:

AS AT 30 JUNE 2020	NOTIONAL AMOUNT OF HEDGING INSTRUMENT	STATEMENT OF FINANCIAL POSITION LINE ITEM	CARRYING AMOUNT OF THE HEDGING INSTRUMENT ASSETS $M	LIABILITIES $M	LIFE TO DATE CHANGE-IN-VALUE USED FOR CALCULATING HEDGE INEFFECTIVENESS $M
Cash flow hedges					
Interest rate swaps	NZD 860m	Derivatives	–	(148)	(148)
Forward foreign exchange contracts	NZD 207m	Derivatives	1	(4)	(3)
Electricity derivatives	329 GWh	Derivatives	–	(2)	(2)
Fair value hedges					
Interest rate swaps	NZD 390m	Derivatives	35	–	35
Fair value and cash flow hedges					
Cross-currency swaps	AUD 150m	Derivatives	16	–	16
Cross-currency swap	NOK 1b	Derivatives	3	–	3
Cross-currency swaps	AUD 125m	Derivatives	3	–	3
Cross-currency swaps	AUD 100m	Derivatives	–	–	–
			58	**(154)**	**(96)**

AS AT 30 JUNE 2019					
Cash flow hedges					
Cross-currency swap	GBP 18m	Derivatives	–	(12)	(12)
Interest rate swaps	NZD 866m	Derivatives	–	(99)	(99)
Forward foreign exchange contracts	NZD 131m	Derivatives	2	(1)	1
Electricity derivatives	329 GWh	Derivatives	2	(7)	(5)
Fair value hedges					
Interest rate swaps	NZD 390m	Derivatives	21	–	21
Fair value and cash flow hedges					
Cross-currency swaps	AUD 150m	Derivatives	3	–	3
Cross-currency swap	NOK 1b	Derivatives	3	–	3
			31	**(119)**	**(88)**

5.1 Derivatives and hedge accounting (continued)

The details of hedged items are as follows:

AS AT 30 JUNE 2020	STATEMENT OF FINANCIAL POSITION LINE ITEM	CARRYING AMOUNT OF THE HEDGED ITEM ASSETS $M	CARRYING AMOUNT OF THE HEDGED ITEM LIABILITIES $M	ACCUMULATED AMOUNT OF FAIR VALUE HEDGE ADJUSTMENTS ON THE HEDGED ITEM INCLUDED IN THE CARRYING AMOUNT OF THE HEDGED ITEM ASSETS $M	ACCUMULATED AMOUNT OF FAIR VALUE HEDGE ADJUSTMENTS ON THE HEDGED ITEM INCLUDED IN THE CARRYING AMOUNT OF THE HEDGED ITEM LIABILITIES $M	LIFE TO DATE CHANGE-IN-VALUE USED FOR CALCULATING HEDGE INEFFECTIVE-NESS $M
Cash flow hedges						
Aggregated variable interest rate exposure	–	–	–	–	–	138
Highly probable forecast variable rate debt	–	–	–	–	–	10
Committed foreign exchange transactions	–	–	–	–	–	3
Highly probable forecast purchases of electricity	–	–	–	–	–	2
Fair value hedges						
Domestic Notes	Long-term debt	–	(426)	–	(36)	(35)
Fair value and cash flow hedges						
Australian Medium Term Note (AUD 150m)	Long-term debt	–	(185)	–	(26)	(16)
Norwegian Medium Term Note (NOK 1b)	Long-term debt	–	(178)	–	(17)	(3)
Australian Medium Term Note (AUD 125m)	Long-term debt	–	(139)	–	(6)	(3)
Australian Medium Term Note (AUD 100m)	Long-term debt	–	(107)	–	–	–
		–	**(1,035)**	**–**	**(85)**	**96**

AS AT 30 JUNE 2019	STATEMENT OF FINANCIAL POSITION LINE ITEM	CARRYING AMOUNT OF THE HEDGED ITEM ASSETS $M	CARRYING AMOUNT OF THE HEDGED ITEM LIABILITIES $M	ACCUMULATED AMOUNT OF FAIR VALUE HEDGE ADJUSTMENTS ASSETS $M	ACCUMULATED AMOUNT OF FAIR VALUE HEDGE ADJUSTMENTS LIABILITIES $M	LIFE TO DATE CHANGE-IN-VALUE $M
Cash flow hedges						
Euro Medium Term Note (GBP 18m)	Long-term debt	–	(33)	–	–	12
Aggregated variable interest rate exposure	–	–	–	–	–	58
Highly probable forecast variable rate debt	–	–	–	–	–	41
Committed foreign exchange transactions	–	–	–	–	–	(1)
Highly probable forecast purchases of electricity	–	–	–	–	–	5
Fair value hedges						
Domestic Notes	Long-term debt	–	(411)	–	(21)	(21)
Fair value and cash flow hedges						
Australian Medium Term Note (AUD 150m)	Long-term debt	–	(173)	–	(18)	(3)
Norwegian Medium Term Note (NOK 1b)	Long-term debt	–	(178)	–	(3)	(3)
		–	**(795)**	**–**	**(42)**	**88**

5

Notes to the financial statements: Financial instruments

5.2 Financial risk management

a) Market risk

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

Spark manages the concentration of exposures using well-defined market and credit risk limits and through timely reporting to senior management. All contracts have been entered into with high-credit quality financial institutions, except electricity hedge contracts, which are generally settled monthly. The risk associated with these transactions is that the fair value or cash flows of financial instruments will change due to movements in market rates or, in the case of default by a counterparty, through the cost of replacement at the current market rates.

Currency risk

Nature of the risk

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

Exposure and risk management

Spark's total net exposure (from non-derivative financial instruments) to foreign currency as at 30 June 2020 is $605 million (30 June 2019: $362 million). This includes $161 million long-term debt principal denominated in NOK (30 June 2019: $175 million) and $400 million long-term debt principal denominated in AUD (30 June 2019: $157 million). The remaining exposure is primarily trade payables and other receivables denominated in United States dollars (USD).

Spark manages currency risk arising from foreign-currency debt through hedging. Spark's long-term debt issued in NOK and AUD is fully hedged using cross-currency interest rate swaps to convert foreign-currency cashflows into floating-rate New Zealand dollar exposures.

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

Sensitivity to foreign currency movements

As at 30 June 2020 a movement of 10% in the New Zealand dollar would (after hedging) impact the statement of profit or loss by less than $3 million (30 June 2019: less than $1 million) and the statement of changes in equity by less than $19 million (30 June 2019: less than $16 million). This analysis assumes a movement in the New Zealand dollar across all currencies and only includes the effect of foreign exchange movements on monetary financial instruments.

Interest rate risk

Nature of the risk

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

Exposure and risk management

Spark is exposed to interest rate risk from its financing activities, which primarily include loans and debt issuance either at fixed or floating rates. For floating-rate exposures, Spark employs the use of derivative financial instruments to reduce its exposure to fluctuations in interest rates, with the objective to minimise the cost of net borrowings and to minimise the impact of interest rate movements on interest expense and net earnings.

Cross-currency interest rate swaps are used to convert foreign currency debt into floating-rate New Zealand dollar exposures. Interest rate swaps are used to convert floating-rate exposures into fixed-rate exposures and vice versa. As a result Spark's interest rate exposure is limited to New Zealand only.

Sensitivity to interest rate movements

As at 30 June 2020 a movement in interest rates of 25 basis points would (after hedging) impact the statement of profit or loss by less than $1 million (30 June 2019: less than $1 million for a movement of 100 basis points) and statement of changes in equity by less than $3 million (30 June 2019: less than $59 million for a movement of 100 basis points).

Electricity price risk

Nature of the risk

Electricity price risk is the risk that fluctuations in spot electricity prices will impact Spark's financial performance.

Exposure and risk management

Spark is a large consumer of electricity, which exposes the Group to fluctuations in the market spot price. To reduce its exposure to electricity price risk, Spark has entered into electricity hedge contracts. These contracts establish a fixed price for Spark, with the counterparty topping up or retaining the difference between the spot price and the fixed price over the term of the contract.

Sensitivity to electricity price movements

As at 30 June 2020 a movement of 10% in forward electricity prices would impact the statement of profit or loss and statement of changes in equity (after hedging) by less than $3 million (30 June 2019: less than $3 million).

5.2 Financial risk management (continued)

b) Credit risk

Nature of the risk

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

Exposure and risk management

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

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

Spark's assets subject to credit risk as at 30 June 2020 were $1,035 million (30 June 2019: $1,041 million).

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

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

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

Spark has certain derivative and debt arrangements that are subject to bilateral credit support agreements that require Spark or its counterparties to post collateral funds to support the value of certain derivatives subject to certain agreed threshold amounts. As at 30 June 2020 no collateral was posted (30 June 2019: nil). Letters of credit and guarantees may also be held over some receivable amounts. The carrying amounts of financial assets represent the maximum credit exposure.

At balance date there has been no material deterioration in Spark's or counterparty's credit risk resulting from COVID-19, however, within the market there have been minor changes in the outlook for some banks, further deterioration could impact Spark in FY21.

c) Liquidity risk

Nature of the risk

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

Exposure and risk management

Spark uses cash and derivative financial instruments to manage liquidity and evaluates its liquidity requirements on an ongoing basis. In general, Spark generates sufficient cash flows from its operating activities to meet its financial liabilities. As at 30 June 2020 current assets of $928 million were greater than current liabilities of $781 million (30 June 2019: current liabilities of $944 million were greater than current assets of $911 million). Positive operating cash flows enable working capital to be managed to meet short-term liabilities as they fall due.

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

- An undrawn committed standby facility of $200 million with a number of creditworthy banks (30 June 2019: $200 million);
- Committed bank facilities of $575 million with $150 million drawn as at 30 June 2020 (30 June 2019: $425 million facility with $140 million drawn); and
- Committed bank overdraft facilities of $15 million with New Zealand banks (30 June 2019: $15 million).

There are no compensating balance requirements associated with these facilities.

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

Notes to the financial statements: Financial instruments

5.2 Financial risk management (continued)

Maturity analysis

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

AS AT 30 JUNE 2020	CARRYING AMOUNT $M	CONTRACTUAL CASH FLOWS $M	0-6 MONTHS $M	6-12 MONTHS $M	1-2 YEARS $M	2-5 YEARS $M	5+ YEARS $M
Non-derivative financial liabilities							
Trade payables	237	237	237	–	–	–	–
Sale and leaseback liabilities	89	103	20	21	37	25	–
Lease liabilities	572	786	36	35	69	169	477
Short and long-term debt	1,472	1,598	243	20	185	401	749
Derivative financial liabilities							
Interest rate swaps (net settled)	155	160	14	14	27	66	39
Electricity derivatives (net settled)	2	2	–	1	1	–	–
Cross-currency interest rate swaps (gross settled)		–					
Inflows	–	(119)	(1)	(1)	(2)	(6)	(109)
Outflows	–	119	1	1	2	6	109
Forward exchange contracts (gross settled)		–					
Inflows	–	(124)	(98)	(24)	(2)	–	–
Outflows	4	128	102	24	2	–	–
	2,531	**2,890**	**554**	**91**	**319**	**661**	**1,265**

AS AT 30 JUNE 2019	CARRYING AMOUNT $M	CONTRACTUAL CASH FLOWS $M	0-6 MONTHS $M	6-12 MONTHS $M	1-2 YEARS $M	2-5 YEARS $M	5+ YEARS $M
Non-derivative financial liabilities							
Trade payables	258	258	258	–	–	–	–
Sale and leaseback liabilities	57	70	14	12	19	25	–
Lease liabilities	490	829	29	28	56	154	562
Short and long-term debt	1,395	1,559	419	54	30	539	517
Derivative financial liabilities							
Interest rate swaps (net settled)	105	114	7	10	19	45	33
Electricity derivatives (net settled)	7	7	–	1	4	2	–
Cross-currency interest rate swaps (gross settled)							
Inflows	–	(35)	–	(35)	–	–	–
Outflows	12	48	1	47	–	–	–
Forward exchange contracts (gross settled)							
Inflows	–	(74)	(61)	(11)	(2)	–	–
Outflows	1	75	62	11	2	–	–
	2,325	**2,851**	**729**	**117**	**128**	**765**	**1,112**

Section 6 Other information

6.1 Income tax

Income tax expense

The income tax expense is determined as follows:

YEAR ENDED 30 JUNE	2020 $M	2019 $M
Statement of profit or loss		
Current income tax		
Current year income tax expense	(175)	(170)
Adjustments in respect of prior periods	13	2
Deferred income tax		
Depreciation, provisions, accruals, tax losses and other	8	1
Reintroduction of tax depreciation on buildings	10	–
Adjustments in respect of prior periods	(6)	(3)
Income tax expense recognised in the statement of profit or loss	**(150)**	**(170)**

Reconciliation of income tax expense

YEAR ENDED 30 JUNE	2020 $M	2019 $M
Net earnings before income tax	**577**	**579**
Tax at current rate of 28%	(162)	(162)
Adjustments to taxation		
Non-assessable gains on sale	7	1
Other non-assessable items	1	(2)
Tax effects of non-New Zealand profits	(9)	(6)
Taxes paid in foreign jurisdictions	(4)	–
Reintroduction of tax depreciation on buildings	10	–
Adjustments in respect of prior periods	7	(1)
Total income tax expense	**(150)**	**(170)**

Tax depreciation on buildings

On 25 March 2020 the Government enacted legislation to reintroduce tax depreciation on commercial and industrial buildings, effective from 1 July 2020. This increases the tax base of building assets because depreciation can be claimed from FY21 onwards (previously the tax base for building assets was zero). As deferred tax is calculated on the difference between the carrying amount of an asset and its tax base, the increase in tax base has reduced Spark's deferred tax liability by $10 million. This also results in a one-off decrease in tax expense of $10 million.

Notes to the financial statements: Other information

6.1 Income tax (continued)

Deferred tax assets and liabilities

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

ASSETS/(LIABILITIES)	FIXED ASSETS $M	LEASES $M	PROVISIONS & ACCRUALS $M	OTHER $M	TOTAL $M
Opening balance as at 30 June 2019	(133)	26	(3)	24	(86)
Amounts recognised in statement of profit or loss					
Relating to the current period	1	1	4	2	8
Reintroduction of tax depreciation on buildings	10	–	–	–	10
Adjustments in respect of prior periods	(5)	–	(1)	–	(6)
Amounts recognised in equity relating to the current year	–	–	–	13	13
Closing balance as at 30 June 2020	**(127)**	**27**	**–**	**39**	**(61)**
Opening balance as at 1 July 2018	(133)	24	–	–	(109)
Amounts recognised in statement of profit or loss					
Relating to the current period	1	2	(4)	2	1
Adjustments in respect of prior periods	–	–	(2)	(1)	(3)
Amounts recognised in equity relating to the current year	(1)	–	3	23	25
Closing balance as at 30 June 2019	**(133)**	**26**	**(3)**	**24**	**(86)**

Spark has not recognised the tax effect of accumulated unrestricted losses and temporary differences amounting to AUD$461 million at 30 June 2020 based on the relevant corporation tax rate of Australia (30 June 2019: AUD$461 million). These losses and temporary differences may be available to be carried forward to offset against future taxable income. However, utilisation is contingent on the production of taxable profits over a significant period of time and is subject to compliance with the relevant taxation authority requirements.

Spark has a nil imputation credit account as at 30 June 2020 (30 June 2019: $21 million negative balance). The imputation credit account had a positive balance as at 31 March 2020 and 31 March 2019.

6.2 Employee share schemes

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

Restricted share schemes (RSS)

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

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

The Spark New Zealand Long-Term Incentive Scheme is for the Leadership Squad and senior leaders and delivers one scheme with the same set of rules under one long-term incentive, with a performance hurdle in place. The Spark New Zealand Managing Director Long-Term Incentive Scheme related to the previous Managing Director, Simon Moutter.

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

6.2 Employee share schemes (continued)

Share option scheme

In September 2019 members of the Leadership Squad (including the CEO) and selected senior leaders were granted options under the new Spark Long-Term Incentive (LTI) Scheme. Under the scheme participants were granted options at the start of the three-year vesting period. The number of options granted equalled the gross LTI value divided by the volume weighted average price of Spark New Zealand shares for the 20 days prior to the grant date. Subject to satisfaction of the performance hurdle and continued employment, at vesting each option converts to a Spark share based on a zero exercise price. If the target is not met (or the participant leaves Spark employment) then the options simply lapse.

Vesting of the September 2019 LTI grant is contingent on: participants' continued employment with Spark through to September 2022; and the Company achieving a Total Shareholder Return (TSR) performance hurdle. TSR is a measure of share price appreciation and dividends paid over the three-year period of the grant. The target for this hurdle is the Company's cost of equity plus 1% compounding annually. Options with an intrinsic value of $5 million remain outstanding at year end and have a weighed average remaining life of 2.2 years.

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

	2020		2019	
	OPTIONS	RSS	OPTIONS	RSS
	NUMBER OF OPTIONS	NUMBER OF SHARES	NUMBER OF OPTIONS	NUMBER OF SHARES
Opening balance as at 1 July	–	1,755,862	–	1,662,244
Granted	1,088,715	–	–	701,852
Vested	–	(541,860)	–	(479,156)
Lapsed	(90,590)	(127,541)	–	(129,078)
Closing balance as at 30 June	**998,125**	**1,086,461**	**–**	**1,755,862**
Percentage of total ordinary shares	0.05%	0.06%	0.00%	0.10%

The fair value of the employee services received in exchange for the grant of equity instruments is recognised as an expense, with a corresponding entry in equity. The total charge recognised for these schemes for the year ended 30 June 2020 was $1.8 million (30 June 2019: $2.0 million) and the expense relating to the restricted shares schemes was $1.4 million (30 June 2019: $2.0 million). As at 30 June 2020, $2.1 million of share scheme awards remain unvested and not expensed (30 June 2019: $2.9 million). This expense, measured at its fair value based on a valuation model, will be recognised over the remaining vesting period of the awards.

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

6.3 Related party transactions

Related parties of Spark include the associates and joint venture companies listed in note 3.3 and key management personnel detailed below.

Interest of directors in certain transactions

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

Transactions with associate and joint venture companies

Spark has the following transactions with associates and joint ventures:

- Spark provides network operations and management services to Southern Cross in respect of its operations in New Zealand;
- Spark makes payments to Southern Cross in connection with capacity it has purchased on Southern Cross' network;
- Spark made payments to Southern Cross for operational expenditure relating to cable maintenance;
- Spark made payments to Connect 8 Limited for fibre and telecommunications construction services;
- Spark sold mobile network equipment to Connect 8 Limited; and
- Spark made payments to Rural Connectivity Group for network services.

Notes to the financial statements: Other information

6.3 Related party transactions (continued)

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

AS AT AND FOR THE YEAR ENDED 30 JUNE	2020 $M	2019 $M
Operating revenues[1]	11	37
Operating expenses	9	9
Capacity acquired and other capital expenditure[2]	59	29
Receivables	15	33
Payables	(2)	–

1 This does not include any dividend income from Southern Cross for the year ended 30 June 2020 (30 June 2019: $15 million).
2 As at 30 June 2020 Spark has committed to purchases of $62 million for cable capacity from Southern Cross (30 June 2019: $33 million).

Key management personnel compensation

YEAR ENDED 30 JUNE	2020 $'000	2019 $'000
Directors' remuneration[1]	1,349	1,342
Salary and other short-term benefits[2]	7,686	8,520
Long-term incentives and share-based compensation[3]	901	2,191
	9,936	**12,053**

1 Excludes Chief Executive remuneration.
2 Includes short-term benefits paid on termination.
3 Includes $776,000 share-based compensation and $125,000 other long-term incentives (30 June 2019: $1,941,000 share-based compensation and $250,000 other long-term incentives).

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

6.4 Subsidiaries

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

NAME	COUNTRY	OWNERSHIP	PRINCIPAL ACTIVITY
Computer Concepts Limited	New Zealand	100%	IT infrastructure and business cloud services
Digital Island Limited	New Zealand	100%	Business telecommunications provider
Gen-i Australia Pty Limited	Australia	100%	Provides outsourced telecommunications services
Mattr Limited	New Zealand	100%	Software company focused on decentralised identity and verifiable data
Qrious Limited	New Zealand	100%	Big data analytics business
Revera Limited	New Zealand	100%	IT infrastructure and data centre provider
Spark Finance Limited	New Zealand	100%	A Group finance company
Spark New Zealand Trading Limited	New Zealand	100%	Provides local, national and international telephone and data services
Spark Retail Holdings Limited	New Zealand	100%	Retailer of telecommunications products and services
TCNZ (Bermuda) Limited	New Zealand	100%	A holding company
Teleco Insurance Limited	Bermuda	100%	A Group insurance company
Telecom New Zealand USA Limited	United States	100%	Provides international wholesale telecommunications services
Telecom Southern Cross Limited	New Zealand	100%	A holding company
Telegistics Limited	New Zealand	100%	Mobile phone repair and equipment distribution

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

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

YEAR ENDED 30 JUNE	2020 $M	2019 $M
Net earnings for the year	427	409
Adjustments to reconcile net earnings to net cash flows from operating activities		
Depreciation and amortisation	479	477
Bad and doubtful accounts	21	17
Deferred income tax	(11)	–
Share of associates' and joint ventures' net losses	(1)	1
Impairments	2	3
Other gains	(35)	(15)
Other	18	7
Changes in assets and liabilities net of effects of non-cash and investing and financing activities		
Movement in receivables and related items	26	(122)
Movement in inventories	(10)	(21)
Movement in current taxation	21	35
Movement in payables and related items	(34)	(14)
Net cash flows from operating activities	**903**	**777**

6.6 Commitments and contingencies

Capital and other commitments

As at 30 June 2020 capital expenditure contracted for, but not yet incurred, was $246 million (30 June 2019: $249 million) with $149 million due in the year ending 30 June 2021. Commitments principally relate to telecommunications network equipment, spectrum rights and cable capacity.

As at 30 June 2020 Spark had other supplier commitments of $760 million (30 June 2019: $264 million), with $425 million due in the year ending 30 June 2021. Commitments include mobile handsets, modems, licenses and content rights.

Contingencies

No ongoing claims, investigations and inquiries are expected to have a significant effect on Spark's financial position or profitability.

6

Independent Auditor's Report

To the shareholders of Spark New Zealand Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Spark New Zealand Limited (the company) and its subsidiaries (the group) on pages 54 to 97:

i. present fairly in all material respects the group's financial position as at 30 June 2020 and its financial performance and cash flows for the year ended on that date; and

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

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2020;
- the consolidated statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

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

Materiality

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

Key audit matters

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

Key changes in the assessment of audit risks

COVID-19

The COVID-19 pandemic has created additional risks across a number of areas of the business, particularly the recoverability of receivables. All forward-looking assumptions are inherently more uncertain during these unprecedented times. While the key audit matter "Revenue recognition" detailed below, is unchanged from last year, the underlying audit risk has increased which impacted the extent and nature of audit evidence that we had to gather. We also draw attention to Note 1.3 of the consolidated financial statements which describes the impact of the COVID-19 on the business.

The key audit matter	How the matter was addressed in our audit
Revenue recognition	
Refer to note 2.2 to the financial statements which discloses total revenues of $3,623 million (2019: $3,533 million) including: - Mobile $1,288 million (2019: $1,271 million) - Broadband $680 million (2019: $685 million) - Voice $391 million (2019: $441 million) - Cloud, security and service management $443 million (2019: $400 million) Revenue recognition is considered to be a key audit matter due to the complexity of the revenue recognition accounting standards as applied to the telecommunications industry. The adoption of this accounting standard involves key judgements and estimates, principally surrounding: Revenue arrangements with multiple goods and/or services:	Our audit procedures included: For Mobile, Broadband and Voice products bundled into a single offer: - reviewing a sample of customer contracts to understand each of the performance obligations in the bundled offering; - challenging the group's assessment for each performance obligation about whether the customer can benefit from the product or service on its own or together with readily available resources; - assessing the allocation of the transaction price to the performance obligations by comparing the stand-alone selling price assigned to observed market prices or estimated prices; - examining the stages at which revenue for each performance obligation is recognised;

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The key audit matter	How the matter was addressed in our audit
- assessing the length of the contractual term with customers that have a material impact on the timing of revenue and cost recognition; - identifying the separate performance obligations of bundled arrangements and determining whether they are distinct; - allocating the transaction price to the performance obligations in bundled arrangements; and - examining contracts to determine whether Spark is the principal or agent which will impact the reporting of revenue and costs on a gross or net basis. Contractual arrangements for Cloud, Security and Service Management services offered, involving the design, build and offering of ongoing Information Technology solutions, including 'as a service' offerings: - identifying the separate performance obligations of bundled transactions and whether those performance obligations are distinct; - assessing whether the performance obligations are satisfied at a point in time or over time; and - determining the quantum and timing of contract profit. The latter includes assessing the assumptions underpinning the individual project profitability forecasts over the life of the contract and the recoverability of contract specific assets.	- assessing the recognition and timing of costs to acquire and costs to fulfil customer contracts; and - in light of COVID-19, assessing the basis for the calculation of the expected credit loss provision. For the bundled offerings, we identified no errors with the assessment of each performance obligation in the bundled offerings and reasonable assumptions were used to reflect the stand-alone selling price allocated to each performance obligation. For contractual arrangements for Cloud, Security and Service Management product offers: - reviewing a sample of contracts to understand the services the group has contracted to deliver; - agreeing revenue recognised to a sample of customer contracts and agreed customer contract variations; - evaluating the timing of revenue recognition applied for each contract reviewed by discussing with and challenging of the project managers, reviewing project summary reports, customer correspondence and historical customer profitability analyses; and - evaluating the status of implementation of each contract, through discussion with project managers and reviewing project summary reports. For the Spark Cloud, Security and Service Management contracts, we consider the estimates of projected revenue and costs or the assessments of the stage of completion of the projects to be balanced. We identified no errors with revenue recognition.
Impact of changes in technology and the group's network strategy on the carrying value of property, plant & equipment and intangible assets	
Refer to notes 3.6 and 3.7 to the financial statements. The group has property, plant & equipment and intangible assets of $1,983 million (2019: $1,999 million) with additions during the year of $376 million (2019: $406 million). The capitalisation and carrying value of property, plant & equipment and intangible assets is considered to be a key audit matter due to the significance of the assets to the group's statement of financial position, and due to the level of	Our audit procedures included: - examining controls surrounding application of accounting policies to capitalise or expense project spend; - assessing the capitalisation of costs incurred on capital projects, by examining a sample of additions to identify if the spend meets the definition of an asset as per the applicable accounting standards; - assessing the allocated useful economic lives, by comparing to industry benchmarks

The key audit matter	How the matter was addressed in our audit
judgement involved in determining the carrying value of these assets, principally: - the capitalisation or expensing of costs; - the useful economic lives assigned to the assets capitalised; - the impact of planned or unexpected replacement technology on the carrying value of property, plant & equipment and intangible assets; and - accounting for software as a service contracts.	and our knowledge of the business and its operations and the technology life-cycles anticipated; - assessing the need for accelerated depreciation or impairment of assets, by considering the impact of developments in technology and changes to the group's technology transformation strategy; and - reviewing a sample of software as a service contracts to determine whether the licensing and delivery model provided by the contracts have been expensed or capitalised as appropriate depending on the terms of each contract. We found no issues as a result of our audit procedures over the amounts capitalised to property, plant & equipment and intangible assets. We found asset useful lives used by the group were within an acceptable range when compared to those commonly used in the industry, and appropriately reflected technological developments within the group's intended capital roadmap. We considered the impact of developments in technology and changes to the group's technology transformation strategy on useful lives and carrying value and considered the carrying value to be appropriate.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information includes the 'Connections matter' section which includes the Chair and CEO review, and 'Other information' section which includes corporate governance disclosures. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

Use of this independent auditor's report

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

Responsibilities of the Directors for the consolidated financial statements

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

— the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

— implementing necessary internal control to enable the preparation of a set of consolidated financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

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

Our objective is:

— to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an independent auditor's report that includes our opinion.

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

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

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

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

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

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

For and on behalf of

KPMG

KPMG
Wellington

26 August 2020

Corporate governance disclosures

Stock exchange listings

Spark's ordinary shares are listed on the NZX and ASX. Spark is admitted to the Official List of ASX as a foreign exempt issuer. As an NZX listed issuer and ASX foreign exempt issuer, Spark complies with NZX Listing Rules and applicable ASX Listing Rules.

Spark's American Depositary Shares, each representing five ordinary Spark shares and evidenced by American Depositary Receipts (ADRs), are traded over-the-counter in the United States. This is a Level 1 ADR programme that is sponsored by Bank of New York Mellon.

Spark Finance Limited, a wholly owned subsidiary of Spark New Zealand Limited, has debt securities listed on the NZX. Details of debt securities issued by Spark Finance Limited can be found in Spark Finance Limited's reports at: **https://investors.sparknz.co.nz/Investor-Centre**

Director remuneration

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

The fees payable to non-executive directors during FY20 were:

BOARD/COMMITTEE	CHAIR[1]	MEMBER[2]
Board of Directors	$368,700	$145,200
Audit and Risk Management Committee (ARMC)	$39,100	$19,000
Human Resources and Compensation Committee (HRCC)	$33,500	$16,800
Nominations and Corporate Governance Committee (NOMs)	–	–

1 Committee chair and member fees were not payable to the Chair of the Board. Committee member fees were not payable to committee Chairs.
2 Member fees were payable for each committee.

Committee membership as at 30 June 2020 was as follows:

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

The total remuneration received by non-executive directors of Spark during FY20 was as follows:[1]

NAME OF DIRECTOR	BOARD FEES	AUDIT & RISK MANAGEMENT COMMITTEE FEES	NOMINATIONS & CORPORATE GOVERNANCE COMMITTEE FEES	HUMAN RESOURCES AND COMPENSATION COMMITTEE FEES	TOTAL REMUNERATION[2]
Justine Smyth	$368,700	–	–	–	$368,700
Alison Barrass	$145,200	–	–	$33,500	$178,700
Paul Berriman	$145,200	$19,000	–	–	$164,200
Warwick Bray[3]	$112,056	$14,663			$126,719
Pip Greenwood	$145,200	$19,000	–	–	$164,200
Ido Leffler	$145,200	–	–	$16,800	$162,000
Charles Sitch	$145,200	$39,100	–	–	$184,300
Total	**$1,206,756**	**$91,763**		**$50,300**	**$1,348,819**

1 The figures shown are gross amounts and exclude GST (where applicable) and are rounded to the nearest dollar.
2 This table excludes contributions towards medical and life insurance of a total of $7,090. Spark meets costs incurred by directors that are incidental to the performance of their duties. This includes providing New Zealand-based directors with mobile phones and $120 per month home phone account credits and overseas-based directors with $400 per month phone allowances. Spark also meets the costs of directors' Spark-related travel. As these costs are incurred by Spark to enable directors to perform their duties, no value is attributable to them as benefits to directors for the purposes of the above table.
3 Mr Bray was appointed as a director and a member of the ARMC from 23 September 2019.

Former Managing Director remuneration

The total remuneration earned by or paid to the former Managing Director, Simon Moutter, for FY20 is as follows:

PERIOD	SHORT-TERM INCENTIVE[1]	EQUITY INCENTIVE[2]
FY20 actual remuneration	NZ$974,925	NZ$779,940

1 FY19 actual STI was earned in FY19 and was paid in FY20.
2 FY19 actual equity incentive was earned in FY19 and was awarded in FY20 in the form of redeemable ordinary shares that will reclassify as ordinary shares in September 2021.

The following former Managing Director long-term incentives vested in FY20:

GRANT YEAR	SECURITIES	PERFORMANCE PERIOD	PERFORMANCE MEASURE	VESTING OUTCOME	SHARES TRANSFERRED	VALUE TRANSFERRED[1]
FY17	Restricted Shares	September 2016 - September 2019	Absolute TSR, hurdle – Spark's annual cost of equity + 1% compounding	100% - 3 year TSR result was 48% compared with a 37% target	177,151	NZ$781,236
Total						**NZ$781,236**

1 Represents the NZX listed price of Spark shares on the exercise/transfer date multiplied by the number of shares transferred.

Additionally, Mr Moutter's FY17 Equity Incentive (essentially a deferred STI) vested on 19 September 2019, as the service condition was satisfied. Accordingly, 91,958 redeemable ordinary shares converted to ordinary shares.

CEO remuneration

The total remuneration earned or paid in FY20, and anticipated target remuneration expected to be earned or paid in FY21, by and to the CEO, Jolie Hodson is as follows:

PERIOD	BASE SALARY[1]	SHORT-TERM INCENTIVE[2]	LONG-TERM INCENTIVE[3]
FY20 actual remuneration	NZ$1,200,000	NZ$747,000	NZ$900,000 in the form of share options
FY21 anticipated target remuneration	NZ$1,200,000	NZ$900,000	NZ$900,000 in the form of share options

1 Base salary excludes employer contributions towards KiwiSaver and is not at risk.
2 FY20 actual short-term incentive was earned in FY20 and will be paid in FY21. The gross amount earned in FY19 and paid in FY20 was $458,500. FY21 anticipated short-term incentive will be earned in FY21 and paid in FY22.
3 FY20 long-term incentive was granted in FY20 and, subject to performance hurdles, will vest in September 2022. FY21 anticipated target long-term incentive will be granted in FY21 and, subject to performance hurdles, will vest in September 2023.

The following CEO long-term incentives vested in FY20:

GRANT YEAR	SECURITIES	PERFORMANCE PERIOD	PERFORMANCE MEASURE	VESTING OUTCOME	SHARES TRANSFERRED	VALUE TRANSFERRED[1]
FY17	Restricted Shares	September 2016 - September 2019	Absolute TSR, hurdle – Spark's annual cost of equity + 1% compounding	100% - 3 year TSR result was 48% compared with a 37% target	45,351	NZ$199,998
Total						**NZ$199,998**

1 Represents the NZX listed price of Spark shares on the exercise/transfer date multiplied by the number of shares transferred.

The CEO is expected to acquire and hold shares that are at least equivalent in value to 25% of the CEO's base salary but ideally would increase this shareholding to 100% of base salary subject to the vesting of shares under any Long-Term Incentive schemes. To fulfil this expectation shares are to be acquired within a four-year period from 1 July 2019.

Other directors' fees

Mr Richard Quince received a director's fee of NZ$10,000 (excluding GST) for acting as a director of Teleco Insurance (NZ) Limited. Ocorian Services (Bermuda) Limited received directors' fees of US$2,590 in relation to Ms Alison Dyer-Fagundo acting as a director of TCNZ (Bermuda) Limited while it was a company incorporated under the laws of the Islands of Bermuda, and US$2,900 in relation to Ms Alison Dyer-Fagundo acting as a director of Teleco Insurance Limited.

Board and committee meeting attendance for FY20

The Board held nine formal meetings during FY20. The table below shows director attendance at these Board meetings and committee member attendance at committee meetings. Sub-committees of the Board also met regularly throughout the year to consider matters of special importance.

	BOARD	ARMC	HRCC	NOMS
Total number of meetings held	9	7	5	2
Alison Barrass	9	–	5	2
Paul Berriman	9	7	–	2
Warwick Bray[1]	8	5	–	2
Pip Greenwood	9	7	–	2
Jolie Hodson[2]	8	–	–	–
Ido Leffler	9	–	5	2
Charles Sitch	9	7	–	2
Justine Smyth[3]	9	6	5	2

1 Mr Bray was appointed as a director on 23 September 2019.
2 Ms Hodson was appointed as a director on 23 September 2019.
3 Ms Smyth attended ARMC meetings in an ex officio capacity.

During FY20 the Board provided oversight and strategic support to assess the impacts of COVID-19 on Spark's business. In addition to the meetings noted in the table above, regular briefing calls were held with management to discuss Spark's response, including steps taken to protect our people and keep our business running as a critical lifeline utility.

Director independence

The Board has determined, based on information provided by directors regarding their interests, that at 30 June 2020 Ms Barrass, Mr Berriman, Mr Bray, Ms Greenwood, Mr Leffler, Mr Sitch and Ms Smyth were independent. The Board determined that Ms Hodson was not independent due to her position as CEO.

The criteria for determining director independence and conflict of interest may be found in the Board Charter at: **https://www.sparknz.co.nz/about/governance**

Director interests

Directors made the following entries in the interests register for FY20:

- Directors disclosed, pursuant to section 140 of the Companies Act 1993, interests in the following entities during FY20:

DIRECTOR	ENTITY	RELATIONSHIP
Paul Berriman	Lynx Analytics Pte Limited	Ceased to be a director
Pip Greenwood	Vulcan Steel Limited	Director
Ido Leffler	Brandless (Dhosi) Lux Group Limited Beach House Group	Ceased to be a Board member Director[1] Ceased to be a director[2]
Jolie Hodson	Lightbox Sport General Partner Limited Mattr Limited NZ Telecommunications Forum Incorporated	Appointed and ceased to be a director[3] Director Board member
Justine Smyth	Pushpay Holdings Limited	Appointed and ceased to be a director[4]

1 Appointment effective 24 July 2020.
2 Cessation effective 10 August 2020.
3 Cessation effective 6 August 2020.
4 Cessation effective 18 July 2020.

- Directors disclosed, pursuant to section 148 of the Companies Act 1993, the following acquisitions and disposals of relevant interests in Spark shares during FY20:

NAME	DATE	NATURE OF TRANSACTION	CONSIDERATION	NUMBER OF SHARES
Alison Barrass	20 February 2020	Purchase of ordinary shares	$2,585	516
Pip Greenwood	19 September 2019	Purchase of ordinary shares	$30,073	6,750
	14 November 2019	Purchase of ordinary shares	$59,562	13,575
	4 June 2020	Purchase of ordinary shares	$58,669	13,000
Jolie Hodson	19 September 2019	Issue of options	Services to Spark	203,317
	26 September 2019	Unrestricting of restricted ordinary shares	Services to Spark	45,351
Ido Leffler	5 March 2020	Purchase of ordinary shares	AUD$102,872	22,000
Charles Sitch	18 June 2020	Purchase of ordinary shares	AUD$78,241	18,795
Justine Smyth	3 June 2020	Purchase of ordinary shares	$112,220	25,000

- Directors disclosed, for the purposes of section 162 of the Companies Act 1993, that insurance was renewed for Spark's directors and senior managers for the 12-month period from 1 June 2020 and deeds of indemnity provided to all directors and specified senior managers of Spark.

Benefits provided to full-time employees that are not provided to temporary or part-time employees

The following table sets out benefits provided to full-time employees during FY20 that are not provided to temporary or part-time employees[1]:

	FULL-TIME PERMANENT EMPLOYEES	PART-TIME PERMANENT EMPLOYEES	FIXED-TERM / CASUAL EMPLOYEES
Parental Leave	Yes	Yes	Yes[2]
Insurance cover: • Medical • Life & Terminal Illness • Income Protection • Trauma	Yes	Yes[3]	No
Spark Account Credit[4]	Yes	Yes	No
Ability to participate in Spark Share[5]	Yes	Yes	No
Volunteer Day[6]	Yes	Yes	No
Spark Give[7]	Yes	Yes	No[8]
Eligibility to join Marram[9]	Yes	Yes	No
Eligible for Purchased Leave[10]	Yes	Yes	No

1 Excludes benefits offered to some subsidiaries, which differ from Spark's overall benefits suite.
2 Eligibility for Parental Leave is in accordance with Government legislation.
3 Employees must work at least 15 hours a week to be eligible.
4 Employees with a Spark account will receive a monthly credit of $120 which can be used towards Spark products or services.
5 Spark's employee share purchase scheme.
6 The opportunity for Spark employees to take a day of paid volunteer leave.
7 If an employee donates to a charity or to a school directly from their pay then Spark will match the amount dollar-for-dollar, up to a $500 annual matching cap.
8 Casual employees are ineligible.
9 Marram Trust offers access to accommodation across New Zealand for discounted rates, as well as providing a basic level of healthcare cover.
10 The ability to purchase additional annual leave via a deduction of base salary.

Employee remuneration

The table below shows the number of employees and former employees, not being directors of Spark, who, in their capacity as employees, received remuneration and other benefits during FY20 totalling NZ$100,000 or more[1].

RANGE	CURRENT	FORMER	TOTAL	RANGE	CURRENT	FORMER	TOTAL
$100,000 - $110,000	336	17	353	$360,001 - $370,000	5	2	7
$110,001 - $120,000	364	7	371	$370,001 - $380,000	2	0	2
$120,001 - $130,000	271	13	284	$380,001 - $390,000	2	2	4
$130,001 - $140,000	210	5	215	$390,001 - $400,000	1	0	1
$140,001 - $150,000	187	6	193	$400,001 - $410,000	1	0	1
$150,001 - $160,000	138	5	143	$410,001 - $420,000	2	1	3
$160,001 - $170,000	77	2	79	$420,001 - $430,000	1	0	1
$170,001 - $180,000	78	0	78	$430,001 - $440,000	1	0	1
$180,001 - $190,000	53	2	55	$460,001 - $470,000	1	0	1
$190,001 - $200,000	45	1	46	$470,001 - $480,000	2	0	2
$200,001 - $210,000	31	0	31	$480,001 - $490,000	2	0	2
$210,001 - $220,000	31	0	31	$490,001 - $500,000	1	0	1
$220,001 - $230,000	20	5	25	$510,001 - $520,000	1	0	1
$230,001 - $240,000	10	3	13	$520,001 - $530,000	1	0	1
$240,001 - $250,000	8	0	8	$530,001 - $540,000	2	0	2
$250,001 - $260,000	10	0	10	$550,001 - $560,000	1	0	1
$260,001 - $270,000	9	3	12	$560,001 - $570,000	2	0	2
$270,001 - $280,000	5	0	5	$800,001 - $810,000	2	0	2
$280,001 - $290,000	3	2	5	$860,001 - $870,000	1	1	2
$290,001 - $300,000	3	0	3	$910,001 - $920,000	0	1	1
$300,001 - $310,000	6	1	7	$970,001 - $980,000	1	0	1
$310,001 - $320,000	1	0	1	$1,040,001 - $1,050,000	1	0	1
$320,001 - $330,000	7	0	7	$1,070,001 - $1,080,000	1	0	1
$330,001 - $340,000	3	0	3	$1,090,001 - $1,100,000	0	1	1
$350,001 - $360,000	2	0	2	$1,200,001 - $1,210,000	0	1	1
Total					**1,942**	**81**	**2,023**

1 The table includes base salaries, short-term incentives and vested long-term incentives. The table does not include: amounts paid after 30 June 2020 relating to FY20; long-term incentives that have been granted and have yet to vest (based on grant values, the total value of which was NZ$9.03 million as at 30 June 2020); product and service concessions received by employees; contributions paid towards health and other insurances; contributions paid to the Government Superannuation Fund (a legacy benefit provided to a small number of employees); and, if the individual is a KiwiSaver member, contributions of 3% of gross earnings towards that individual's KiwiSaver scheme.

Shareholdings

As at 30 June 2020 there were 1,837,044,943 Spark ordinary shares on issue, each conferring to the registered holder the right to one vote on a poll at a meeting of shareholders on any resolution, held as follows:

SIZE OF HOLDING	NUMBER OF HOLDERS[1]	%	NUMBER OF SHARES	%
1-1,000	12,793	30.69	6,628,337	0.36
1,001-5,000	17,679	42.40	46,242,144	2.52
5,001-10,000	6,014	14.43	44,528,969	2.42
10,001-100,000	4,992	11.97	113,437,733	6.18
100,001 and over	214	0.51	1,626,207,760	88.52
Total	**41,692**	**100.00**	**1,837,044,943**	**100.00**

1 Includes 1,214,002 shares on issue held by Spark Trustee Limited on behalf of 41 holders for the Spark Long-Term Incentive Plan (as further described in note 6.2 of the financial statements). There are 1,190,024 shares on issue held by Spark Trustee Limited on behalf of 1,111 holders for Spark Share.

As at 30 June 2020 there was an additional class of 210,061 redeemable ordinary shares on issue all held by Mr Simon Moutter (the former Managing Director). Redeemable ordinary shares have the same voting rights as ordinary shares (but are subject to restrictions regarding disposal).

The 20 largest registered holders of Spark shares at 30 June 2020 were:

NAME[1]		NUMBER OF SHARES	%
1.	HSBC Nominees (New Zealand) Limited[2]	365,556,764	19.90
2.	HSBC Nominees (New Zealand) Limited[2]	215,304,356	11.72
3.	JP Morgan Chase Bank	204,779,718	11.15
4.	Citibank Nominees (NZ) Limited	140,240,358	7.63
5.	HSBC Custody Nominees (Australia) Limited	76,382,894	4.16
6.	National Nominees New Zealand Limited	54,934,765	2.99
7.	Accident Compensation Corporation	51,721,457	2.82
8.	New Zealand Superannuation Fund Nominees Limited	39,063,460	2.13
9.	Cogent Nominees Limited	37,963,457	2.07
10.	BNP Paribas Nominees NZ Limited[3]	35,123,205	1.91
11.	JP Morgan Nominees Australia Pty Limited	33,670,489	1.83
12.	Citicorp Nominees Pty Limited	29,602,031	1.61
13.	FNZ Custodians Limited	23,288,905	1.27
14.	National Nominees Limited	22,448,004	1.22
15.	BNP Paribas Nominees NZ Limited[3]	22,240,159	1.21
16.	Premier Nominees Limited	21,453,501	1.17
17.	Tea Custodians Limited	21,189,263	1.15
18.	Forsyth Barr Custodians Limited	20,865,292	1.14
19.	JB Were (NZ) Nominees Limited	16,492,453	0.90
20.	New Zealand Depository Nominee	15,340,790	0.84

1 The shareholding of New Zealand Central Securities Depository Limited (custodian for members trading through NZClear) has been reallocated to the applicable members.
2 Has a different holder identification number to the other HSBC Nominees (New Zealand) Limited entry.
3 Has a different holder identification number to the other BNP Paribas Nominees NZ Limited entry.

According to substantial holder notices as at 30 June 2020 the substantial holders in Spark were as follows:

NAME	NUMBER OF ORDINARY SHARES	% OF ORDINARY SHARES ON ISSUE[1]
Blackrock Investment Management (Australia) Limited	137,946,771	7.51
The Vanguard Group, Inc	95,668,054	5.21

1 Based on issued share capital of 1,837,044,943 as at 30 June 2020.

As at 30 June 2020 directors, or entities related to them, held relevant interests (as defined in the Financial Markets Conduct Act 2013) in Spark shares as follows:

	RELEVANT INTEREST IN SPARK SHARES AT 30 JUNE 2020	
NAME	NUMBER	%[1]
Alison Barrass	37,716	0.0021
Paul Berriman	20,000	0.0011
Warwick Bray	–	–
Pip Greenwood	33,325[2]	0.0018
Jolie Hodson	347,474[3]	0.0189
Ido Leffler	32,000[4]	0.0017
Charles Sitch	32,729[5]	0.0018
Justine Smyth	375,201[6]	0.0204

1 Each percentage stated has been rounded to the nearest 1/1000th of a percent.
2 Relevant interest in beneficial ownership of 33,325 ordinary shares held by Custodial Services Limited as custodian for Rakino Trust.
3 Includes 52,018 ordinary shares, 203,317 options and 92,139 restricted shares.
4 Relevant interest in beneficial ownership of 32,000 ordinary shares held by DJL International Pty Limited as trustee of the Maxim Trust.
5 Relevant interest in beneficial ownership of 32,729 ordinary shares held by Sitch Superannuation Pty Limited.
6 Relevant interest in beneficial ownership of 375,201 ordinary shares held by Miksha Trust.

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

Subsidiary company directors

The following people held office as directors of subsidiary companies at 30 June 2020. Alternate directors are indicated with an (A).

SUBSIDIARY COMPANY	PRINCIPAL ACTIVITY	CURRENT DIRECTORS	DIRECTORS WHO RETIRED DURING THE YEAR
Computer Concepts Limited	IT infrastructure and Cloud services	M Anastasiou, G McBeath, S Knight	D Chalmers, J Hodson
Digilife New Zealand Limited	Home security	M Stribling, M Sheppard	D Werder
Digital Island Limited	Business telecommunications provider	S Knight, G McBeath	D Chalmers, J Hodson
Gen-i Australia Pty Limited	Provides outsourced telecommunications services	F Evett, I Hopkins	
Gen-i Limited	Holding company	S Knight, G McBeath	J Hodson
Mattr Limited	Software company focused on decentralised identity and verifiable data	C Barber, J Hodson	
Qrious Limited	Big-data analytics business	N Morris, S Knight	D Chalmers
Qrious Consulting Limited	Data consulting company	N Morris, S Knight	
Revera Limited	IT infrastructure and data centre provider	M Anastasiou, G McBeath, S Knight	D Chalmers, J Hodson
Spark Finance Limited	Group finance company	M Anastasiou, M Sheppard, S Knight, A White	D Chalmers, D Werder
Spark New Zealand Cables Limited	Investment company	M Sheppard, C Fraser	
Spark New Zealand LS Limited	Lightbox Sport Limited partnership	G McBeath, S Knight	D Chalmers, J Hodson
Spark New Zealand Trading Limited	Provides local, national and international telephone and data services	M Anastasiou, S Knight, M Beder	D Chalmers, J Hodson
Spark Retail Holdings Limited	Retailer of telecommunications products and services	M Anastasiou, S Knight	D Chalmers
Spark Trustee Limited	Trustee company	M Anastasiou, S Knight	D Chalmers
TCNZ Australia Investments Pty Limited	Holding company	F Evett, I Hopkins	
TCNZ (Bermuda) Limited	Holding company	D Havercroft, J Wesley-Smith	A Dyer-Fagundo, A Pirie (A), M Stribling (A)
TCNZ Financial Services Limited	Investment company	M Anastasiou, F Evett	
TCNZ (United Kingdom) Securities Limited	Holding/investment company	F Evett, M Palmer, J Reader	
Teleco Insurance Limited	Group insurance company	M Beder, A Dyer-Fagundo, A White, M Anastasiou (A), F Evett (A)	D Werder
Teleco Insurance (NZ) Limited	Mobile phone insurance	A White, R Quince	D Werder
Telecom Capacity Limited	Holding company	S Knight, J Wong	D Chalmers
Telecom Enterprises Limited	Investment company	M Anastasiou, S Knight	D Chalmers
Telecom New Zealand (UK) Enterprises Limited	Holding/investment company	F Evett, M Sheppard	
Telecom New Zealand USA Limited	Provides international wholesale telecommunications services	D Reeve, J Wong	D Werder
Telecom Pacific Limited	Holding company	M Anastasiou, M Sheppard	
Telecom Southern Cross Limited	Holding company	M Anastasiou, S Knight	D Chalmers
Telecom Wellington Investments Limited	Investment company	M Anastasiou, F Evett	
Telegistics Limited	Mobile phone repair and equipment distribution	R Singh, D Reeve, C Fletcher, R Adams	

Managing risk framework roles and responsibilities

ACTIVITY PERFORMED	BOARD & ARMC	LEADER-SHIP SQUAD	RISK	LEGAL (DIGITAL TRUST)	ORG UNIT LEADS	CENTRE OF EXCELLENCE LEADS	POLICY OWNERS	ALL SPARK PEOPLE
Approves the Managing Risk Policy	✔							
Monitors the managing risk framework	✔							
Reviews principal risk updates	✔							
Performs other items from its charter	✔							
Prepares strategy and annual plan		✔						
Runs QBR process and determines priorities		✔						
Coaches and guides Leads		✔						
Assigned as owners of identified principal risks		✔						
Designs and continuously improves the managing risk framework			✔					
Helps the business apply the framework			✔					
Prepares principal risk updates for the LS and ARMC			✔					
Helps Leads to capture their risks for the QBR content			✔					
Executes Internal Audit plan (objective assurance)			✔					
Designs and continuously improves the empowerment framework				✔				
Creates empowerment & and functional guidance kits				✔				
Oversees essential policies and webpage				✔				
Creates and delivers training modules				✔				
Use the Empowerment and Managing Risk Frameworks					✔			
Understand and adhere with the essential policies					✔			
Maintain view of risks for OKRs and fill in QBR Memo					✔			
Provide input into principal risk process					✔			
Escalate risks to LS or Risk Team (if required)					✔			
Review risk sections in QBR packs across Spark						✔		
Maintain view of risks for their OKRs and fill in QBR						✔		
Support Leads to manage identified risks						✔		
Provide input into principal risks						✔		
Maintain policy and guidance material							✔	
Complete assessments of effectiveness							✔	
Participate in policy owner working groups							✔	
Follow this framework and the essential policies								✔
Make informed decisions after assessing the benefits and risks								✔

External initiatives and membership of associations

Stakeholder engagement

Spark engages with a broad range of stakeholders as detailed in the table below. We have also engaged a small number of stakeholders specifically for the purposes of developing and improving our non-financial reporting, and as part of our reporting materiality process. In selecting the stakeholders we engaged with, we are guided by the definition set out in GRI 101: "entities or individuals that can reasonably be expected to be significantly affected by the organisation's activities, products, or services; or whose actions can reasonably be expected to affect the ability of the organisation to implement its strategies or achieve its objectives."

STAKEHOLDER GROUP	HOW WE ENGAGE
Spark employees	• Regular engagement through eNPS (employee net promotor score) methodology and newly launched Joyous real-time employee feedback tool • Comprehensive programme of internal communication and engagement from Leadership Squad (through roadshows and online channels) • Engagement with cross-section of employees in the preparation of this report
Shareholders	Regular engagement with investors including: • Semi-annual earnings announcements, together with semi-annual post result investor briefings • Semi-annual shareholder newsletters • Annual meeting that allows shareholders a chance to ask questions directly of the Spark Board • Regular investor roadshows • Periodic investor strategy briefings
Suppliers	• Ongoing conversations with our suppliers – both informal and formal
Customers	• Regular feedback from customers on their experiences with us and their views of Spark through our Net Promotor Score methodology and our Voice of the Customer programme
Government	• Engagement with central Government on issues related to the telecommunications industry, competition, infrastructure investment and digital equity • Engagement with local government to manage the process and impacts of infrastructure investment
Media	• Responding to media enquiries and through a proactive programme of engagement with key members of New Zealand's media
Local communities	• Engagement with local communities affected by our activities, in particular where we are building new network infrastructure
Community partners	• Spark Foundation works in partnership with, and engages, our community partners on an ongoing basis
Industry organisations	• Engagement with a number of industry organisations representing the technology community, telecommunications users and the New Zealand business community

External initiatives Spark subscribes to or endorses

- Spark is a founding member of the Climate Leaders Coalition (CLC). The CLC is a group of CEOs who have collectively committed to voluntary action on climate change, measuring and publicly reporting on their emissions, and setting an absolute target for reducing emissions in line with the Paris Agreement. See page 33.
- Spark has committed to a government-accredited voluntary Product Stewardship scheme for mobile phones, which is actioned by the Re:Mobile initiative. See page 35.

Spark was an active member of the following associations in FY20:

New Zealand Internet Task Force

International Telecommunication Union (Radiocommunication Sector membership)

NZTech (Including Internet of Things Alliance and AI Industry Forum)

BusinessNZ

Sustainable Business Council

Aotearoa Circle

Global Women

New Zealand Telecommunications Forum (TCF)

GSM Association (GSMA)

Champions for Change

Material issues

To prioritise Spark's reporting on sustainability topics we have followed GRI's materiality principle (set out in GRI 101) to identify and prioritise topics which substantively influence the assessments and decisions of stakeholders or have a significant environmental, social or economic impact.

Our assessment of material topics includes analysis of stakeholder feedback, review of industry peers and interviews with external stakeholders. Internally we consult with a range of employees, including members of our strategy, finance, community, corporate relations, risk, legal and HR teams, to determine Spark's view of topics meeting the GRI materiality principle criteria.

In FY20 we have reviewed and updated our list of material impacts, taking into account new and emerging issues particularly related to the impact of COVID-19. This has prioritised our role to support economic recovery, and highlighted the importance of investment in resilient and adaptable infrastructure. We have also followed the materiality principles of the Integrated Reporting International <IR> Framework, considering whether a matter could substantively affect Spark's ability to create value in the short, medium or long term.

INFLUENCE ON STAKEHOLDER ASSESSMENTS AND DECISIONS

- Competition and regulation
- Diversity and Inclusion
- Ethical behaviour
- Ethical supply chain and procurement practices

- Customer experience and support
- Data privacy and security
- Digital equity
- Equipping people for the future of work
- Operational excellence and financial performance
- Building partnerships for a strong Aotearoa
- Resilient, adaptable network infrastructure
- Supporting business customers through partnership

- Community investment
- Infrastructure impact
- Operational efficiency, emissions and waste
- Responsible employment practices
- Tax

- Adaptation to physical risk from climate change
- Disaster and crisis response
- Heath, Safety and Wellbeing
- Investment in innovation
- Leveraging services for community and environmental outcomes
- Product stewardship
- Responsible and fair use of our products and services

SIGNIFICANCE OF ECONOMIC, ENVIRONMENTAL AND SOCIAL IMPACTS

Global Reporting Initiative (GRI) content index

Our disclosure against each material topic includes our management approach, considering the requirements of *GRI 103: Management Approach*.

Note: CGS refers to Spark's Annual Corporate Governance Statement, which may be found here: **https://www.sparknz.co.nz/about/governance**

Indicator	Disclosure	Page number / reference
GRI 102: General disclosures 2016		
102-1	Name of the organisation	4
102-2	Activities, brands, products and services	8
102-3	Location of headquarters	118
102-4	Location of operations	8
102-5	Ownership and legal form	103, 109
102-6	Markets served	8
102-7	Scale of the organisation	8-9, 84, 109
102-8	Information on employees and other workers	31
102-9	Supply chain	49
102-10	Significant changes to the organisation and its supply chain	59
102-11	Precautionary principle or approach	46-47
102-12	External initiatives	113
102-13	Membership of associations	113
102-14	Statement from senior decision-maker	10-13
102-16	Values, principles, standards and norms of behaviour	6, 19, 46, CGS Principle 1
102-18	Governance structure	42-43, 46, CGS Principles 2, 3 and 4
102-40	List of stakeholder groups	113
102-41	Collective bargaining agreements	<1% of Spark employees in FY20
102-42	Identifying and selecting stakeholders	113
102-43	Approach to stakeholder engagement	113
102-44	Key topics and concerns raised	114
102-45	Entities included in the consolidated financial statements	58, 111
102-46	Defining report content and topic boundaries	113-114
102-47	List of material topics	114
102-48	Restatements of information	33 (Emissions reporting)
102-49	Changes in reporting	N/A
102-50	Reporting period	4
102-51	Date of most recent report	Spark's FY19 Annual Report was published on 21 August 2019
102-52	Reporting cycle	Spark reports annually. Our financial year is 1 July – 30 June
102-53	Contact point for questions relating to the report	118
102-54	Claims of reporting in accordance with GRI standards	4
102-55	GRI content index	115-116
102-56	External assurance	98-102
GRI 200 Economic Standard Series		
201-2	Financial implications and other risks and opportunities due to climate change	48
203-1	Infrastructure investments and services supported	22-25
206-1	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	19

GRI 300 Environmental Standard Series		
305-1	Direct (Scope 1) emissions	33
305-2	Energy indirect (Scope 2) emissions	33
305-3	Other indirect (Scope 3) emissions	33
306-2	Management of significant waste-related impacts	34-35
306-3	Waste generated	34-35
308-1	New suppliers that were screened using environmental criteria	49
308-2	Negative environmental impacts in the supply chain and actions taken	49
GRI 400 Social Standard Series		
401-1	New employee hires and employee turnover	31
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	107
401-3	Parental leave	30
403-1 (2018)	Occupational health and safety management system	28
403-9 (2018)	Work-related injuries	28 (TRIFR reporting)
404-2	Programmes for upgrading employee skills and transition assistance programmes	17, 26-27
405-1	Diversity of governance bodies and employees	30-31, 43
405-2	Ratio of basic salary and remuneration of women to men	30
414-1	New suppliers that were screened using social criteria	49
414-2	Negative social impacts in the supply chain and actions taken	49
417-3	Incidents of non-compliance concerning marketing communications	19
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	19

Glossary

3G	third-generation mobile network as defined by the International Telecommunications Union.
4G	fourth-generation mobile network as defined by the International Telecommunications Union.
5G	fifth-generation mobile network as defined by the International Telecommunications Union.
ADR	an American Depositary Receipt.
ARMC	the Audit and Risk Management Committee.
ARPU	Average Revenue per User.
ASX	the Australian Securities Exchange.
Burstable	able to exceed maximum bandwidths for short periods.
CCL	Computer Concepts Limited.
CCN	Converged Communications Network.
Company	Spark New Zealand Limited.
EBITDAI	earnings before finance income and expense, income tax, depreciation, amortisation and net investment income.
EMFs	Electromagnetic fields.
eNPS	employee Net Promoter Score and is our measure of employee satisfaction.
GRI	the Global Reporting Initiative.
Group	the Group in relation to these financial statements, which are prepared for Spark New Zealand Limited (the Company) and its subsidiaries (together the Group).
HRCC	the Human Resources and Compensation Committee.
IoT	the Internet of Things.
IFRS	International Financial Reporting Standards.
LTE	Long-Term Evolution.
LTI	Long-Term Incentive, which is part of Spark Leadership Team and former Managing Director and CEO remuneration.
NOMs	the Nominations and Corporate Governance Committee.
NPS	Net Promoter Score.
NZ GAAP	Generally Accepted Accounting Practice in New Zealand.
NZ IAS	New Zealand International Accounting Standard.
NZ IFRS	New Zealand Equivalent to International Financial Reporting Standards.
NZX	NZX Limited.
OTN	Optical Transport Network.
PSTN	Public Switched Telephone Network.
QBR	Quarterly Business Review.
RWC	the 2019 Rugby World Cup.
SME	Small and medium enterprise.
Southern Cross	Southern Cross Cables group of companies, which consists of two sister companies, Southern Cross Cables Holdings Limited and Pacific Carriage Holdings Limited and their subsidiaries.
SRAN	Single Radio Access Network.
STI	Short-Term Incentive, which is part of Spark Leadership Team and former Managing Director and CEO remuneration.
TSR	Total Shareholder Return and is a measure of share price appreciation and dividends paid over a given period.

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