Spark New Zealand
ANNUAL REPORT 2015

sharing
caring
playing
creating
building
living.

The Company changed its name from Telecom Corporation of New Zealand Limited to Spark New Zealand Limited on 8 August 2014. ARBN 050 611 277

This report is dated 21 August 2015 and is signed on behalf of the Board of Spark New Zealand Limited by Mark Verbiest, Chairman, and Simon Moutter, Managing Director.

Mark Verbiest
Chairman

Simon Moutter
Managing Director

KEY DATES

Annual Meeting
6 November 2015

Half-year results announcement
18 February 2016

Financial year-end
30 June 2016

Sharing experiences with family and friends. Caring for the things you love and the things that matter. Playing for the joy and fun that life can offer. Creating exciting future possibilities. Building a great business, here in New Zealand. Living a digital future. Today.

In the digital age, it's disrupt or be disrupted

The demand for mobile and broadband data is growing incredibly.

The power of technology inspires New Zealanders to do amazing things. To be better informed and entertained, to be smarter, safer, healthier and happier, to be more successful and productive in business.

This really matters to us, as our success depends on how well we deliver for customers in just one market – New Zealand.

With the customer experience becoming more valued than ever, now is the time for Spark New Zealand to step forward into the next stage of its transformation.

By investing in New Zealand's best data networks, innovating with new digital solutions and ensuring we listen and engage with our customers every day, we are realising our ambition to become a winning business, inspired by customers to unleash the potential in all New Zealanders.

Resetting for the future

Spark New Zealand has had a clear long-term strategy to transform for the digital age.

We've focused hard on stabilising and resetting the business and getting fighting fit on costs and process efficiencies.

We've re-engineered much of our legacy IT systems, giving us leading customer-management capabilities.

We've narrowed our focus to the New Zealand market, divesting non-core assets from overseas markets or from businesses that no longer fit with our digital services strategy.

A hugely successful Turnaround Programme has enabled us to invest in new growth areas such as Cloud services and Lightbox, and compete harder on price and value.

Most symbolically, resetting for the future meant rebranding our core brands as Spark, setting ourselves up for a digital services future rather than a telecommunications past.


LIGHTBOX!

The future is here

Spark New Zealand is ready to change gears; to imagine future possibilities for our customers, building on the foundation we have created.

We have first-class digital services capability and world-leading networks.

We have the data analytics capabilities to help understand our customers better than anyone and engage with them in a way that best suits them.

We will become a company that looks for digital solutions first, using digital services capability to deliver fantastic customer experiences that solve customer pain points and delight and amaze them.

We will look to become the most valued brand in New Zealand, helping New Zealanders lead better, healthier, wealthier lives – providing a lifestyle platform for everything they do at home, work or play.

We will help bring tomorrow to New Zealand.

Quicklook at 2015

Continuing operations:

Operating revenue and other gains NZ$
3,531M
▼ 2.9%

Net earnings NZ$
375M
▲ 16.1%

EBITDA NZ$
962M
▲ 2.8%

Dividends per share NZ$
20cents
▲ 17.6%

CAPEX NZ$
576M
▲ 25.5%

CAPEX excluding spectrum NZ$
418M
▼ 8.9%

Mobile revenue NZ$
1,019M
▲ 4.4%

IT services revenue NZ$
592M
▲ 5.5%

Mobile connections
2.178M
▲ 8.6%

Total employees
5,092
▼ 8.5%

Successful rebrand to Spark New Zealand completed

Completed sale of non-core assets: Telecom Rentals, international voice business and 60% shareholding in Telecom Cook Islands

$61M Takanini Data Centre opened

New businesses launched: Lightbox, Lightbox Sport, Qrious, Connect 8, Semble, Morepork

Second stage of re-engineering programme delivered, putting customers at the centre of IT systems and laying a solid foundation for digital capability and future productivity improvements

Turnaround Programme completed, providing the headroom to compete on price and to invest carefully in growth areas

We're now nationwide on fibre and 4G, supported by a core data transport network running the length and breadth of the country

Qrious launched

QRIOUS CONNECTS DATA, PROVIDING ACTIONABLE INSIGHTS FOR CUSTOMERS

Morepork takes flight

THE NEXT GENERATION IN HOME SECURITY

The financial year ended 30 June 2015 saw Spark New Zealand shifting focus from resetting the business to being New Zealand's leading provider of digital services.

This has fuelled confidence in our ability to achieve bold ambitions for customers, families, businesses and New Zealand and consequently, better returns for our shareholders.

Two years ago we laid out a strategy to transform from a traditional telecommunications company to a winning digital services business, inspired by customers to unleash the potential in all New Zealanders.

That plan is firmly on track, with the benefits, and subsequent indicators of growth, showing through in the results. In particular, the last year has seen Spark New Zealand return to modest EBITDA growth (with a strengthening second half), continue to grow market share in mobile, strengthen broadband propositions and gain momentum in Cloud services – all achieved despite a highly competitive market.

The bold decision to rebrand as Spark New Zealand continues to be vindicated with the core Spark brands performing well, appealing to a broader customer base and registering improvements in brand preference measures.

We are generating positive market momentum, especially in mobile. We have strengthened our portfolio of digital services and related capabilities, reshaped our IT systems around our customers, invested in network leadership and successfully focused on costs and capital. In essence, we have relentlessly focused on creating the headroom to invest in new growth areas and in the capability to make the most of it.

Particularly pleasing is the significant underlying improvement in free cash flow, which emerged in the second half of the year, demonstrating that the repositioning of the business is leading to better financial outcomes. This has provided the Board with the confidence to increase the dividend payment to shareholders from 17 cents per share in FY14 to 20 cents per share in FY15.

The headline financial results support the Board's view that a return to long-term, sustainable growth in free cash flow, revenue and earnings over the coming years is both realistic and achievable. As such, for FY16, Spark New Zealand anticipates paying an annual dividend of 22 cents per share and a special dividend of 3 cents per share as a means of returning excess capital, subject to there being no material adverse changes in operating outlook.

Mark Verbiest
Chairman

Simon Moutter
Managing Director

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Key Financial Results

- Operating revenues and other gains from continuing operations were down 2.9%, to $3,531 million, with growth in mobile and IT services revenue being moderated by the ongoing decline in calling and access revenue.
- Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) from continuing operations were up 2.8% for the full year.
- Spark New Zealand's net earnings after tax from continuing operations for FY15 were $375 million, up 16.1%. Net earnings including discontinued operations were down 18.5% compared to FY14, noting that year's results included a gain on the sale of AAPT.
- Mobile connections continued to grow, up 172,000 in the 12 months to 30 June 2015, as Spark New Zealand remains focused on growing in our target segments, such as the Auckland region and younger demographics under the age of 35.
- Total mobile revenue share topped 40%, driven by strong growth in consumer, however the market remains very competitive, especially in the business market.
- Broadband revenues returned to modest growth in FY15, driven by a focus on higher-value plans. Broadband connections increased 1.6% despite intense competition, particularly at the entry-level end of the market.
- IT services revenue rose 5.5%, underpinned by our investment in Cloud computing services through Revera and Appserv and in data centre infrastructure, including new and expanded facilities in main centres.
- Ongoing tight management of operating costs saw expenses from continuing operations reducing 5.0% to $2,566 million. The Turnaround Programme was completed at the end of June 2015, delivering significant improvement in sustainable free cash flow. The principles of the programme have now been embedded into each part of the business.

FY15 Strategic Progress

The first phase of the strategy is now completed – stabilising and resetting the business to reflect the new world in which Spark New Zealand and our customers live.

During that time we have reduced prices, cut costs, simplified products, overhauled IT platforms, rebuilt networks, established a new fast and competitive organisational culture and started winning in the market.

We've also sold businesses that were no longer going to be part of Spark New Zealand's future, with the successful divestment in FY15 of non-core legacy businesses; Telecom Cook Islands, Telecom Rentals and the international voice business generating $169 million of cash flow. This is on top of the prior year divestment of AAPT. Perhaps most significant of all was our choice to leave the legacy Telecom brand behind and invest in the core Spark brands, together with new brands like Skinny, Bigpipe, Revera, Qrious and Lightbox.

The extent of the change the organisation has experienced over the last two years is profound. Customers are sensing the shift and responding positively with improved brand metrics and reputation measures across key customer segments.

We have launched new growth-oriented businesses. Lightbox has played a pivotal role in the video streaming revolution in this country and has surpassed its planned subscriber targets as at the end of June 2015. Qrious has established a strong position in the emerging data analytics market and is working across a number of sectors to create value through data-driven decision-making. Morepork, a new home security and smart living product, was launched to mass market in August 2015.

The rapid rise of video streaming services, such as Lightbox, is fuelling an exceptional growth in demand for data, with the average fixed broadband data usage per New Zealand household growing 58% in the year to 30 June 2015. We have accelerated our broadband network investment plans to stay ahead of this surging demand and ensure we provide our customers with the best possible broadband experience.

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We believe our combined data network is second to none in New Zealand. This includes the quality and national reach of our 4G mobile network, our core Optical Transport Network that provides a high-speed, high-quality backbone for data transmission around the country and our nationwide broadband and WiFi networks. We have accelerated our rollout of mobile services using the 700MHz spectrum band range to make the most of owning more spectrum in this band range than any other provider.

We continued to invest in data centres and Cloud computing services, with a new $61 million data centre opening in Takanini in October 2014. End-to-end Cloud computing capabilities have continued to expand with both Revera and Appserv exceeding performance expectations and attracting a significant number of new business customers.

Alongside Telstra and Vodafone, we are also investing in additional international connectivity, with a new trans-Tasman cable expected to be operational in the second half of the 2016 calendar year.

There has been significant investment in people capability, through talent acquisition and development programmes, as well as in digital capability, through the re-engineering of information technology systems – a major programme that has seen millions of customer records migrated from legacy platforms to state-of-the-art customer management tools.

Across the entire organisation business units have been delivering on a number of fronts. Spark Home Mobile & Business has provided New Zealanders with great digital services, better value broadband and mobile services and achieved both revenue and EBITDA growth. Spark Digital has completed its repositioning and has built world-class data centre, ICT and Cloud capability to help New Zealand businesses achieve their own ambitions. There was excellent growth in Cloud-based services which has more than offset a slight decline in legacy IT services.

Spark Ventures has established a small but focused portfolio of new ventures, contributing new customers to Spark New Zealand, across Skinny, Lightbox, Qrious and Bigpipe. Spark Connect has been building New Zealand's best data network and continuing with the multi-year project to re-engineer legacy IT systems. And through the Spark Foundation's ownership of Givealittle, digital technology has revolutionised the charity and giving sector in New Zealand.

All up, Spark New Zealand is in the best shape it's been in for many years. The next phase is about leveraging outstanding networks and digital services capability to create truly great customer experiences and in turn generate sustainable margin and revenue growth.

Digital disruption is revolutionising customer experiences around the world. While much of this is being driven by new market entrants, smart incumbents are also rapidly adopting digital strategies to disrupt rather than be disrupted.

This is one of the key drivers behind our newly launched Digital First programme. Digital First is the next step in transforming Spark New Zealand into a smarter, more agile, more efficient company, with great digital customer experiences at its heart. It's how we will provide a lifestyle platform for New Zealanders at home, work and play.

Digital First is not a tangible product or service, it's a way of working that starts with customers and works its way back. The reality is Spark New Zealand is already on this journey. Many new products or services – like Lightbox, Morepork, Spark Apps and even new digital customer service channels – exemplify Digital First.

Spark New Zealand intends to invest in ensuring we are better at designing and delivering digital experiences than anyone else in New Zealand. Ultimately, it's likely that outstanding customer experiences will become more valued than ever before, complementing our data network advantages and ongoing investment in technology infrastructure.

Fighting Fit

"All up, Spark New Zealand is in the best shape it's been in for many years. The next phase is about leveraging outstanding networks and digital services capability to create truly great customer experiences."

The opportunities and challenges of the digital economy

For New Zealand, digital technology is set to make a significant and positive impact. Increasingly, technology, data and digital connectivity will be used to improve social and economic outcomes in a wide range of areas, including education, health, environment and regional development, to name just a few.

Meeting consumer and business demand for new and improved digital services means constant investment and innovation. In New Zealand, the communications technology sector has made significant infrastructure investments, spending billions of dollars over the last few years. The benefits of this investment flow out to the wider economy.

In a small market like New Zealand, the potential productivity benefits can be immense, allowing a wide range of businesses to work more efficiently and cost-effectively. For instance, the demand for Cloud-based solutions has expanded into sectors as diverse as agriculture, logistics and the creative industry. Ongoing investment is key to meeting this wave of demand.

Intense competition within the digital services industry has reduced margins and lowered prices for several years now and those forces are expected to continue into FY16. It will be vital for the country that the wider digital services industry - public and private - is healthy enough to continue investing sufficiently in essential digital infrastructure and in the digital talent needed to meet the explosive growth in demand. This will ensure New Zealand businesses can compete successfully in a global economy.

Governance & Leadership

The Board is committed to Spark New Zealand being New Zealand's leading digital services provider. Accordingly, Spark New Zealand will continue to invest wisely where there is potential to build growth and earn returns from new digital services, as well as brand and customer preference.

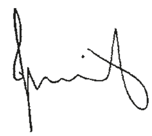
The financial year saw the departure of Director Maury Leyland. Maury served with distinction and was influential in developing the architecture of the transformation strategy and the decision to rebrand to Spark New Zealand. Maury left with the thanks and best wishes of her fellow Directors.

In other changes Chris Quin departed at the end of the financial year. Chris was instrumental in the development and growth of Gen-i (now Spark Digital) and more recently led the return of Spark Home, Mobile & Business to revenue and earnings growth. Jason Paris, formerly the General Manager Home, Mobile & Business, was promoted to Chief Executive of that business on 1 July 2015.

Chief Turnaround Officer Matt Crockett also left at the end of the financial year following completion of the Turnaround programme. By any measure, the Turnaround programme was a tremendous success. One of the largest programmes of its kind seen in New Zealand, it delivered significant financial benefits and allowed the business to offer customers more value and to invest in new growth areas.

The Board would like to acknowledge the people of Spark New Zealand. They have taken on the challenge of transforming this amazing New Zealand business and they have made massive strides towards that ambition.

We are looking forward to the 2016 financial year and to building on the momentum created from the platform the Spark New Zealand team has developed over the past two years. We recognise the important role we have in helping New Zealanders and New Zealand businesses achieve their aspirations. We are determined to make a meaningful and sustainable contribution to New Zealand's digital future.



Mark Verbiest
Chairman

Simon Moutter
Managing Director

21 August 2015

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

.1 **Mark Verbiest** CHAIRMAN Non-executive Director
.2 **Paul Berriman** Non-executive Director
.3 **Murray Horn** Non-executive Director
.4 **Ido Leffler** Non-executive Director
.5 **Charles Sitch** Non-executive Director
.6 **Justine Smyth** Non-executive Director
.7 **Simon Moutter** Managing Director

For more information on Director's profiles and experience see page 16-17 or our website www.sparknz.co.nz/about/directors

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Mark Verbiest CHAIRMAN
Non-executive Director

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

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

Mark's experience in the telecommunications sector extends over more than a decade, including 7½ years on the Company's senior executive team from 2000. Mark is an experienced company director, also serving as Chairman of Transpower New Zealand Limited, a director of ANZ Bank New Zealand Limited and Freightways Limited, Chairman of Willis Bond Capital Partners Limited and Willis Bond General Partner Limited, a member of the Commercial Operations Advisory Board of the New Zealand Treasury and is a former board member of the Financial Markets Authority. He is also a trustee of the Southern Lakes Arts Festival Trust and a consultant to national law firm Simpson Grierson. Mark has a law degree from Victoria University of Wellington.

Paul Berriman
Non-executive Director

TERM OF OFFICE: Appointed director 1 December 2011 and last re-elected at the 2012 Annual Meeting.

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

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

Murray Horn
Non-executive Director

TERM OF OFFICE: Appointed director 1 July 2007 and last re-elected at the 2014 Annual Meeting.

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

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

Ido Leffler
Non-executive Director

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

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

Ido is a West Coast United States based entrepreneur with experience in developing digital brands and has extensive networks in the start-up communities of Silicon Valley and Australasia.

Ido is the co-founder and Chief Executive at Yoobi, a new school supplies company that engages kids through bright colours, cool designs, and most importantly, cause. For every Yoobi item purchased, Yoobi distributes an item to a classroom in need in the US. He is also co-founder of San Francisco-based Yes To Inc., one of the world's leading natural beauty brands, with distribution in over 25,000 stores in over 20 countries. Ido is also Co-founder of Cheeky, a lifestyle brand redefining the boring paper plate and helping end hunger in the process. With each item purchased, Cheeky helps donate a meal through a partnership with Feeding America.

Ido sits on numerous corporate/advisory boards including The United Nations Foundation Global Entrepreneur Council and The Dell Global EIR Advisory Board. Fast Company magazine described Ido as among the 1000 most creative people in business, one of 30 top entrepreneurs under 30 and as one of the top 50 Achieving Australians outside of Australia. Ido is the co-author of the book Get Big Fast and Do More Good described as one of the top five business books to read in 2013. Ido attended the University of Technology in Sydney where he earned his Bachelor of Business in Marketing & International Business.

Charles Sitch
Non-executive Director

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

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

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

Justine Smyth
Non-executive Director

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

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

Justine joined the Board of Spark New Zealand in December 2011. Her background is in finance and business management (with Deloitte and Lion Nathan), and she owns a retail clothing business with brands across Australasia. She is a Director of Auckland International Airport Limited, a former board member of the Financial Markets Authority and a former Deputy Chair of New Zealand Post Limited. She also chairs the New Zealand Breast Cancer Foundation. Justine's experience in governance, mergers & acquisitions, taxation and financial performance of large corporate enterprises and the acquisition, ownership, management and sale of small and medium enterprises underpins her contribution as a Director. Justine has a Bachelor of Commerce from Auckland University and is a Fellow of the New Zealand Institute of Chartered Accountants.

Simon Moutter
Executive Director

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

BOARD COMMITTEES: None.

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

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

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Taking the lead.

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.1 **Simon Moutter** MANAGING DIRECTOR

.2 **David Havercroft** CHIEF OPERATING OFFICER, SPARK CONNECT

.3 **Jolie Hodson** CHIEF FINANCIAL OFFICER, SPARK NEW ZEALAND

.4 **Joe McCollum** GROUP HR DIRECTOR, SPARK NEW ZEALAND

.5 **Tim Miles** CHIEF EXECUTIVE, SPARK DIGITAL

.6 **Jason Paris** CHIEF EXECUTIVE, SPARK HOME, MOBILE & BUSINESS

.7 **Rod Snodgrass** CHIEF EXECUTIVE, SPARK VENTURES

For more information on our Leadership team experience see page 20–21 or our website www.sparknz.co.nz/about/leadershipteam

Simon Moutter
Managing Director, Spark New Zealand

See Board of Directors for information on Simon Moutter.

David Havercroft
Chief Operating Officer, Spark Connect

David Havercroft is the Chief Operating Officer of Spark Connect, delivering the technology, products and processes to ensure great customer experiences and world-leading connectivity via the Spark Network. David joined the Company in October 2009 and has over 25 years of international telecommunications industry experience. He has held executive roles in business and technology functions in British Telecom, Cable & Wireless, IBM, and PwC. David is responsible for building the best network experience for our customers, ensuring the lowest cost per gigabyte data network in the country that is built for the future. This involves optimising the huge investments being made in New Zealand's digital future, including in data network capability, mobile spectrum and IT platforms, to set Spark New Zealand up for success and for further growth in the future. David is also responsible for wholesale relationships, procurement and property. David has a proven track record in designing and leading large-scale, complex business and information technology transformation programmes, with a particular focus on strategic partnerships. David has a Bachelor of Arts with Honours, majoring in Economics.

Jolie Hodson
Chief Financial Officer, Spark New Zealand

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

Joe McCollum
Group Group Human Resources Director, Spark New Zealand

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

Tim Miles
Chief Executive, Spark Digital

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

Jason Paris
Chief Executive, Spark Home, Mobile & Business

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

Rod Snodgrass
Chief Executive, Spark Ventures

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

Key performance indicators

Amounts are for Spark New Zealand's continuing operations, representing the ongoing business.

CONTINUING OPERATIONS		FY15	FY14	% CHANGE
Operating revenues and other gains	$M	3,531	3,638	(2.9)%
Operating expenses	$M	2,566	2,702	(5.0)%
Share of associates' and joint ventures' net (losses)	$M	(3)	–	NM
EBITDA[1]	**$M**	**962**	**936**	**2.8%**
Depreciation and amortisation expense	$M	453	451	0.4%
Net finance expense	$M	27	31	(12.9)%
Income tax expense	$M	107	131	(18.3)%
Net earnings	**$M**	**375**	**323**	**16.1%**
Capital expenditure – excluding spectrum[2]	$M	418	459	(8.9)%
Capital expenditure – spectrum[3]	$M	158	–	NM
Total mobile connections[4]	(000)s	2,178	2,006	8.6%
Broadband connections[4,5]	(000)s	680	669	1.6%
Employee numbers[6]		5,092	5,565	(8.5)%

1 Spark New Zealand calculates EBITDA by adding back depreciation, amortisation, finance expenses and income tax expense to net earnings less finance income. EBITDA is a non-Generally Accepted Accounting Practice (GAAP) measure and is not comparable to the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) measure of performance.

2 Excludes capital expenditure related to discontinued operation of $35 million in FY14.

3 Capital expenditure related to the purchase of 2x20 MHz of 700 MHz spectrum in FY15.

4 Measure as at 30 June.

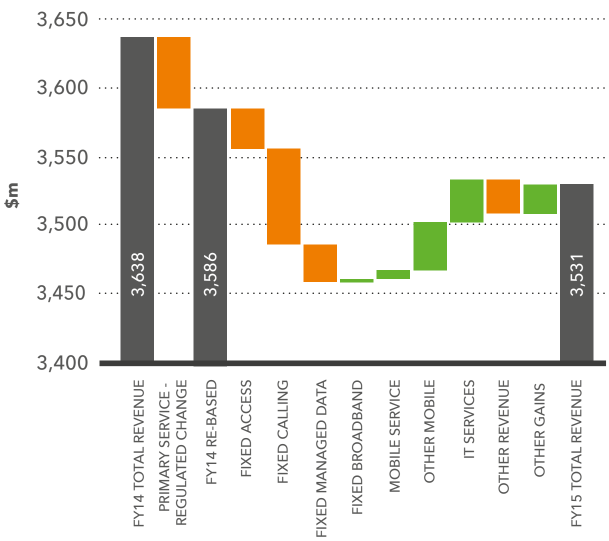
5 Measure relates to fixed access lines in the Home, Mobile & Business and Digital business units.

6 FTEs are full-time equivalents including contractors and are measured as at 30 June.

Group result overview

Spark New Zealand's net earnings from continuing operations after tax for FY15 were $375 million, an increase from FY14 of $52 million or 16.1%. The FY15 financial results reflect a continuation of the significant changes we have been making in our business and the traction gained in the execution of our strategy to stabilise revenues and margins and reduce costs.

Operating revenues and other gains



Total fixed revenues declined by $177 million, or 9.2%, in FY15, however, this decline was impacted by a regulated change where, effective from 1 December 2014, Chorus now charges a majority of Spark Wholesale's customers directly for access lines. This has resulted in a net reduction in revenues of $52 million, offset by a corresponding drop in operating costs. Adjusting for this, fixed revenues have declined by $125 million, or 6.5%, which reflects the long-term industry trend away from legacy fixed products, albeit at a slower rate of decline than historical rates in excess of 10%.

Mobile revenues grew by $43 million, or 4.4%, with a net increase of 172,000 connections since June 2014 taking the total mobile base to 2.18 million connections at 30 June 2015. The revenue growth was driven by a combination of higher volumes of handset sales and increased service revenues from the higher mobile base, partially offset by lower average revenues per user (ARPUs) resulting from increased value inclusions in post-paid mobile offerings.

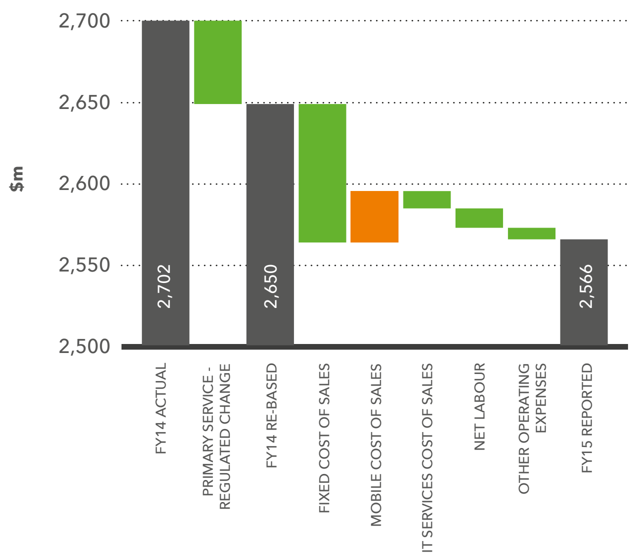
IT services revenue grew by $31 million, or 5.5%, resulting from continued investment in Cloud-based services with growth driven out of Revera and Appserv (acquired in July 2014), partially offset by a slight decline in IT legacy service revenues.

Other operating revenues declined by $26 million, or 14.8%, in FY15 due largely to $14 million lower Southern Cross dividends and $4 million lower Telecom Cook Islands revenue following the divestment of this business in March 2015.

In line with our strategy to focus on our core New Zealand business, during FY15 Spark New Zealand divested its 60% shareholding in Telecom Cook Islands, its international voice business and its leasing business, Telecom Rentals. As a result, in FY15 we recorded gains on sale of $32 million in other gains, compared to the $10 million recorded in FY14, being $3 million from the sale of Auldhouse and insurance proceeds of $7 million.

Overall, our total operating revenues and other gains from continuing operations declined by $107 million, or 2.9%, to $3,531 million.

Operating expenses



Operating expenses from continuing operations reduced by $136 million, or 5.0%, to $2,566 million in FY15. This decline includes a $52 million decrease in operating costs relating to the regulatory change referred to under fixed revenues above and a $6 million year-on-year reduction in expenses following the divestments of Telecom Cook Islands and the international voice business in February and March 2015 respectively. Additionally, the FY15 operating expenses included $11 million of non-recurring costs associated with the successful rebrand to Spark.

Adjusting for these items total operating expenditure decreased $67 million or 2.5%.

The reduction in operating expenses reflects the benefits from the successful execution of our Turnaround Programme, resulting in lower staff numbers, efficiency improvements in the consumption of input services, lower input cost prices and overall procurement efficiencies. The impact of new wholesale charges effective from 1 December 2014, as set by the Commerce Commission, has resulted in lower access costs. These have been partly offset by higher mobile acquisition costs associated with the strong growth in our customer base and costs associated with the investment in our start-up enterprises, such as Lightbox, Qrious and Morepork.

The depreciation and amortisation expense increased by $2 million, or 0.4%, to $453 million in FY15. This increase is due to a combination of increased depreciation associated with the $158 million acquisition of 700 MHz spectrum in FY15, the acquisition of Appserv in FY15, a change in the mix of capital expenditure towards items with a shorter life on average, partly offset by a reduction from lower levels of capital spend.

Net finance expense reduced by $4 million, or 12.9%, to $27 million in FY15. This was due to a combination of maturing debt being replaced by debt at lower interest rates, lower overall debt levels following the sale of the AAPT business in February 2014 for $506 million and Telecom Cook Islands, Telecom Rentals and the international voice business in FY15, partly offset by the payment of $158 million in relation to 700 MHz radio spectrum in August 2014.

The income tax expense decreased by $24 million, or 18.3%, to $107 million in FY15 due to a combination of the non-taxable gains on the sale of businesses and the impact of prior period adjustments.

A summary of the results of Spark New Zealand's key business units are outlined in the following section. Further details of the FY15 and historical performance are available in a separate financials file on the investor section of our website at: investors.sparknz.co.nz/investor-centre

Non-GAAP measures

This annual report includes non-GAAP financial measures that are not prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS'). These include:

- **Earnings before interest, income tax, depreciation and amortisation (EBITDA)** – Spark New Zealand calculates EBITDA by adding back depreciation, amortisation, finance expense and income tax expense to net earnings less finance income. EBITDA includes the share of associates' and joint ventures' net losses.
- **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.
- **Average Revenue per User (ARPU)** – Spark New Zealand calculates ARPU as revenue for the period (for mobile this is only voice and data) divided by an average number of customers.

Spark New Zealand 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 New Zealand but that they should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS. Further, Spark New Zealand believes these measures provide useful information as they are used internally to evaluate performance of business units, to analyse trends in cash-based expenses, to establish operational goals and allocate resources.

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

EBITDA from continuing operations

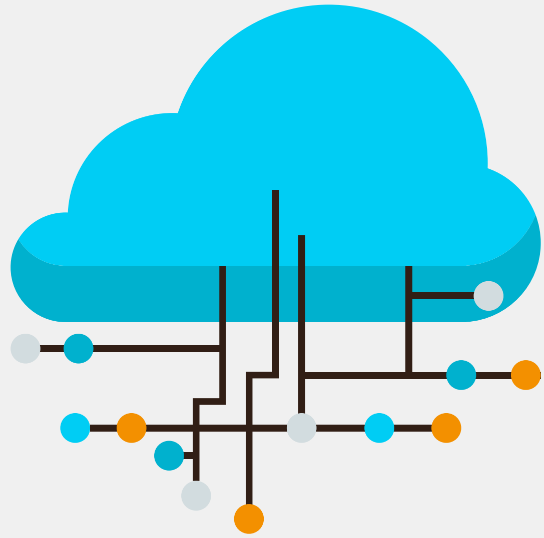
The calculation of Spark New Zealand's EBITDA is provided below and based on amounts taken from, and consistent with, those presented in the audited financial statements. EBITDA includes the share of associates' and joint ventures' net losses.

YEAR ENDED 30 JUNE	2015 $M	2014 $M
Continuing operations		
Net earnings reported under NZ IFRS	375	323
Add back: depreciation	256	253
Add back: amortisation	197	198
Less: finance income	(27)	(29)
Add back: finance expense	54	60
Add back: income tax expense	107	131
EBITDA from continuing operations	**962**	**936**

Adjusted EBITDA from continuing operations, where applicable, is the segment result reported, plus the net result of corporate revenue and expenses, in the financial statements. It excludes significant one-off gains, expenses and impairments individually greater than $25 million that are also excluded from the segmental result to provide an indication of the underlying earnings of that segment. There are no adjusting items in FY14 or FY15.

Segment results are reconciled to net earnings before income tax in note 4 of the financial statements.

Spark Home, Mobile & Business



FY15 revenue growth of:

3.0%

FY15 EBITDA growth of:

5.4%

Net Promoter Score:

— up 10 points for Consumer;

— up 13 points for Business

Spark Home, Mobile & Business provides products, services and support to consumers and small business customers. It provides a full range of services and content, data and voice services across fibre and copper broadband, 3G & 4G mobile and nationwide WiFi zones. The key priorities for Spark Home, Mobile & Business are to become #1 in the mobile market, to drive growth in the small business market and to hold market share in the broadband market by creating differentiated products that customers value.

Spark Home, Mobile & Business Operational Highlights

In FY15 we:

- Delivered both revenue and EBITDA growth, while investing in new ventures;
- Successfully launched the Spark brand, ensuring we have a compelling brand and offering in the market for our consumer and small enterprise customers;
- Furthered our market differentiation and increased our customer preference through offerings such as Socialiser plans (free data when using popular social networking apps), prepaid music plans, unlimited naked broadband plans and voice over fibre;
- Enhanced our open plans to customers that provide more value than ever and put control in the hands of the customer;
- Furthered our brand commitment to loyal customers through our Spark Thanks programme and enhanced offers;
- Launched Spark Lab, a dedicated space in Auckland's downtown Britomart precinct aimed at encouraging innovation by providing an environment for communities of interest to explore new ideas, products and experiences;
- Partnered with Putti to deliver apps for our business customers;
- Offered Lightbox internet TV to our broadband customers as an inclusion for 12 months; and
- Completed the acquisition of Appserv enhancing our ICT and Cloud offerings in the small business market.

In FY16 we will:

- Further build on the revenue and EBITDA momentum generated in FY15;
- Begin to shift our focus from acquiring connections to growing mobile market revenue by careful management of included plan value when and where the market enables us, to create the ability to monetise increased customer demand for data;

Spark.
Live and play in amazing ways.

Spark Home, Mobile & Business financial result

YEAR ENDED 30 JUNE	2015 $M	2014 $M	CHANGE %
Operating revenues and other gains	1,847	1,794	3.0%
Operating expenses	(1,121)	(1,109)	1.1%
Share of associates' and joint ventures' net (losses)	(4)	–	NM
EBITDA	**722**	**685**	**5.4%**

The financial results above include those for Spark Ventures.

- Address high churn and poor profitability in the lower end of the prepaid market through a more sensible approach to acquisition offers;
- Leverage digital integration to deliver the best personalised customer experiences through all our channels;
- Continue to compete to earn market share in mobile by developing further non-price differentiation across our portfolio to grow value; and
- Continue to grow our share in the small business market, further leveraging the acquisition and expansion of Appserv and our partnership with Putti.

Financial performance

Spark Home, Mobile & Business achieved both revenue and EBITDA growth in FY15 as we continue to successfully execute performance improvement initiatives in the business, supported by the rebranding to Spark Home, Mobile & Business and rising customer preference.

Total operating revenues grew 3.0%, with mobile growth significantly exceeding fixed revenue decline in the year.

Mobile revenue increased by $63 million, or 8.5%, in FY15 to $807 million due largely to strong connection growth driving increases in both usage revenue and handset sales. This was partly offset by reduced market pricing, especially in mobile data.

Fixed revenues declined by $25 million, or 2.4%, in FY15 to $998 million resulting from a combination of lower calling revenues due to price competition, continued substitution of fixed to mobile calling and uptake of naked broadband.

When compared with FY14 the fixed rate of decline has almost halved as customers increased usage and consumed higher-value plans. In FY15 the number of voice only customers decreased by 35,000, or 14.2%, in line with previous trends, albeit at a slower rate, as a result of technology migration. Broadband revenue improved $11 million, or 3.9%, to $295 million in FY15 driven by a combination of increased customer numbers and a change in the product mix as customers tended towards higher-value propositions.

IT services revenues grew by $9 million to $11 million in FY15 following the acquisition of Appserv in July 2014, which enhanced the ICT and Cloud-based offerings to our small business customers.

Overall, operating expenses increased by $12 million, or 1.1%, reflecting the increased investment in the launch of new ventures, such as Lightbox and Qrious, the acquisition of Appserv and higher mobile acquisition costs in line with the growing customer base, offsetting the savings generated from the Turnaround Programme.

The $4 million share of losses from associates and joint ventures reflect the Spark New Zealand share of losses incurred in Semble, Putti, Lightbox Sport and Vigil and reflect the start-up nature of these entities.

Spark Digital

FY15 Revera revenue growth of:

47%

Connecting schools

600K

600,000 students connected to Network for Learning

Spark Digital provides solutions for the rapidly evolving needs of business, enterprise and Government customers to meet the demands of an increasingly globalised and mobile customer base. We have unique experience and capability to deliver customers some of the best ICT solutions in New Zealand and we're committed to helping customers gain the competitive advantage that digital solutions can deliver.

Spark Digital Operational Highlights

In FY15 we:

- Delivered growth in IT services revenue and EBITDA, offset by declines in telecommunications revenue and EBITDA;
- Continued Revera's strong performance with 47% year-on-year revenue growth delivering on our Cloud-based IT strategy. Growth occurred across the client base, with customer numbers growing 30%, virtual machine usage up 45% and storage up 70%;
- Opened the Takanini Data Centre in October 2014, providing New Zealand's highest specification connected data centre facilities for our customers;
- Launched Spark Digital Apps, New Zealand's first fully integrated app store for business, where customers can find, buy, manage and use Cloud-based business apps;
- Made solid progress in the Government sector with significant new business;
- Continued the successful rollout of the Network for Learning project, with 2,000 schools and approximately 600,000 students and 42,000 teachers now connected; and
- Launched Connected Mobility, Spark Digital's Cloud-based automation and management solution powered by Jasper, the global leader in Cloud-based machine-to-machine (M2M) platforms, providing our customers with greater visibility, scalability and control of M2M deployments, helping them to increase service reliability and reduce operational costs.

In FY16 we will:

- Focus on developing new business with existing client partners, de-emphasising new client acquisitions via commoditising procurement processes;
- Deliver digital business transformation for our clients' customers and therefore transforming the traditional customer–supplier relationship;

Spark Digital financial result

YEAR ENDED 30 JUNE	2015 $M	2014 $M	CHANGE %
Operating revenues and other gains	1,215	1,288	(5.7)%
Operating expenses	(841)	(889)	(5.4)%
EBITDA	**374**	**399**	**(6.3)%**

Spark.
Win the future.

- Improve our IT services returns through rationalisation of existing products to fewer mostly Cloud-enabled offerings, creating a portfolio that competitively meets today's expectations of agility, reliability and consumption-based pricing, with a clear focus on repeatable, non-bespoke products;
- Broaden our Cloud product portfolio, building on our market-leading hosting infrastructure services to include more platform, desktop and software as-services, which, together with our Cloud aggregation and transition capabilities and data centre and network assets, will help position us as New Zealand's leading provider of hybrid Cloud solutions; and
- Streamline sales, contracting and provisioning processes through new digital channels and automation.

Financial performance

Spark Digital revenue and EBITDA declined in FY15 due to strong competition in telecommunications services and declines in legacy IT services as we reposition the business to an IT and Cloud services provider for New Zealand businesses.

Spark Digital revenues decreased by $73 million, or 5.7%, to $1,215 million for FY15, substantially due to continued decline in fixed revenues of $51 million, or 11.3%, driven by customers continuing to consolidate lines and moving to IP-based services and price competition. Mobile revenues declined by $21 million, or 9.5%, driven by competitive market pricing. These were partially offset by an increase in IT service revenues of $18 million, or 3.2%, substantially due to strong growth in Revera, partly offset by a decline in what were core IT services. Internal revenues declined by $17 million, or 32.1%, driven by lower volumes of equipment sales.

Overall operating expenses decreased by $48 million, or 5.4%, to $841 million in FY15. Labour costs reduced by $10 million, or 4.3%, due to a combination of efficiency improvement initiatives and the transition to the new arrangements with Telstra for our Australia customers. Other operating expenses declined by $36 million, or 5.8%, driven by cost-saving initiatives from the Turnaround Programme and lower IT procurement volumes.

"This year we launched Spark Digital Apps, New Zealand's first fully integrated app store for business, where customers can find, buy, manage and use Cloud-based business apps."

Spark Connect

Mobile data traffic

65%

—annualised growth in data traffic across the Spark Network

simple

—Release 2 of IT re-engineering programme delivered simplified customer systems

Mobile 4G traffic

20%

—carried on 700 MHz spectrum

Spark Connect is responsible for developing, maintaining and operating Spark New Zealand's telecommunications networks and IT systems, as well as providing services directly to wholesale customers. Spark Connect also provides many critical support services to the Company, such as billing, credit collections, provisioning, procurement and the management of buildings and leasehold property.

Spark Connect Operational Highlights

In FY15 we:

- Continued to progressively rollout 4G services across New Zealand, leveraging our investment in the recently acquired 700 MHz spectrum. Our 4G coverage now extends to more than 130 areas, including major cities and towns, with 4G 700 MHz now carrying 20% of all our 4G traffic;
- Responded to customers' needs by improving Spark New Zealand's self-serve channels, migrating all of our customers to a single customer master system and delivering new capabilities, including auto payment, via the IT re-engineering programme;
- Successfully insourced network operations and mobile engineering teams, as well as continued improvements in technology procurement;
- Successfully launched voice over fibre to our customers, the first time Spark New Zealand has a residential voice service delivered on anything but copper;
- Established a new fibre construction joint venture with Vocus Communications called Connect 8, providing Spark New Zealand with flexibility in meeting our fibre construction and delivery needs;
- Became the first service provider in New Zealand to be able to offer fibre services to customers in all ultrafast broadband (UFB) areas that have been made available by Local Fibre Companies;
- Extended the Optical Transport Network (OTN), offering high-speed resilient transport services for customers throughout New Zealand, as well as providing speed and connectivity for Spark New Zealand's core network and data centres;
- Became the first carrier in New Zealand to achieve accreditation for our carrier ethernet services, recognising that our managed data services uphold high performance standards in terms of scalability, reliability and management capabilities; and

Spark Connect financial result

YEAR ENDED 30 JUNE	2015 $M	2014 $M	CHANGE %
Operating revenues and other gains	458	574	(20.2)%
Operating expenses	(572)	(684)	(16.4)%
Share of associates' and joint ventures' net profits	1	–	NM
EBITDA	**(113)**	**(110)**	**(2.7)%**

Spark.
Delivering the network you need before you know you need it.

- Successfully divested our international voice business and our 60% shareholding in Telecom Cook Islands Limited as part of Spark New Zealand's strategy to focus primarily on our New Zealand operations.

In FY16 we will:

- Continue to improve our customers' speed of, and access to, mobile data by further enhancing our 4G footprint, utilising the 700MHz spectrum and deploying a Single Radio Access Network (SRAN) that simplifies and optimises our network performance;
- Complete the re-engineering programme by further delivering fibre and post-paid mobile releases;
- Commence the build of the trans-Tasman cable in partnership with Telstra and Vodafone, to provide increased resiliency and flexibility to our international connectivity;
- Begin our journey to a truly virtualised 'software defined network'; and
- Deploy greater network resilience and capacity to repond to customers' growing demands for data.

Financial performance

Spark Connect revenues decreased by $116 million, or 20.2%, to $458 million in FY15 with $52 million of this due to the regulated change to charging of unbundled bitstream access (UBA) to wholesale customers. The decline in traditional fixed-line voice services resulted in a $47 million reduction in access and calling revenues, and the divestments of Telecom Cook Islands and the international voice business resulted in a $6 million decrease in operating revenues.

Operating expenses reduced by $112 million, or 16.4%, to $572 million in FY15. $52 million of this decrease was due to the regulated change in the charging of UBA noted above and $14 million related to the divestments of Telecom Cook Islands and the international voice business. Significant cost-efficiency improvements due to the insourcing of network operations and mobile engineering teams, a continued focus on reducing third party IT support and maintenance costs and a reduction in labour expenses, contributed a further $28 million in reductions.

The $1 million share of profits from associates and joint ventures relates to Spark Connect's share of Connect 8's net earnings for the year.

Spark Ventures

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

QRIOUS Bigpipe™

VIGIL morepork

SENBLE Skinny MOBILE

LIGHTBOX

Surpassed target of

70,000

—Lightbox subscribers

Skinny rated

#1

by Canstar

—Skinny rated #1 in the prepaid mobile market for most satisfied customers – finishing highest ranked in all the rated criteria

Morepork

smart

—Announced entry into the smart living and home security market with Morepork

Spark Ventures Operational Highlights

In FY15 we:

- Strengthened Skinny's position as a leader in the prepaid mobile market for value-focused customers, with strong growth in connections, average revenue per customer and net promoter score;
- Commercially launched Lightbox, our internet TV business and experienced strong subscriber uptake during the year, surpassing our target of 70,000 subscribers at 30 June 2015, delivered through strong Spark offers, continued expansion of devices and a large TV library, including a high level of quality, exclusive content;
- Launched the Lightbox Sport partnership with initial offerings of English Premier League Football, PGA Golf and Top 14 French Rugby;
- Delivered sustained growth in Bigpipe subscribers supported by market-leading customer satisfaction measures and the continued expansion of ultrafast broadband footprint in Auckland and Wellington; and
- Expanded Qrious, our data analytics business, which is now delivering business insights and value across a number of sectors, including transport, tourism and events.

In FY16 we will:

- Continue to use disruptive business models and mindsets to grow and shape Spark Ventures' existing portfolio of businesses; with a focus on customer growth, customer experience and engagement;
- Enter the smart living and home automation category with Morepork, launched in August 2015;
- Continue to build out Spark New Zealand's position in the mobile app, mobile commerce, mobile advertising and big data markets;
- Leverage Spark Ventures' platforms and Qrious capability across Spark New Zealand; and
- Drive the ongoing digital transformation of Spark New Zealand via the Digital First programme.

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

Spark.
Tomorrow's solutions delivered.

Capital management and dividends

Cash flows

The following table sets out a summary of Spark New Zealand's cash flows:

YEAR ENDED 30 JUNE	2015 $M	2014 $M	CHANGE %
Net cash flows from operating activities	630	614	2.6%
Net cash flows from investing activities	(456)	10	NM
Net cash flows from financing activities	(304)	(530)	(42.6)%
Foreign exchange movement	2	(2)	NM
Net (decrease)/increase in cash	**(128)**	**92**	**NM**

NM = Not meaningful.

Net cash flows from operating activities

Net cash flows from operating activities increased by $16 million, or 2.6%, in FY15 from FY14. The major drivers of this change were:

- Reduced payments to suppliers and employees as a result of the cash savings from our Turnaround Programme, combined with the impact of one additional Chorus payment of $76 million in the previous year;

Partly offset by:

- Lower receipts from customers resulting from reduced operating revenues; and
- A $44 million reduction in Southern Cross dividend cash receipts due to a $14 million decrease in dividend income and the timing of receipts.

Net cash flows from investing activities

The net cash outflow from investing activities was $456 million in FY15, compared with an inflow of $10 million in FY14. The major drivers of this change were:

- The sale of the AAPT business in February 2014, which generated net cash receipts of $495 million in FY14;
- The non-recurring purchase of 700 MHz spectrum for $158 million;
- An increase in long-term investments, including the acquisition of Appserv, the formation of the Lightbox Sport and Connect 8 joint ventures and further investment in Semble and Vigil;

Partly offset by:

- The sales of Spark New Zealand's international voice business, 60% share of Telecom Cook Islands and Telecom Rentals Limited, which generated net cash receipts of $169 million.

Net cash flows from financing activities

The net cash outflow from financing activities was $304 million in FY15, compared with a net outflow of $530 million in FY14. The major drivers of this change were:

- A net decrease in short and long-term debt of $16 million compared with a $288 million decrease in FY14, driven by debt repayments following the AAPT business sale;

Partly offset by:

- An increase in dividend payments of $27 million in FY15 to $298 million, reflecting the increase in dividends per share paid during the year; and
- Cash payments for share buybacks of $23 million in FY15 with no share buybacks in FY14.

Capital expenditure

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

YEAR ENDED 30 JUNE	2015 $M	2014 $M	CHANGE %
Major programmes			
Optical transport network (OTN) and carrier ethernet	16	27	(40.7)%
Re-engineering	72	75	(4.0)%
Mobile network	92	130	(29.2)%
Takanini data centre	61	–	NM
Total major programmes	**241**	**232**	**3.9%**
Operating capital expenditure			
Southern Cross	5	21	(76.2)%
Customer growth and retention	172	206	(16.5)%
Total operating capital expenditure	**177**	**227**	**(22.0)%**
Total relating to major programmes and operating expenditure	**418**	**459**	**(8.9)%**
Mobile spectrum	158	–	NM
Total capital expenditure from continuing operations	**576**	**459**	**25.5%**
Discontinued operations – AAPT	–	35	NM
Total capital expenditure	**576**	**494**	**16.6%**

NM = Not meaningful.

Total capital expenditure from continuing operations for FY15 was $576 million, an increase of $117 million, or 25.5%, on FY14. This was primarily due to a $158 million investment in 700 MHz spectrum and a $9 million increase in major programmes, partly offset by lower spend in other areas due to increased capital efficiency.

Major programmes

- Investment in the OTN and Carrier Ethernet programme decreased in FY15 to $16 million from $27 million in FY14. OTN was deployed with significant capacity in FY14; FY15 investment reflects the extension of the network.
- In FY15 $72 million was invested in stage two of the three-year re-engineering programme. This investment delivered the large-scale migration of customer data from legacy systems to next generation systems based around world-class customer relationship management (CRM) software, simplifying Spark New Zealand's technology and processes and enhancing customer experience.
- In FY15 $92 million was invested in Spark New Zealand's mobile network. Included in this is the deployment of phase I of the single radio access network (SRAN) and LTE programme, which delivered 270 sites. Investment in SRAN/4G has a number of key benefits, including capital efficiency, operating cost reduction, network performance improvement and simplification.
- Spark New Zealand invested $61 million in the Takanini data centre in October 2014, providing New Zealand's premiere data centre facility for our clients.

Operating capital expenditure

- Spark New Zealand continued to invest in Southern Cross international cable capacity, with a further tranche purchased for $5 million in FY15. Additional capacity may be purchased as and when required to meet upward trends in customer demand for data.
- Customer retention and growth capital expenditure decreased from $206 million to $172 million in FY15, as a result of efficiency gains made from the Turnaround Programme and as Spark New Zealand prioritised its spend in strategic programmes.

Mobile spectrum

- Spark New Zealand invested $158 million in purchasing 2x20 MHz of 700 MHz spectrum in FY15, increasing the capacity and coverage of Spark New Zealand's 4G mobile network, providing significant benefits to customers. This is the largest 700 MHz holding of any operator in New Zealand.

Discontinued operation

- The AAPT business was sold in February 2014.

Liquidity and capital resources

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

Credit ratings

Spark New Zealand continues to be committed to maintaining an 'A Band' credit rating and its capital management policies are designed to ensure this objective is met. Relevant factors include Spark New Zealand's debt profile, operating outlook, cash flow and cost of capital.

As part of this commitment, Spark New Zealand intends to manage its debt levels to ensure that the ratio of net interest-bearing debt (inclusive of associated derivatives) to EBITDA does not materially exceed 1.1 times on a long-run basis, which for credit rating agency purposes equates approximately to net debt to EBITDA of 1.5 times. The difference between these two ratios is primarily due to the capitalisation of operating leases by credit rating agencies. Net debt includes long-term debt at the value of hedged cash flows due to arise on maturity, plus short-term debt, less any cash. Net debt is a non-GAAP measure and is not defined in accordance with NZ IFRS but is a measure used by management. A reconciliation of long-term debt at hedged rates to long-term debt at spot rates, as reported under NZ IFRS is provided in note 20 of the financial statements.

As at 30 June 2015 Spark New Zealand had been assigned a long-term credit rating of A-/Stable by Standard & Poor's. On 1 December 2014 Spark New Zealand announced that it had ceased to formally engage Moody's Investors Service Pty Limited (Moody's). On 15 December 2014 Moody's affirmed and withdrew its A3/stable credit rating of Spark New Zealand.

Funding

As detailed in note 20 of the financial statements, Spark New Zealand evaluates its liquidity requirements on an ongoing basis. In general, Spark New Zealand has generated sufficient cash flows from its operating activities to meet its financial liabilities. In the event of any shortfalls, Spark New Zealand has the following short-term and long-term financing programmes in place:

- a $500 million note facility and a US$1 billion European Commercial Paper programme; and
- a domestic bond programme, a A$1 billion Australian Medium Term Note Programme and a US$2 billion Euro Medium Term Note Programme.

In addition, Spark New Zealand has a committed standby facility of $200 million with a number of creditworthy banks and committed overdraft facilities of $15 million with New Zealand banks. There are no compensating balance requirements associated with these facilities.

On-market buyback

On 2 June 2015 Spark New Zealand announced its intention to undertake an on-market share buyback of up to 40 million ordinary shares for an aggregate purchase price of up to $100 million during the remainder of the 2015 calendar year. The ordinary shares will be acquired on the NZX Main Board, the stock exchange on which Spark New Zealand is listed in New Zealand. Following recent divestments Spark New Zealand's balance sheet is now under-levered. The purpose of the on-market share buyback is to return gearing to a more appropriate level.

During the year ended 30 June 2015, Spark New Zealand repurchased 11.0 million of its own shares at a cost of $31 million, of which $23 million was paid by 30 June 2015 (representing an average buyback price of $2.78). Shares purchased were cancelled immediately on acquisition.

Dividends

	H1 FY15 ORDINARY DIVIDENDS	H2 FY15 ORDINARY DIVIDENDS
Ordinary shares	9 cents	11 cents
American Depositary Shares	33.83 US cents	35.96 US cents[1]
'Ex' dividend dates		
New Zealand Stock Exchange	25 Mar 2015	23 Sep 2015
Australian Securities Exchange	25 Mar 2015	23 Sep 2015
American Depositary Shares	24 Mar 2015	22 Sep 2015
Record dates		
New Zealand Stock Exchange	27 Mar 2015	25 Sep 2015
Australian Securities Exchange	27 Mar 2015	25 Sep 2015
American Depositary Shares	26 Mar 2015	24 Sep 2015
Payment dates		
New Zealand and Australia	10 Apr 2015	9 Oct 2015
American Depositary Shares	17 Apr 2015	16 Oct 2015

1 Based on the exchange rate at 17 August 2015 of NZ$1 to US$0.6538 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.

Spark New Zealand pays dividends on a semi-annual basis. A dividend of 9 cents per share was declared for H1 FY15. The dividend was fully imputed at a rate of 3.5000 imputation credits per share. A supplementary dividend of 1.5882 cents per share was paid to non-resident shareholders.

A dividend of 11 cents per share has been declared for H2 FY15, bringing total dividends for FY15 to 20 cents per share.

The second half dividend will be fully imputed for New Zealand tax purposes at the rate of 4.2778 imputation credits per share. A supplementary dividend of 1.9412 cents per share will be paid to non-resident shareholders.

For FY16, subject to there being no material adverse changes in operating outlook, Spark New Zealand anticpates paying an annual dividend of 22 cents per share and a special dividend of 3 cents per share. It is currently anticipated that the FY16 dividends will be at least 75% imputed.

Dividend reinvestment plan

The dividend reinvestment plan has been suspended for the foreseeable future given Spark New Zealand is currently undertaking an on-market buyback.

Working capital and net tangible assets

Working capital

Spark New Zealand defines its working capital as the difference between current assets and current liabilities, excluding assets and liabilities classified as held for sale. Spark New Zealand's working capital position is shown in the table below. As at 30 June 2015 current liabilities exceeded current assets, however, positive operating cash flows enable working capital to be managed to meet short-term liabilities as they fall due. As at 30 June 2014 there was a surplus in working capital, with current assets exceeding current liabilities.

AS AT 30 JUNE	2015 $M	2014 $M	CHANGE %
Current assets	666	820	(18.8)%
Current liabilities	(717)	(768)	(6.6)%
(Deficit)/surplus in working capital	**(51)**	**52**	**NM**

Net tangible assets

As at 30 June 2015 Spark New Zealand's consolidated net tangible assets per share was $0.36. Net tangible assets per share is a non-GAAP financial measure and is not prepared in accordance with NZ IFRS. It is required to be disclosed by NZX and ASX listing requirements.

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

AS AT 30 JUNE	2015 $M	2014 $M
Total assets ($M)	3,206	3,243
Less intangible assets ($M)	(1,120)	(992)
Less total liabilities ($M)	(1,428)	(1,535)
Net tangible assets ($M)	**658**	**716**
Number of shares outstanding (in millions)	1,830	1,829
Net tangible assets per share	**$0.36**	**$0.39**

Spark People

Our people give life to our brand, they strive to delight our customers every day, and they develop and sell the products and services that put Spark New Zealand at the centre of New Zealanders' digital lives. Our people come from all walks of life, from all over the world and from all parts of our country, each bringing their own unique insights and ideas to the things we do each day. Without them, we would be just another company.

Whilst we have continued to streamline our organisation through operational and technological efficiencies, there are more than 5,000 of us in New Zealand, based from Whangarei in the far-north, to Invercargill in the deep-south.

This past year we continued to invest in our people, with a range of new initiatives like *Spark Share* – an employee share scheme that lets our people have a real stake in our future through ownership of the Company, a trial of *Summer Hours* – that gave people the option to work an extra hour Monday to Thursday and take a half day on Friday and enjoy the great Kiwi summer, and our internal *Thanks* programme, that rewards our people for doing amazing things and for showing leadership of our values.

5,000+

people from Whangarei in the far-north, to Invercargill in the deep-south

* excludes franchise locations

Our values

Our values are what define us – they're simple, they're clear and they lay the foundation for a strong, constructive culture. A culture where our focus is on the customer and we can challenge each other to work better, every day.

Alongside our code of behaviours, which sets out the way we behave – to each other, to our customers and to the community – our values are the glue that brings us together.

Rewarding our people

We reward and recognise our people every day – with competitive salaries, appealing benefits, opportunities to grow and develop their skills and a range of recognition programmes that celebrate success.

We're a performance-focused company, so for many of our people in sales and senior roles we link part of their remuneration to the delivery of customer or company outcomes. For our sales people, incentive and commission schemes give them the opportunity to be rewarded for retaining and winning customers, whilst for our senior people, our short and long-term incentive schemes link a large part of their remuneration to the overall performance of Spark New Zealand – and to the value we deliver to our shareholders.

Our employee recognition programme makes it easy for peer-to-peer and manager-led recognition – from a simple thanks, to cash rewards and right the way through to high profile annual awards events for top sales and service people.

Investing in our people

We're a big company full of potential and operating in one of the most fast-paced and exciting industries around. We've been involved in launching a number of exciting new digital services and we've been getting into rapidly evolving new markets – it's why over 15,000 people applied to work for us last year, and why our people see endless opportunities to learn, to grow and to make a career with us.

We offer our people development in a variety of ways, such as the opportunity to participate in projects, secondments to other roles within the Company, and training and development through attending courses, seminars and conferences.

At Spark New Zealand we believe that everyone can expect to have a great leader. This past year we've continued our investment in building New Zealand's best leaders through our management development programme that equips our leaders on how to manage and motivate people and teams, our new senior leaders programme for current and emerging senior leaders, and in building commercial capability through our commercial acumen programme that gives people the skills to make commercially sound financial decisions.

Diversity matters at Spark New Zealand. We are focused on ensuring that our organisation looks and feels more and more like our customers and New Zealand. Our focus areas continue to evolve each year. This year we have continued our commitment to the First Foundation, Global Women and Best Pasifika Leaders programmes.

Our work environment

Our state of the art working spaces and use of the latest and smartest technology create an innovative and productive environment for our people – allowing them to unleash their potential. Our flagship Auckland and Wellington buildings and many of our other sites around New Zealand support flexible working styles that let our people work wherever best meets their needs, combining with wireless connectivity to increase collaboration and productivity. Our Smart Meeting facilities mean we can connect with each other around the country in high definition – saving time, cost and reducing our carbon footprint.

We offer a range of flexible working options for our people – remote working from time to time, variable hours of work, job sharing, and special leave to accommodate personal commitments. Our successful 'Agents @ Home' programme now has over 15% of our call centre people operating from their homes. This balances their individual needs and our requirements, and gives Spark New Zealand the flexibility to manage working hours that meet changing customer demands in a modern world.

We also take the safety of our people, our customers and suppliers, and those visiting our places seriously, and Spark New Zealand is an Accredited Employer under the ACC Partnership Programme.

Community and Environment

Contributing positively to all aspects of our community and being a good corporate citizen is an important facet to realising our ambition of unleashing the potential in all New Zealanders.

We do this through:

- the programmes we run via the Spark Foundation, encouraging generosity and building a better future for New Zealand kids. In FY15 Spark New Zealand provided more than $2.5 million to fund the Foundation.
- the support we provide to a number of community groups around the country, to foster education, innovation and leadership.
- reaching out to those impacted by local and international disasters, assisting with restoring communications and offering free calling and texting to those in affected areas.
- the work we do to reduce our impact on the environment.

To find out more about the work we do through the Spark Foundation, in the community and to reduce our impact on the environment, download our full CSR report online: **www.sparknz.co.nz/what-matters**

1,238

_volunteer days gifted into the community

$792k

_donated into the community via payroll giving

$19M

_donated via Givealittle

3,000

_students currently studying under the Manaiakalani digital learning methodology

Spark Foundation

The Spark Foundation is a charity funded by Spark New Zealand, governed independently by a board of seven trustees. The Spark Foundation has four main focus areas: administering Spark New Zealand's employee volunteering and payroll giving programmes; owning and operating Givealittle, New Zealand's premier crowdfunding platform; and driving digital learning outcomes in partnership with the Manaiakalani Education Trust.

Volunteering

Every Spark New Zealand employee is offered one paid volunteer day each financial year to help them make a difference in their local community. Spark New Zealand people choose a range of ways to use their volunteer day. Some get involved in team activities, while others choose to use their knowledge in skill-based volunteering opportunities.

In FY15:

- 1,238 volunteer days were gifted into the community by Spark New Zealand people, reflecting a participation rate of 26%.
- This equates to around $370,000 of staff time.

Payroll Giving

Payroll giving enables Spark New Zealand people to donate directly from their pay to any of New Zealand's 26,000+ charities or schools that have donee status for tax purposes with the Inland Revenue Department. Employees receive an immediate tax deduction on the donation, and their donation is also matched dollar for dollar by the Spark Foundation on the first $1000 of charitable giving (with an additional $1000 matching cap for donations to schools that is renewed annually).

In FY15:

- $792,000 was donated into the community through employee donations and matching donations from the Spark Foundation.
- The participation rate among eligible Spark New Zealand employees was 19% (international benchmarking shows a participation rate of greater than 10% is commendable).

- The programme reached a milestone of $3 million donated to New Zealand schools and charities since it began in mid-2011.

Givealittle

The Spark Foundation is the proud owner of Givealittle, New Zealand's largest and most successful crowdfunding platform.

In FY15:

- $19 million was donated through Givealittle – two and a half times the prior year's $7.4 million and more than the total amount donated since the platform was created six years earlier.
- The Spark Foundation contributed more than $1.5 million to operate and develop Givealittle, ensuring it remained a zero fees, best practice platform.
- Givealittle celebrated its first $2 million month and on the last day of the financial year, reached the milestone of $30 million lifetime donations.
- After the devastating Nepal earthquake in April 2015, more than $1 million was donated through Givealittle to a range of charities and causes to help those who were impacted by the disaster. This was the most generous response we've seen to a natural disaster on Givealittle to date.

Spark My Potential

Spark My Potential, an accelerator programme to help talented young New Zealanders raise funds to realise their dreams and unleash their potential, successfully ran during FY15 as a key Spark New Zealand rebrand initiative. During this time, participants were given access to zero fees fundraising, expert crowdfunding coaching and selective dollar for dollar matching of donations from the Foundation. Forty eight participants raised a total of $585,000 and the Spark Foundation contributed $209,000 in matching.

Manaiakalani Programme

The Manaiakalani Education Trust brings a unique approach to digital learning to low income communities around New Zealand, transforming teaching and learning methods and significantly improving educational outcomes across participating schools. The Spark Foundation has been a major funding partner of the Trust since 2012.

In FY15:

- The Spark Foundation contributed $250,000 to enable research into the outcomes being achieved in the original Manaiakalani school cluster in Tamaki, Auckland, and to continue developing an innovation hub within the Tamaki cluster, including a Spark Manaiakalani Innovative Teachers programme.
- $600,000 of support was also provided to kick-start the Manaiakalani outreach programme, an expansion of the original programme into five clusters of predominantly decile 1 and 2 schools in Hornby (Christchurch), the West Coast of the South Island, Papakura and Mt Roskill (Auckland) and Kaikohe (Northland). This outreach will make it possible for more than 8,500 students to take part in this programme.

Community

Spark New Zealand, together with our people, partners with and supports a wide range of community organisations around the country.

Lightning Lab

Spark New Zealand is a National Foundation Partner for the Lightning Lab programme, which provides digital start-ups with structure, start-up methodologies, business skills and focused support so they can successfully prove, build and launch their ideas into market. In FY15 Spark New Zealand provided the Auckland programme with 10 mentors (including the CEO of Spark Home, Mobile & Business), the secondment of two staff for three months (to assist start-ups build their businesses and secure further funding) and additional funding and support.

First Foundation

First Foundation is a unique educational trust founded to give young New Zealanders, with plenty of talent but few financial resources, a hand up to tertiary education. As a Scholarship Partner, Spark New Zealand provided 15 scholarships to students who showed leadership potential in FY15. Each student was provided with a manager mentor and a minimum of five weeks paid work experience, a partnership that lasts four years for each student.

The Sir Peter Blake Trust

The Sir Peter Blake Trust aims to inspire and celebrate environmental awareness, adventure and leadership in action by recognising, supporting and celebrating the work of New Zealand's young leaders. In FY15 Spark New Zealand's support included hosting three Live Leadership events in Auckland, Wellington and Christchurch; providing staff as Dream Team leaders, who visited classrooms around New Zealand and talked to students about leadership; and providing financial support for the Trust's activities.

Springboard Trust mentoring

The Springboard Trust seeks to enhance the leadership and planning skills of school principals, helping them to achieve better educational outcomes for schools and their students. Many Spark New Zealand people volunteer their time as Capacity Partners (or mentors) and work alongside these principals, providing fresh thinking and support as they work through the programme. This engagement by Spark New Zealand people often provides valuable personal development in the areas of coaching and mentoring and broadens their understanding of educational contexts.

KeepLittleHeartsBeating

This viral campaign was launched by Sir Ray Avery (New Zealander of the Year 2010) to raise $2 million to produce breakthrough LifePod baby incubators. These low-cost incubators have the potential to save young lives on a global scale, especially in developing countries.

In FY15 Spark New Zealand hosted the global launch of the campaign at Spark City, Auckland, and set up a Givealittle page with an initial donation to help kick-start the worldwide appeal.

Spark Lab events

Spark Lab is a space provided by Spark New Zealand to Auckland's creative community in the heart of the downtown Britomart precinct. It provides creative Aucklanders with a space to learn and encourages successful creatives to mentor those starting out. In FY15 Spark Lab hosted more than 60 free events in curated monthly cycles (covering music, fashion, technology and architecture).

Spark bikes

Spark New Zealand partnered with local Christchurch resident Rob Henderson to bring a free public bike-share system to the city. The system links key sites within the Christchurch CBD – allowing people to move easily between businesses and local attractions. Spark New Zealand is backing the two-year pilot by covering the daily operation of the bikes and providing support with publicity of the scheme.

Disaster relief and telecommunications support

In FY15 Spark New Zealand provided support to those who were impacted by local and international disasters. After Cyclone Pam hit Vanuatu in March and after the devastating Nepal Earthquake in April, we gave our customers free landline, mobile calls and texts to these areas in the days that followed. And when the floods struck Whanganui in June, we offered free local, national and mobile calls from 26 payphones in the region. Whanganui customers who were forced to evacuate their homes were offered the ability to divert their current landline calls to another nominated number (free of charge for six months) and reconnection, disconnection and early termination fees were waived for six months.

Sponsorships

Spark New Zealand supported a number of other community groups and initiatives through sponsorships in FY15. These included Connect Smart, Grey Power, Rural Women NZ, MASSIVE, NZ Principals' Federation, Nethui and Duffy Books in Homes.

Environment

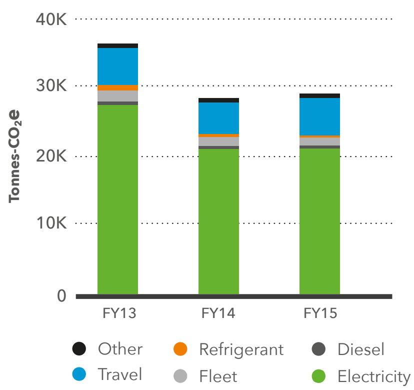
2%

—increase in annual Greenhouse gas emissions

26,715

—phones recycled through the RE:MOBILE programme

Reduction in greenhouse gas emissions



In FY15 annual greenhouse gas (GHG) emissions increased 2% on FY14 levels. Direct emissions reduced by 12%, however, indirect emissions increased due to an increase in air travel.

Air travel emissions increased by 17% in FY15, due to increased domestic and international travel demand. Travel had decreased significantly in the prior year but new ventures required more travel, particularly to the United States. Spark New Zealand has steadily reduced travel over much of the past decade and in FY15 travel was 17 million passenger kilometres (PKM), one-third less than FY06.

Total electricity consumption was up slightly by 0.5%, partially driven by a huge growth in demand across our networks. During FY15 the average home broadband data usage increased 58% and mobile data usage increased 65%. Consumption also increased when a large new data centre in Takanini was opened in October, and a new hall within an existing facility was opened in Christchurch in September. Although data centres are high on electricity consumption, a modern facility can be as much as 50% more energy-efficient per unit of data stored compared with customers managing their own services in-house. These drivers of increased electricity consumption were partially offset by energy-efficiency measures including the removal of redundant equipment from exchange buildings.

Spark New Zealand's direct emissions (from sources controlled by the Company) were 2 kilotonnes of CO_2e accounting for 6% of total emissions and include: the vehicle fleet, refrigerant, diesel for backup generators and natural gas. In FY15 Spark New Zealand achieved a 12% reduction in direct emissions. Vehicle fleet emissions reduced by 5%, diesel emissions by 18% and refrigerant emissions by 27%.

The remaining 2% of emissions include taxis, rental cars and waste, for which there is a successful recycling programme in place. In FY15 emissions from waste reduced by 7% compared with FY14, while emissions from taxis and rental cars remained at around the same level.

Despite the overall 2% increase in GHG emissions in FY15, GHG emissions have reduced by 45% (on continuing operations) compared with FY06 base-year levels. Since FY06 emissions have reduced, on average, by 6.5% per annum (CAGR) – around twice the level required to achieve science-based targets, which is a world-class result for what is already low-carbon business.

Almost three-quarters of Spark New Zealand's emissions are from electricity sourced from the national grid. New Zealand has one of the least carbon-intensive electricity grids in the world and since FY06 the grid's carbon intensity has reduced by 49%. The proportion of electricity generated from renewable sources is now 80%.

Network recycling

Spark New Zealand's waste management strategy proactively manages and coordinates removal and recycling of all waste to ensure it is processed in an efficient, cost-effective and environmentally friendly manner.

The waste management programme utilises a concept of four 'R' priorities: recovering, reusing, reselling and recycling. Waste is allocated into different wastestreams, including mobile phone, printed circuit boards copper cables, lead batteries and all types of metals, which are then processed appropriately.

The waste management strategy was established to ensure wastestream processes were standardised, that we are transparent in waste recovery activities, we adopt best practice sourcing and we comply with New Zealand's current and future waste legislation.

Mobile phone recycling

Spark New Zealand is a member of the Telecommunications Forum RE:MOBILE product stewardship scheme, which was created to reduce the environmental impact of unwanted mobile handsets. In July 2014 this became the first e-waste scheme in New Zealand to receive accreditation from the Ministry for the Environment.

In FY15, 26,715 phones were recycled through the RE:MOBILE programme. Once collected, working devices are onsold to emerging markets, with a percentage of the profits going to Starship Children's Hospital, Auckland. Unusable devices are recycled through the correct channels, resulting in tonnes of potentially harmful substances being diverted from landfills.

Office recycling

Spark New Zealand has constrained office waste to landfill and related emissions through a recycling programme. In FY15 the portion of office waste recycled was 30% and since the FY06 base-year Spark New Zealand has avoided 1,946 tonnes of landfill waste.

Helping others be sustainable

Spark New Zealand's information and communications technologies help businesses and individuals reduce the amount of travel they incur by overcoming the challenges that distance can create. For example, communication technology is often used as a way to hold meetings when participants are in separate locations.

Financial statements

KPMG

Independent auditor's report

To the shareholders of Spark New Zealand Limited

We have audited the accompanying consolidated financial statements of Spark New Zealand Limited and its subsidiaries (''the group'') on pages 46 to 81. The financial statements comprise the consolidated statement of financial position as at 30 June 2015, the consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements on pages 46 to 81 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the consolidated financial position of Spark New Zealand Limited as at 30 June 2015 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

21 August 2015

Auckland

Income statement

YEAR ENDED 30 JUNE

	NOTES	2015 $M	2014 $M
Continuing operations			
Operating revenues and other gains	5	3,531	3,638
Operating expenses	6	(2,566)	(2,702)
Share of associates' and joint ventures' net losses	10	(3)	–
Earnings before interest, income tax, depreciation and amortisation		962	936
Depreciation		(256)	(253)
Amortisation		(197)	(198)
Earnings before interest and income tax		509	485
Finance income	18	27	29
Finance expense	18	(54)	(60)
Net earnings before income tax		**482**	**454**
Income tax expense	7	(107)	(131)
Net earnings for the year from continuing operations		**375**	**323**
Discontinued operation			
Net earnings for the year from discontinued operation	27	–	137
Net earnings for the year		**375**	**460**
Attributable to:			
Equity holders of the Company		373	458
Non-controlling interests		2	2
		375	460
Earnings per share			
Basic and diluted earnings per share (cents)		20	25
Basic and diluted earnings per share from continuing operations (cents)		20	18
Basic and diluted earnings per share from discontinued operation (cents)		–	7
Weighted average ordinary shares (millions)		1,834	1,823
Weighted average ordinary shares and options (millions)		1,838	1,826

See accompanying notes to the financial statements.

Statement of comprehensive income

YEAR ENDED 30 JUNE

	NOTES	2015 $M	2014 $M
Net earnings for the year		375	460
Other comprehensive income [1]			
Items that will not be reclassified to profit or loss:			
Revaluation of long-term investments designated at fair value through other comprehensive income	10	15	25
Items that may be reclassified to profit or loss:			
Translation of foreign operations		5	(33)
Cash flow hedges	19	(4)	–
Other comprehensive income/(loss) for the year		16	(8)
Total comprehensive income for the year		391	452
Attributable to:			
Equity holders of the Company		389	450
Non-controlling interests		2	2
		391	452
Total comprehensive income attributable to equity holders of the Company arises from:			
Continuing operations		389	313
Discontinued operation		–	137
		389	450

See accompanying notes to the financial statements.

1 Other comprehensive income/(loss) components are shown net of tax, with the differences between gross and net detailed in note 7.

Statement of financial position

AS AT 30 JUNE

	NOTES	2015 $M	2014 $M
Current assets			
Cash		80	208
Short-term derivative assets	19	8	–
Receivables and prepayments	11	494	560
Taxation recoverable		14	2
Inventories	12	70	50
Assets classified as held for sale		–	21
Total current assets		666	841
Non-current assets			
Long-term investments	10	133	105
Long-term receivables and prepayments	11	181	199
Long-term derivative assets	19	1	5
Property, plant and equipment	8	1,105	1,101
Intangible assets	9	1,120	992
Total non-current assets		2,540	2,402
Total assets		**3,206**	**3,243**
Current liabilities			
Short-term payables and accruals	13	555	609
Taxation payable		–	23
Short-term derivative liabilities	19	–	2
Short-term provisions	14	12	21
Debt due within one year	17	150	113
Liabilities classified as held for sale		–	5
Total current liabilities		717	773
Non-current liabilities			
Deferred tax liabilities	7	124	127
Long-term derivative liabilities	19	22	26
Long-term payables and accruals	13	15	19
Long-term provisions	14	8	13
Long-term debt	17	542	577
Total non-current liabilities		711	762
Total liabilities		**1,428**	**1,535**
Equity			
Share capital	15	924	920
Reserves		(368)	(397)
Retained earnings		1,222	1,179
Total equity attributable to equity holders of the Company		**1,778**	**1,702**
Non-controlling interests		–	6
Total equity		1,778	1,708
Total liabilities and equity		**3,206**	**3,243**

See accompanying notes to the financial statements.

On behalf of the Board

Mark Verbiest, Chairman

Simon Moutter, Managing Director

Authorised for issue on 21 August 2015

Statement of changes in equity

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

YEAR ENDED 30 JUNE 2014	NOTES	SHARE CAPITAL $M	RETAINED EARNINGS $M	HEDGE RESERVE $M	SHARE-BASED COMPEN-SATION RESERVE $M	REVALU-ATION RESERVE $M	FOREIGN CURRENCY TRANS-LATION RESERVE $M	TOTAL EQUITY HOLDERS OF THE COMPANY $M	NON-CON-TROLLING INTERESTS $M	TOTAL $M
Balance at 1 July 2013		**899**	**1,012**	**–**	**2**	**(391)**	**(115)**	**1,407**	**6**	**1,413**
Net earnings for the year		–	458	–	–	–	–	458	2	460
Other comprehensive income/(loss)		–	–	–	–	25	(33)	(8)	–	(8)
Total comprehensive income/(loss) for the year		**–**	**458**	**–**	**–**	**25**	**(33)**	**450**	**2**	**452**
Contributions by, and distributions to, owners:										
Dividends	15	–	(291)	–	–	–	–	(291)	(2)	(293)
Supplementary dividends		–	(27)	–	–	–	–	(27)	–	(27)
Tax credit on supplementary dividends		–	27	–	–	–	–	27	–	27
Dividend reinvestment plan	15	20	–	–	–	–	–	20	–	20
Issuance of shares under share schemes	15	1	–	–	3	–	–	4	–	4
Disposal of foreign operation	27	–	–	–	–	–	112	112	–	112
Total transactions with owners		**21**	**(291)**	**–**	**3**	**–**	**112**	**(155)**	**(2)**	**(157)**
Balance at 30 June 2014		**920**	**1,179**	**–**	**5**	**(366)**	**(36)**	**1,702**	**6**	**1,708**

See accompanying notes to the financial statements.

Statement of cash flows

YEAR ENDED 30 JUNE

	2015 $M	2014 $M
Cash flows from operating activities		
Cash received from customers	3,383	3,741
Interest income	25	27
Dividend income	38	82
Payments to suppliers and employees	(2,628)	(3,049)
Income tax paid	(140)	(133)
Interest expense	(48)	(54)
Net cash flows from operating activities	**630**	**614**
Cash flows from investing activities		
Sale of property, plant and equipment	–	1
Insurance proceeds	–	9
Insurance proceeds paid to Chorus	–	(2)
Sale of business net of transaction fees	169	495
Purchase of long-term investments	(33)	(3)
Purchase of property, plant and equipment and intangibles	(586)	(483)
Capitalised interest paid	(6)	(7)
Net cash flows from investing activities	**(456)**	**10**
Cash flows from financing activities		
Proceeds from long-term debt	500	440
Repayment of long-term debt	(473)	(643)
Proceeds from short-term debt	565	697
Repayment of short-term debt	(608)	(782)
Dividends paid	(298)	(271)
Share repurchase - buyback	(23)	–
Payments on finance leases	(1)	(4)
Receipts on finance leases	34	33
Net cash flows from financing activities	**(304)**	**(530)**
Net cash flow	**(130)**	**94**
Opening cash position	208	118
Foreign exchange movements	2	(2)
Cash reclassified to assets held for sale	–	(2)
Closing cash position	**80**	**208**

See accompanying notes to the financial statements.

Statement of cash flows (continued)

Reconciliation of net earnings to net cash flows from operating activities

YEAR ENDED 30 JUNE	2015 $M	2014 $M
Net earnings for the year	375	460
Adjustments to reconcile net earnings to net cash flows from operating activities		
Depreciation and amortisation	453	484
Bad and doubtful accounts	17	26
Deferred income tax	4	(19)
Net insurance proceeds	–	(7)
Gain on sale of business	(32)	(102)
Other	12	9
Changes in assets and liabilities net of effects of non-cash and investing and financing activities		
Movement in accounts receivable and related items	(96)	(77)
Movement in inventories	(19)	(1)
Movement in current taxation	(37)	19
Movement in accounts payable and related items	(47)	(178)
Net cash flows from operating activities	**630**	**614**

See accompanying notes to the financial statements.

Notes to the financial statements

NOTE 1 General information

Reporting entity

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

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

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

Basis of preparation

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

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

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

New and amended standards adopted by the Group

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

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

New standards not yet adopted

NZ IFRS 15 *Revenue from contracts with customers* will replace NZ IAS 18 *Revenue* and related interpretations and may have a material impact on the Group. The standard would currently be effective for the Group from the year ending 30 June 2018, however, the International Accounting Standards Board has proposed to defer the mandatory adoption date by one year. The Group is assessing the impact of NZ IFRS 15 and is expected to adopt it in the period it becomes mandatory.

NOTE 2 Critical accounting estimates and judgements

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The principal areas of judgement for the Group in preparing these financial statements are set out below.

Revenue recognition

All areas of revenue recognition are assessed as critical accounting policies, as estimates and assumptions made can materially affect the financial statements. Examples of the key revenue lines subject to management's judgement include:

- Mobile (including subsidy recognition) access, calling, data and broadband revenues – in revenue arrangements, including multiple deliverables, the deliverables are assigned to separate units of accounting and the consideration is allocated based on its relative fair value. Determining these fair values can be complex and is subject to judgement; and
- IT services and certain data revenues – the revenue recognition on contracts that span more than one accounting period may be impacted by estimates of the total costs, ultimate profitability or other appropriate inputs. Assessing contracts on a percentage of completion basis requires judgement to be exercised over future costs, profitability or other milestones. These revenues are also subject to ongoing profitability reviews of underlying contracts to determine whether the latest estimates applied remain appropriate.

Accounting for property, plant and equipment and finite-life intangible assets

The Group has a significant level of property, plant and equipment and intangible assets. In accounting for these, judgements must be made about whether costs incurred relate to bringing an asset to working condition for its intended use and therefore are appropriate for capitalisation as part of the cost of the asset. In capitalising costs for internally constructed assets, judgements must be made about the likelihood of project success. Such judgements can be difficult where the project involves the application of unproven technology.

NOTE 2 Critical accounting estimates and judgements (continued)

The determination of the appropriate useful life for a particular asset requires management to make judgements about the expected period of service potential of the asset, the likelihood of the asset becoming obsolete as a result of technological advances, the likelihood of the Group ceasing to use the asset in its business operations and the effect of government regulation.

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

NOTE 3 Significant transactions and events for the current year

The following significant and one-off transactions and events affected the financial performance and financial position of the Group for the year ended 30 June 2015:

- A 1 December 2014 change to the Telecommunications Act 2001 resulted in unbundled bitstream access (UBA) becoming the primary service purchased from Chorus, resulting in Chorus now charging the Group's Spark Wholesale customers directly for layer 1 copper access, where it bundles the voice service sold by Spark Wholesale with a broadband service to its customers. The Group therefore no longer recognises the revenue or costs associated with access charges for these Wholesale customers. This resulted in a $52 million reduction in access revenue and a corresponding decrease in payments to telecommunications operators for the seven months from 1 December 2014 to 30 June 2015;
- The Group sold its international voice business, TCNZ Cook Islands Limited (which held the Group's 60% share of Telecom Cook Islands Limited) and Telecom Rentals Limited, resulting in total gains on sale of $32 million. The sale of Telecom Rentals Limited resulted in the derecognition of significant finance lease receivable balances which totalled $121 million as at 30 June 2014;
- The Group acquired Appserv Limited for cash consideration of $17 million on 1 July 2014. The acquisition has revenue, cost and capital synergies that allow the Group to gain cost-efficient and effective access to additional specialised Cloud capabilities. Goodwill recognised on acquisition was $9 million;
- The Group increased its long-term investments in the associates and joint ventures App La Carte Limited, TSM NZ Limited, Vigil Monitoring Limited, Connect 8 Limited and Lightbox Sport General Partner Limited by $18 million. The Group's net earnings includes its $3 million share of the net losses of these investments for the year;
- The Group's additions to property, plant and equipment were $264 million. This included $61 million on the Takanini Data Centre, providing New Zealand's premier data centre facility.
- The Group's additions to intangible assets were $312 million. This included $158 million in purchasing 2 x 20 MHz of 700 MHz spectrum, increasing the speed, capacity and coverage of the Group's 4G mobile network;
- The Group launched its Lightbox internet TV service during the year. Content rights to provide this service are classified within inventories and amortised within operating expenses over their licence period. Content rights amortised within operating expenses were $14 million for the year ended 30 June 2015; and
- Operating expenses for the year ended 30 June 2015 included $11 million in relation to the successful rebrand from Telecom to Spark New Zealand in August 2014.

Notes to the financial statements

NOTE 4 Segment information

The Group's operating segments at 30 June 2015 are:

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

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

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

The assets and liabilities of the Group are reported and reviewed by the Managing Director in total and are not allocated by operating segment. Operating segment assets and liabilities are therefore not disclosed.

The majority of the Group's operations are within New Zealand and there are no other material geographic segments.

The financial information of each segment is set out below:

YEAR ENDED 30 JUNE 2015	SPARK HOME, MOBILE & BUSINESS $M	SPARK DIGITAL $M	SPARK CONNECT $M	TOTAL $M
Fixed	998	400	340	1,738
Mobile	807	200	12	1,019
IT services	11	574	4	589
Other operating revenue	28	5	55	88
Internal revenue	3	36	47	86
Total operating revenue and other gains	**1,847**	**1,215**	**458**	**3,520**
Segment result	**722**	**374**	**(113)**	**983**

YEAR ENDED 30 JUNE 2014	SPARK HOME, MOBILE & BUSINESS $M	SPARK DIGITAL $M	SPARK CONNECT $M	TOTAL $M
Fixed	1,023	451	441	1,915
Mobile	744	221	11	976
IT services	2	556	2	560
Other operating revenue	25	4	71	100
Other gains	–	3	–	3
Internal revenue	–	53	49	102
Total operating revenue and other gains	**1,794**	**1,288**	**574**	**3,656**
Segment result	**685**	**399**	**(110)**	**974**

NOTE 4 Segment information (continued)

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

YEAR ENDED 30 JUNE	NOTE	2015 $M	2014 $M
Segment operating revenue and other gains		3,520	3,656
Less internal revenue		(86)	(102)
Other gains not allocated for segmental reporting	5	32	7
Dividend income	5	53	67
Other revenue not allocated for segmental reporting		12	10
Operating revenues and other gains (continuing operations)		**3,531**	**3,638**

Reconciliation from segment result to consolidated net earnings before income tax

YEAR ENDED 30 JUNE	2015 $M	2014 $M
Segment result	983	974
Net result of corporate revenue and expenses	(21)	(38)
Depreciation	(256)	(253)
Amortisation	(197)	(198)
Finance income	27	29
Finance expense	(54)	(60)
Net earnings before income tax (continuing operations)	**482**	**454**

NOTE 5 Operating revenues and other gains

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

- For services billed on a monthly basis, unbilled revenue from the billing cycle date to the end of each month is recognised as revenue during the month the service is provided and is deferred in respect of the portion of fixed monthly charges that have been billed in advance.
- Revenue from the sale of prepaid mobile credit is initially deferred, with recognition occurring when the prepaid credit is used by the customer.
- Where multiple products or services are bundled together on sale, revenue is allocated to each element in proportion to its fair value and recognised as appropriate for that element. Revenue is recognised to the extent that it is not contingent on the provision or delivery of a future service.
- Revenue from contractual arrangements, including contracts to design and build ICT solutions, is recognised by reference to the stage of completion method when the outcome of the arrangement can be estimated reliably. The Group uses appropriate measures of the stage of completion, such as services performed to date as a percentage of total services to be performed or the proportion that costs incurred to date bear to the estimated total costs of the transaction. When the outcome of a transaction, or achievement of milestones, cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognised and the costs incurred are recognised as an expense.
- Revenue from interconnect fees is recognised at the time the services are performed. In the course of its normal business operations, the Group interconnects its networks with other telecommunications operators. In some instances management may be required to estimate levels of traffic flows between networks to determine amounts receivable or payable for interconnection.

Notes to the financial statements

NOTE 5 Operating revenues and other gains (continued)

YEAR ENDED 30 JUNE	2015 $M	2014 $M
Operating revenues		
Fixed		
Access	712	793
Voice/Calling	450	522
Broadband	336	334
Data	208	235
Other	32	31
	1,738	1,915
Mobile	1,019	976
IT services	592	561
Dividend income	53	67
Miscellaneous other	97	109
	3,499	3,628
Other gains		
Gain on sale	32	3
Settlement on insurances	–	7
	32	10
Total operating revenues and other gains	**3,531**	**3,638**

Operating revenues

Operating revenues include $2,983 million from the rendering of services (30 June 2014: $3,121 million), $234 million from the sale of goods (30 June 2014: $204 million) and $229 million of IT procurement revenues (30 June 2014: $236 million).

Gain on sale

In the year ended 30 June 2015 the gain on sale of $32 million comprised:

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

In the year ended 30 June 2014 the gain on sale of $3 million relates to the sale of Auldhouse.

NOTE 6 Operating expenses

YEAR ENDED 30 JUNE	2015 $M	2014 $M
Payments to telecommunications operators	817	955
Mobile acquisition, procurement and IT services	722	701
Labour	518	530
Other operating expenses		
Direct network costs	49	74
Computer costs	76	71
Accommodation and co-location	92	89
Advertising, promotions and communication	78	69
Bad debts	13	22
Other	201	191
	509	516
Total operating expenses	**2,566**	**2,702**

Labour

Labour costs for the year ended 30 June 2015 include KiwiSaver employer contributions of $15 million (30 June 2014: $14 million). The Group has no other significant obligations to provide pension benefits in respect of employees.

Donations

Donations for the year ended 30 June 2015 were $2,749,000, comprised of the Group's donation to the Spark Foundation, $2,588,000, and other donations of $161,000 (30 June 2014: $2,769,000, comprised the Spark Foundation donation of $2,591,000 and payroll giving matching of $178,000). No donations were made to political parties for the years ended 30 June 2015 or 30 June 2014.

Auditor remuneration

YEAR ENDED 30 JUNE	2015 $'000	2014 $'000
Audit of financial statements		
Audit and review of financial statements[1]	1,310	1,729
Other services		
Regulatory audit work[2]	53	147
Other assurance services[3]	71	100
Total fees paid to auditor	**1,434**	**1,976**

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

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

3 Other assurance services relate to reporting on trust deed requirements, solvency returns and other assurance services. For the year ended 30 June 2014 other assurance services also comprise work performed in relation to the sale of AAPT.

Notes to the financial statements

NOTE 7 Income tax

The income tax expense for continuing operations is determined as follows:

YEAR ENDED 30 JUNE	2015 $M	2014 $M
Income statement		
Current income tax		
Current year income tax expense	(117)	(140)
Adjustments in respect of prior periods	11	(1)
Deferred income tax		
Fixed assets	12	19
Provisions, accruals, tax losses and other	(13)	(5)
Adjustments in respect of prior periods	–	(4)
Income tax expense recognised in income statement (continuing operations)	**(107)**	**(131)**
Statement of comprehensive income		
Current income tax		
Fair value of derivative financial instruments	1	–
Income tax expense recognised in other comprehensive income	**1**	**-**

Reconciliation of income tax expense (continuing operations)

YEAR ENDED 30 JUNE	2015 $M	2014 $M
Net earnings before income tax	**482**	**454**
Tax at current rate of 28%	(135)	(127)
Adjustment to taxation		
Non-assessable gains on sale	10	–
Other non-assessable items	3	(9)
Tax effects of non-New Zealand profits	4	9
Adjustments in respect of prior periods	11	(4)
Total income tax expense (continuing operations)	**(107)**	**(131)**

Income tax effects relating to each component of other comprehensive income/(loss)

	2015			2014		
YEAR ENDED 30 JUNE	BEFORE TAX $M	TAX CREDIT / (EXPENSE) $M	NET OF TAX $M	BEFORE TAX $M	TAX CREDIT / (EXPENSE) $M	NET OF TAX $M
Revaluation of long-term investments	15	–	15	25	–	25
Translation of foreign operations	5	–	5	(33)	–	(33)
Cash flow hedges (see note 19)	(5)	1	(4)	–	–	–
Other comprehensive income/(loss) for the year	**15**	**1**	**16**	**(8)**	**-**	**(8)**

NOTE 7 Income tax (continued)

Deferred income tax

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

Assets/(liabilities)	FIXED ASSETS $M	PROVISIONS AND ACCRUALS $M	OTHER $M	TOTAL $M
At 1 July 2014	(148)	32	(11)	(127)
Amounts recognised in earnings				
Relating to the current period	12	(10)	(3)	(1)
Adjustments in respect of prior periods	(1)	1	–	–
Amounts recognised in equity				
Relating to the current period	–	–	4	4
At 30 June 2015	**(137)**	**23**	**(10)**	**(124)**
To be recovered within 12 months	(7)	10	–	3
To be recovered after more than 12 months	(130)	13	(10)	(127)
At 1 July 2013	(161)	29	(14)	(146)
Amounts recognised in earnings				
Relating to the current period	19	(1)	(4)	14
Adjustments in respect of prior periods	3	1	–	4
Reclassifications	(9)	3	6	–
Amounts recognised in equity				
Relating to the current period	–	–	1	1
At 30 June 2014	**(148)**	**32**	**(11)**	**(127)**
To be recovered within 12 months	(6)	1	–	(5)
To be recovered after more than 12 months	(142)	31	(11)	(122)

The Group has not recognised the tax effect of accumulated unrestricted losses and temporary differences amounting to A$465 million at 30 June 2015 based on the relevant corporation tax rate of the applicable tax jurisdiction (30 June 2014: A$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 relevant subsidiaries producing taxable profits over a significant period of time and is subject to compliance with the relevant taxation authority requirements.

Imputation credits available for use in subsequent reporting periods are $30 million (30 June 2014: $46 million).

NOTE 8 Property, plant and equipment

The value of property, plant and equipment purchased from the Government was determined using deemed cost as at 1 April 1987. Subsequent additions are recognised at cost. Depreciation is charged on a straight-line basis to write down the cost of property, plant and equipment to its estimated residual value over its estimated useful life, which is outlined in the table below.

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

Notes to the financial statements

NOTE 8 Property, plant and equipment (continued)

AS AT 30 JUNE 2015	TELECOMMUNI-CATIONS EQUIPMENT AND PLANT $M	FREEHOLD LAND $M	BUILDINGS $M	OTHER ASSETS $M	WORK IN PROGRESS $M	TOTAL $M
Cost						
Balance as at 1 July 2014	4,058	63	466	590	12	5,189
Additions	–	4	68	–	192	264
Acquisitions	–	–	–	6	–	6
Transfers	159	–	–	36	(195)	–
Disposals	(120)	–	(14)	(4)	–	(138)
Currency movements	(1)	–	–	1	–	–
Balance as at 30 June 2015	4,096	67	520	629	9	5,321
Accumulated depreciation and impairment losses						
Balance as at 1 July 2014	(3,326)	–	(251)	(511)	–	(4,088)
Depreciation charge	(173)	–	(27)	(56)	–	(256)
Acquisitions	–	–	–	(3)	–	(3)
Disposals	116	–	10	4	–	130
Currency movements	1	–	–	–	–	1
Balance as at 30 June 2015	(3,382)	–	(268)	(566)	–	(4,216)
Net book value as at 30 June 2015	**714**	**67**	**252**	**63**	**9**	**1,105**

AS AT 30 JUNE 2014	TELECOMMUNI-CATIONS EQUIPMENT AND PLANT $M	FREEHOLD LAND $M	BUILDINGS $M	OTHER ASSETS $M	WORK IN PROGRESS $M	TOTAL $M
Cost						
Balance as at 1 July 2013	5,362	62	494	624	21	6,563
Additions	–	1	26	–	307	334
Transfers	272	–	–	33	(305)	–
Disposals	(56)	–	(2)	(9)	–	(67)
Disposal on sale of subsidiary	(1,337)	–	(40)	(53)	(10)	(1,440)
Transfers to assets held for sale	(40)	–	(11)	–	(1)	(52)
Currency movements	(143)	–	(1)	(5)	–	(149)
Balance as at 30 June 2014	4,058	63	466	590	12	5,189
Accumulated depreciation and impairment losses						
Balance as at 1 July 2013	(4,412)	–	(278)	(526)	–	(5,216)
Depreciation charge [1]	(203)	–	(27)	(52)	–	(282)
Disposals	53	–	2	8	–	63
Disposal on sale of subsidiary	1,083	–	40	51	–	1,174
Transfers to assets held for sale	30	–	7	–	–	37
Currency movements	123	–	5	8	–	136
Balance as at 30 June 2014	(3,326)	–	(251)	(511)	–	(4,088)
Net book value as at 30 June 2014	**732**	**63**	**215**	**79**	**12**	**1,101**

1 The depreciation charge includes $29 million in relation to the discontinued operation prior to classification as held for sale.

NOTE 9 Intangible assets

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

Software	2 – 8 years
Capacity	15 – 25 years
Spectrum licences	17 – 20 years
Other intangibles	5 – 80 years

AS AT 30 JUNE 2015	SOFTWARE $M	CAPACITY $M	SPECTRUM LICENCES $M	OTHER INTANGIBLES $M	GOODWILL $M	WORK IN PROGRESS $M	TOTAL $M
Cost							
Balance as at 1 July 2014	1,874	593	118	94	1,187	154	4,020
Additions [1]	–	5	158	–	–	149	312
Acquisitions	–	–	–	6	9	–	15
Transfers	165	–	–	5	–	(170)	–
Disposals	(24)	–	–	–	–	–	(24)
Balance as at 30 June 2015	2,015	598	276	105	1,196	133	4,323
Accumulated amortisation and impairment losses							
Balance as at 1 July 2014	(1,560)	(342)	(47)	(46)	(1,033)	–	(3,028)
Amortisation charge	(160)	(16)	(14)	(7)	–	–	(197)
Disposals	22	–	–	–	–	–	22
Balance as at 30 June 2015	(1,698)	(358)	(61)	(53)	(1,033)	–	(3,203)
Net book value as at 30 June 2015	**317**	**240**	**215**	**52**	**163**	**133**	**1,120**

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

AS AT 30 JUNE 2014	SOFTWARE $M	CAPACITY $M	SPECTRUM LICENCES $M	OTHER INTANGIBLES $M	GOODWILL $M	WORK IN PROGRESS $M	TOTAL $M
Cost							
Balance as at 1 July 2013	1,824	594	115	95	1,204	191	4,023
Additions [1]	–	21	3	–	–	136	160
Transfers	168	–	–	3	–	(171)	–
Disposals	(7)	(22)	–	–	–	–	(29)
Disposal on sale of subsidiary	(99)	–	–	(4)	(17)	(2)	(122)
Currency movements	(12)	–	–	–	–	–	(12)
Balance as at 30 June 2014	1,874	593	118	94	1,187	154	4,020
Accumulated amortisation and impairment losses							
Balance as at 1 July 2013	(1,492)	(346)	(39)	(42)	(1,033)	–	(2,952)
Amortisation charge [2]	(173)	(16)	(8)	(5)	–	–	(202)
Disposals	6	20	–	–	–	–	26
Disposal on sale of subsidiary	95	–	–	1	–	–	96
Currency movements	4	–	–	–	–	–	4
Balance as at 30 June 2014	(1,560)	(342)	(47)	(46)	(1,033)	–	(3,028)
Net book value as at 30 June 2014	**314**	**251**	**71**	**48**	**154**	**154**	**992**

1 Total software capitalised in the year ended 30 June 2014 includes $45 million of internally generated assets.
2 The amortisation charge includes $4 million in relation to the discontinued operation prior to classification as held for sale.

Notes to the financial statements

NOTE 9 Intangible assets (continued)

Goodwill

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

AS AT 30 JUNE	2015 $M	2014 $M
Spark Home, Mobile & Business[1]	34	25
Spark Digital	122	122
Revera	7	7
	163	**154**

1 Goodwill of $9 million was recognised on acquisition of Appserv Limited on 1 July 2014. See note 26.

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

Nil terminal growth was applied and a pre-tax discount rate of 12% (30 June 2014: 12%) was utilised. The growth rate applied does not exceed the observed long-term historical average growth rate for relevant markets/sectors.

During the years ended 30 June 2015 and 30 June 2014 no impairment arose as a result of the review of goodwill. Headroom currently exists in each CGU and, based on sensitivity analysis performed, no reasonably possible changes in the assumptions would cause the carrying amount of the CGUs to exceed their recoverable amounts.

NOTE 10 Long-term investments

AS AT 30 JUNE	2015 $M	2014 $M
Shares in Hutchison	114	99
Investment in TMT Ventures	1	2
Government stock	–	1
Investments in associates and joint ventures	18	3
	133	**105**

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

The Group measures the fair value of Hutchison using its observable market share price at balance date as quoted on the ASX, classified as being within level 1 of the fair value hierarchy. As at 30 June 2015 the quoted price of Hutchison's shares on the ASX was A$0.075 (30 June 2014: A$0.068).

The change in fair value recognised within other comprehensive income and accumulated in the revaluation reserve for the year ended 30 June 2015 was a $15 million increase (30 June 2014: $25 million increase).

Investment in associates and joint ventures

The Group's investment in associates and joint ventures as at 30 June 2015 consists of the following:

	TYPE	COUNTRY	OWNERSHIP	PRINCIPAL ACTIVITY
Pacific Carriage Holdings Limited	Associate	Bermuda	50%	A holding company
Southern Cross Cables Holdings Limited	Associate	Bermuda	50%	A holding company
App La Carte Limited (Putti)	Associate	New Zealand	33%	Mobile applications
TSM NZ Limited (Semble)	Associate	New Zealand	29%	Mobile payments
Vigil Monitoring Limited	Associate	New Zealand	26%	Healthcare technology
Connect 8 Limited	Joint Venture	New Zealand	50%	Fibre network construction
Lightbox Sport General Partner Limited	Joint Venture	New Zealand	50%	Sports content streaming

NOTE 10 Long-term investments (continued)

All investments in associates and joint ventures are measured using the equity method. None are considered to be individually material. The Group's share of profit or loss is presented within the income statement, with the exception of Pacific Carriage Holdings Limited and Southern Cross Cables Holdings Limited. For these entities the Group has stopped recognising its share of the associates' losses, as their carrying value has been reduced to nil and the Group has no obligation to fund their deficits or repay dividends. As at 30 June 2015 the Group has recognised cumulative dividend income of $799 million (30 June 2014: $746 million) from these associates and the share of the cumulative deficits was $630 million (30 June 2014: $493 million). The Group's share of profits not recognised for the year was $52 million (30 June 2014: $27 million).

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

	ASSOCIATES		JOINT VENTURES		TOTAL	
YEAR ENDED 30 JUNE	2015 $M	2014 $M	2015 $M	2014 $M	2015 $M	2014 $M
Investment at the beginning of the year	3	–	–	–	3	–
Additional investment during the year	5	3	13	–	18	3
Share of net losses	(1)	–	(2)	–	(3)	–
Investment at the end of the year	**7**	**3**	**11**	**-**	**18**	**3**

NOTE 11 Receivables and prepayments

AS AT 30 JUNE	2015 $M	2014 $M
Short-term receivables and prepayments		
Trade receivables	244	308
Less allowance for doubtful accounts receivable	(10)	(25)
	234	**283**
Unbilled rentals and tolls	99	91
Finance lease receivables (see note 21)	8	61
Prepaid expenses and other receivables	153	125
	494	**560**
Long-term receivables and prepayments		
Finance lease receivables (see note 21)	117	184
Other receivables	64	15
	181	**199**

Trade receivables, finance lease receivables and other long-term receivables are financial instruments and held at amortised cost. The fair value of finance lease receivables is estimated to be $60 million (30 June 2014: $231 million) using a discount rate based on the relevant swap rate, given the tenure of the lease and adding a credit margin that reflects the credit quality of the receivables. The carrying amount of all other receivables are approximately equivalent to their fair value because of the short term to maturity.

The Group has $61 million (30 June 2014: $60 million) of financial assets that are overdue but not impaired. Trade receivables are aged as follows:

AS AT 30 JUNE	2015 $M	2014 $M
Current	173	223
0–30 days past due	43	51
30–60 days past due	12	11
60–90 days past due	4	10
90+ days past due	12	13
	244	**308**

Notes to the financial statements

NOTE 11 Receivables and prepayments (continued)

The Group maintains a provision for estimated losses expected to arise from customers being unable to make required payments. This provision takes into account known commercial factors impacting specific customer accounts, as well as the overall profile of the Group's receivables portfolio. In assessing the provision, factors such as past collection history, the age of receivable balances, the level of activity in customer accounts, as well as general macro-economic trends, are taken into account. Significant changes in these factors would likely necessitate changes in the doubtful debts provision.

Movements in the allowance for doubtful accounts are as follows:

YEAR ENDED 30 JUNE	2015 $M	2014 $M
Balance at the beginning of the year	25	21
Charged to costs and expenses	17	25
Bad debts recovered	(4)	(3)
Utilised	(28)	(18)
Balance at the end of the year	**10**	**25**

Bad debt expenses are reported as other operating expenses in the income statement and written off against the provision for doubtful debts in the period in which it is determined that the debts are uncollectable. If those debts are subsequently collected then a gain is recognised in the income statement.

NOTE 12 Inventories

AS AT 30 JUNE	2015 $M	2014 $M
General inventory		
Maintenance materials and consumables	5	2
Goods held for resale	33	30
Work in progress	–	18
	38	50
Content rights inventory		
Prepaid content rights	3	–
Content rights		
Cost	43	–
Less amortisation to operating expenses	(14)	–
	32	–
Total inventories	**70**	**50**

General inventory

General inventories are stated at the lower of cost and net realisable value after consideration for excess and obsolete items. The cost is determined on a weighted average cost basis and amounts are removed from inventory on this basis. The cost of inventories includes the transfer from equity of any foreign exchange gains or losses on qualifying cash flow hedges related to inventories.

The allowance for general inventory obsolescence as at 30 June 2015 was $7 million (30 June 2014: $6 million) with $1 million charged to the income statement during the period (30 June 2014: $1 million).

Content rights inventory

The Group enters into contracts for the rights to stream digital content to subscribers of its Lightbox service. Content is licensed for a fixed fee for the term of the licence agreement and this may span more than one year. The non-current portion of content rights inventory is $12 million. Content rights are stated at the lower of cost and net realisable value, less accumulated amortisation. The amortisation of content rights is recognised within operating expenses in the income statement on a straight-line basis over its licence period. The content rights amortisation charge for the year ended 30 June 2015 was $14 million (30 June 2014: nil).

Payments made for content rights before the commencement of the related licence period are classified within prepaid content rights.

NOTE 13 Payables and accruals

AS AT 30 JUNE	2015 $M	2014 $M
Short-term payables and accruals		
Trade accounts payable	349	392
Accrued personnel costs	71	81
Revenue billed in advance	101	101
Accrued interest	5	5
Finance lease payable	1	3
Other accrued expenses	28	27
	555	**609**
Long-term payables and accruals		
Finance lease payable	1	1
Other payables and accruals	14	18
	15	**19**

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

NOTE 14 Provisions

YEAR ENDED 30 JUNE 2015	COMMERCIAL $M	RESTRUCTURING $M	PROPERTY $M	OTHER $M	TOTAL $M
Balance as at 1 July 2014	7	8	15	4	34
Provisions made during the year	2	5	4	1	12
Provisions utilised during the year	(6)	(6)	(3)	(1)	(16)
Provisions released during the year	(1)	(1)	(7)	(1)	(10)
Balance as at 30 June 2015	**2**	**6**	**9**	**3**	**20**
Short-term provisions	2	6	3	1	12
Long-term provisions	–	–	6	2	8

Property

Property provisions relate primarily to onerous leases and make-good requirements. The non-current portion will be utilised by 2024. The provision for onerous lease contracts represents the present value of the future lease payments that the Group is presently obligated to make under non-cancellable onerous operating lease contracts, less revenue expected to be earned on the lease, including estimated future sub-lease revenue, where applicable. The estimate may vary as a result of changes in the utilisation of the leased premises and sub-lease arrangements, where applicable.

Restructuring

Restructuring provisions relate to restructuring activities previously undertaken or announced.

Notes to the financial statements

NOTE 15 Equity and dividends

Share capital

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

	2015		2014	
YEAR ENDED 30 JUNE	NUMBER	$M	NUMBER	$M
Balance at the beginning of the year	1,828,530,844	920	1,817,088,869	899
Dividend reinvestment plan	10,777,332	32	8,495,999	20
Shares repurchased	(11,026,795)	(31)	–	–
Employee shares	1,582,709	3	2,945,976	1
Balance at the end of the year	**1,829,864,090**	**924**	**1,828,530,844**	**920**

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.

Dividend reinvestment plan

The Company has a dividend reinvestment plan under which shareholders can elect to receive dividends in additional shares, however, the plan is currently suspended. Shares previously issued in lieu of dividends are excluded from dividends paid in the statement of cash flows.

Shares repurchased

On 2 June 2015 the Company announced an on-market share buyback to return gearing to a more appropriate level. Shares were purchased during the year ended 30 June 2015 at an average buyback price of $2.78 and cancelled immediately on acquisition.

Employee shares

Employee shares relate to those issued in respect of the restricted share scheme, share rights scheme, Spark Share and the exercise of employee options. Prior to vesting, shares are held in trust before they are allocated to employees. See note 16 for details of the Group's employee share schemes.

Dividends declared and paid

	2015	2015	2014	2014
YEAR ENDED 30 JUNE	CENTS PER SHARE	$M	CENTS PER SHARE	$M
Previous year second half-year dividend paid	9	165	8	145
First half-year dividend paid	9	165	8	146
Total dividends paid in the year	**18**	**330**	**16**	**291**
Second half-year dividend declared subsequent to balance date not provided for (see note 28)	11	201	9	165

NOTE 16 Employee share schemes

The Group operates a number of share-based compensation plans that are equity settled. These include a restricted share scheme, share rights schemes and a Managing Director performance rights scheme.

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 2015 was $7 million (30 June 2014: $5 million). As at 30 June 2015, $10 million of share scheme awards remain unvested and not expensed (30 June 2014: $13 million). This expense will be recognised over the vesting period of the awards.

Spark Share, an employee share purchase programme, was started in April 2015. This does not have a material impact on these financial statements.

Restricted share scheme

The restricted share scheme (RSS) was introduced for selected employees in September 2001. Under the RSS 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. Spark Trustee Limited cannot exercise any voting rights attached to the shares. However, once vested, the shares have the same voting rights as ordinary shares. Generally, the shares vest after a three-year period, although a reduced period may be used in some cases. If the individual is still employed by the Company at the end of the vesting period, the employee is provided a cash bonus, which must be used to repay the loan and the shares are then transferred to the individual.

Information regarding shares awarded under the RSS is as follows:

	NUMBER OF SHARES
Unvested shares as at 30 June 2013	**875,856**
Awarded pursuant to RSS	2,577,607
Forfeited	(257,569)
Vested	(37,904)
Unvested shares as at 30 June 2014	**3,157,990**
Awarded pursuant to RSS	509,099
Forfeited	(224,855)
Vested	(87,852)
Unvested shares as at 30 June 2015	**3,354,382**
Percentage of total ordinary shares	0.18%

Restricted shares awarded in the year ended 30 June 2014 included one-off exceptional grants, with substantially more challenging performance hurdles attached.

The expense relating to the RSS for the year ended 30 June 2015 was $4 million (30 June 2014: $2 million).

Share rights schemes

The share rights scheme (SRS) is used for selected Leadership Team members and senior employees and the Managing Director performance rights scheme (PRS) for the Managing Director. Under the SRS and PRS participants are granted rights to purchase Company shares at a nil cost strike price.

Share rights have no voting rights until exercised and generally cannot be exercised for a three-year period. The share rights will be exercisable at the end of the vesting period only if the individual is still employed by the Company and, in the case of the Leadership Team and the Managing Director, a total shareholder return performance hurdle has been met (other than in relation to a one-off grant of share rights to the Managing Director in FY13, which had no performance criteria attached). The target for this hurdle is the Company's cost of equity plus 1% compounding annually. In special circumstances early vesting may occur.

There were 441,390 options granted under the SRS and 333,123 options granted under the PRS during the year ended 30 June 2015 (30 June 2014: 1,835,546 under SRS and 868,006 under PRS, including one-off exceptional grants with substantially more challenging performance hurdles attached).

Information regarding options granted under the SRS and PRS is as follows:

	NUMBER OF OPTIONS
30 June 2013	**1,403,213**
Granted	2,703,552
Exercised	(368,369)
Forfeited	(197,558)
30 June 2014	**3,540,838**
Granted	774,513
Exercised	(277,435)
Forfeited	–
30 June 2015	**4,037,916**

The following table summarises SRS and PRS options outstanding:

	OPTIONS OUTSTANDING AS AT 30 JUNE 2015	
PERIOD GRANTED	OPTIONS OUTSTANDING	REMAINING LIFE[1] (YEARS)
1 July 2012–30 June 2013	559,851	1.3
1 July 2013–30 June 2014	2,703,552	1.8
1 July 2014–30 June 2015	774,513	2.5
	4,037,916	

1 Weighted average

The expense relating to all SRS and PRS awards in the year ended 30 June 2015 was $3 million (30 June 2014: $3 million).

Notes to the financial statements

NOTE 17 Debt

Debt is recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, debt is classified and measured at amortised cost, with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest rate method.

a) Debt due within one year

AS AT 30 JUNE	2015 $M	2014 $M
Long-term debt maturing within one year (see below)	150	73
Short-term debt	–	40
	150	**113**

The fair value of debt due within one year approximates its carrying amount, as the impact of discounting is not significant.

b) Long-term debt

AS AT 30 JUNE	2015 $M	2014 $M
Euro Medium Term Notes	92	78
TeleBonds	150	223
Domestic notes	350	250
Bank funding	100	100
	692	**651**
Less unamortised discount	–	(1)
	692	**650**
Less long-term debt maturing within one year (see above)	(150)	(73)
	542	**577**

None of the Group's debt is secured and all debt ranks equally with other liabilities. There are no financial covenants over the Group's debt, however, there are certain triggers in the event of default, as defined in the various debt agreements. There have been no events of default over the Group's debt in the years ended 30 June 2015 and 30 June 2014.

The fair value of long-term debt (calculated based on the present value of future principal and interest cash flows, discounted at market interest rates at balance date) was $724 million compared to a carrying value of $692 million (30 June 2014: fair value of $663 million compared to a carrying value of $651 million).

Euro Medium Term Notes

Euro Medium Term Notes of $92 million have been issued with maturity dates of 14 May 2018 and 6 April 2020, with coupon rates of 5.6% and 5.8% respectively before hedging. Cross-currency interest rate swaps and interest rate swaps have been entered into to hedge the related currency and interest rate risk.

TeleBonds

The Group has issued bonds (TeleBonds) to institutional and retail investors. These have been issued as compounding, income or zero coupon bonds. TeleBonds have effective interest rates ranging from 7.0% to 7.8% and maturity dates between March 2016 and April 2016. During the year ended 30 June 2015, $73 million of TeleBonds matured and were repaid (30 June 2014: $3 million).

Domestic notes

As at 30 June 2015 the Group had $350 million of notes issued in New Zealand with maturity dates of 25 October 2019 and 25 March 2022 (30 June 2014: $250 million with a maturity date of 25 October 2019). The notes are unsecured and pay coupon rates of 5.25% and 4.50% respectively.

Bank funding

The Group has a $100 million unsecured variable bank facility with The Bank of Tokyo-Mitsubishi UFJ Ltd, maturing in March 2018. The facility was fully drawn at 30 June 2015 and 30 June 2014.

NOTE 18 Finance income and expense

YEAR ENDED 30 JUNE	2015 $M	2014 $M
Interest income from cash	3	3
Finance lease income	21	23
Other interest income	3	3
Finance income	**27**	**29**
Finance expense on long-term debt:[1]		
Euro Medium Term Notes (EMTN)	6	6
TeleBonds	17	17
Domestic notes	14	13
Bank funding	6	13
Revaluation of interest rate derivatives	–	1
Other interest and finance expenses	17	17
	60	**67**
Less interest capitalised	(6)	(7)
Finance expense	**54**	**60**

1 Includes $5 million transferred from the cash flow hedge reserve for the year ended 30 June 2015 (30 June 2014: $2 million).

Interest is capitalised on property, plant and equipment and intangible assets under development at an annualised rate of 6.0% (30 June 2014: 6.0%).

NOTE 19 Derivatives

The Group uses derivative financial instruments to reduce its exposure to fluctuations in foreign currency exchange rates and interest rates. Derivative financial instruments are initially recognised at fair value on the date they are entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged.

The fair values of derivatives are as follows:

AS AT 30 JUNE	2015 $M	2014 $M
Short-term derivative assets		
Forward exchange contracts – cash flow hedges	8	–
	8	**-**
Long-term derivative assets		
Interest rate swaps – cash flow and fair value hedges	1	5
	1	**5**
Short-term derivative liabilities		
Forward exchange contracts – cash flow hedges	–	(2)
	-	**(2)**
Long-term derivative liabilities		
Interest rate swaps – cash flow hedges	(14)	(1)
Cross-currency interest rate swaps – cash flow hedges	(8)	(25)
	(22)	**(26)**

As at 30 June 2015 and 30 June 2014 no derivative financial assets or derivative financial liabilities have been offset in the statement of financial position. The potential for offsetting of any derivative financial instruments is immaterial.

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

Notes to the financial statements

NOTE 19 Derivatives (continued)

Cash flow hedges

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

Cross-currency interest rate swaps and interest rate swaps used to manage interest and foreign exchange risk on debt are jointly designated as cash flow hedges of the forecast interest and principal cash flows of the debt. The changes in the fair values of interest rate derivatives accumulated in equity are expected to be reclassified to finance expense as interest payments occur over the remaining term of the derivatives. As at 30 June 2015 the fair value component of interest rate derivatives deferred in equity, by maturity, is $1 million two to three years, $4 million four to five years and $(9) million over five years (30 June 2014: $7 million three to four years and $4 million over five years).

The Group also enters into forward exchange contracts to hedge foreign currency purchases. The majority of the purchases are forecast to be made within 12 months of 30 June 2015 (30 June 2014: within12 months of 30 June 2014). When in a hedging relationship, the fair value of foreign exchange forward contracts will be included in the income statement at the same time as the underlying purchase impacts the determination of income. If the purchase relates to an operating expense, the fair value will be recognised when the underlying expense is recognised. If the purchase relates to an item of property, plant and equipment or intangible assets, the fair value will be recognised in the income statement as the asset depreciates or is amortised. If the purchase relates to an inventory item, the fair value will be recognised in the income statement when the underlying inventory is expensed.

Other amounts deferred in equity will be transferred to the income statement over the next seven years (30 June 2014: six years).

A reconciliation of movements in the cash flow hedge reserve follows:

	2015			2014		
	BEFORE TAX	TAX CREDIT / (EXPENSE)	NET OF TAX	BEFORE TAX	TAX CREDIT / (EXPENSE)	NET OF TAX
YEAR ENDED 30 JUNE	$M	$M	$M	$M	$M	$M
Balance at the beginning of the year			–			–
Gain/(loss) recognised in other comprehensive income	(15)	4	(11)	–	–	–
Amount reclassified from cash flow hedge reserve to finance expense	5	(1)	4	2	(1)	1
Amount reclassified from cash flow hedge reserve to property, plant and equipment/intangible assets	3	(1)	2	(2)	1	(1)
Amount reclassified from cash flow hedge reserve to inventory	2	(1)	1	–	–	–
Total movements to other comprehensive income/(loss)	**(5)**	**1**	**(4)**	**–**	**–**	**–**
Balance at the end of the year			**(4)**			**–**

Fair value hedges

As at 30 June 2015 the Group had interest rate swaps designated as fair value hedges. The gain or loss from remeasuring both the hedging instrument and the hedged items at fair value is recognised in the income statement.

During the year ended 30 June 2015 the Group recognised an immaterial gain on fair value hedges (30 June 2014: nil) and an immaterial loss on hedged exposures (30 June 2014: nil). There has been no material ineffectiveness on fair value hedging relationships during the year.

NOTE 20 Financial risk management

The Group is exposed to financial market risk (including currency risk, interest rate risk and equity price risk) liquidity risk and credit risk. The Group manages its treasury activities through a Board-approved treasury constitution consisting of treasury governance and policy frameworks.

Financial market risk

The Group is exposed to financial market risk primarily from changes in foreign currency exchange rates and interest rates.
The Group employs risk management strategies, including the use of derivatives, such as interest rate swaps, forward exchange contracts and cross-currency interest rate swaps, to manage these exposures.

NOTE 20 Financial risk management (continued)

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

a) Currency risk

The Group's primary objective in managing foreign currency risk is to protect against the risk that the eventual New Zealand dollar net cash flows will be adversely affected by changes in foreign currency exchange rates. To do this the Group enters into forward exchange contracts to reduce its foreign currency exposures.

Capital and operational expenditure in foreign currencies that are highly probable may be hedged. Exposures with amounts and timing that are less than certain may be proportionately hedged, based on certain benchmarks.

A portion of the Group's long-term debt has been issued in foreign currency under its Euro Medium Term Note programme. The Group enters into cross-currency interest rate swaps to convert the foreign currency borrowings into a floating rate New Zealand dollar exposure. All debt not denominated in New Zealand dollars is hedged. Debt denominated in foreign currencies is translated to New Zealand dollars, with currency translation recognised in the income statement. These movements are offset by the translation of the principal value of the related cross-currency interest rate swaps.

The Group's exposure to monetary foreign currency financial instruments is outlined below:

AS AT 30 JUNE 2015	AUD $M	USD $M	EUR $M	GBP $M	OTHER $M	TOTAL $M
Exposures						
Cash	–	5	–	5	–	10
Trade receivables	9	–	–	–	–	9
Trade accounts payable	(9)	(19)	(1)	–	(41)	(70)
Long-term debt	–	–	–	(92)	–	(92)
Total exposure from non-derivative financial instruments	**–**	**(14)**	**(1)**	**(87)**	**(41)**	**(143)**
Hedging instruments						
Forward exchange contracts	(15)	100	44	5	3	137
Cross-currency interest rate swaps	–	–	–	92	–	92
Total exposure from hedging instruments	**(15)**	**100**	**44**	**97**	**3**	**229**

AS AT 30 JUNE 2014	AUD $M	USD $M	EUR $M	GBP $M	OTHER $M	TOTAL $M
Exposures						
Cash	1	15	3	6	–	25
Trade receivables	6	19	1	–	–	26
Trade accounts payable	(12)	(24)	(2)	(3)	(48)	(89)
Long-term debt	–	–	–	(78)	–	(78)
Total exposure from non-derivative financial instruments	**(5)**	**10**	**2**	**(75)**	**(48)**	**(116)**
Hedging instruments						
Forward exchange contracts	(21)	77	24	6	4	90
Cross-currency interest rate swaps	–	–	–	78	–	78
Total exposure from hedging instruments	**(21)**	**77**	**24**	**84**	**4**	**168**

As at 30 June 2015 a movement of 10% in the New Zealand dollar would impact the income statement and statement of changes in equity (after hedging) by less than $12 million (30 June 2014: $7 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.

Notes to the financial statements

NOTE 20 Financial risk management (continued)

b) Interest rate risk

The Group employs the use of derivative financial instruments for the purpose of reducing its exposure to fluctuations in interest rates. The Group uses cross-currency interest rate swaps to convert foreign currency borrowings into floating-rate New Zealand dollar positions.

Interest rate swaps are used to convert certain floating-rate positions into fixed-rate positions and vice versa. As a consequence, the Group's interest rate positions are limited to New Zealand yield curves. The Group's objective in relation to interest rate risk management is to minimise the cost of net borrowings and to minimise the impact of interest rate movements on the Group's interest expense and net earnings within policies approved by the Board.

As at 30 June 2015 a movement in interest rates of 100 basis points would impact the income statement and statement of changes in equity (after hedging) by less than $14 million (30 June 2014: $8 million).

c) Equity price risk

The Group's exposure to equity price risk as at 30 June 2015 from its investment in the listed company Hutchison was $114 million (30 June 2014: $99 million). The Group manages its exposure to equity price risk through regular reviews of the investee's current and projected performance. As at 30 June 2015 a 10% movement in the quoted price of shares in Hutchison would increase or decrease the Group's equity by $11 million (30 June 2014: $10 million).

Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations as they fall due. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its financial liabilities.

In the event of any shortfalls, the Group has two short-term financing programmes in place; a $500 million Note Facility and a US$1 billion European Commercial Paper Programme.

In addition to the short-term financing programmes at 30 June 2015, the Group had the following:

- An undrawn committed standby facility of $200 million (30 June 2014: $300 million) with a number of creditworthy banks; and
- Committed bank overdraft facilities of $15 million with New Zealand banks (30 June 2014: $15 million).

There are no compensating balance requirements associated with these facilities.

The Group's liquidity policy is to maintain unutilised committed facilities of at least 110% of the next 12 months' forecast peak net funding requirements. The policy also requires that the maximum amount of long-term debt maturing in any 12-month period is not to exceed $400 million. As at 30 June 2015 management considered that it was in compliance with its liquidity policy, as reported to the Board.

NOTE 20 Financial risk management (continued)

The exposure to liquidity risk based on contractual cash flows relating to financial liabilities is summarised below:

AS AT 30 JUNE 2015	CARRYING AMOUNT $M	CONTRACTUAL CASH FLOWS $M	0–6 MONTHS $M	6–12 MONTHS $M	1–2 YEARS $M	2–5 YEARS $M	5+ YEARS $M
Non-derivative financial liabilities							
Trade accounts payable	349	349	349	–	–	–	–
Finance lease payable	2	2	1	1	–	–	–
Long-term debt	692	815	15	169	23	499	109
Derivative financial liabilities							
Interest rate swaps (net settled)	14	17	1	1	3	6	6
Cross-currency interest rate swaps (gross settled)							
Inflows	–	(60)	–	(3)	(3)	(54)	–
Outflows	8	72	1	1	3	67	–
Forward exchange contracts (gross settled)							
Inflows	–	(75)	(63)	(12)	–	–	–
Outflows	–	75	63	12	–	–	–
	1,065	**1,195**	**367**	**169**	**26**	**518**	**115**

AS AT 30 JUNE 2014	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 accounts payable	392	392	392	–	–	–	–
Finance lease payable	4	4	2	1	1	–	–
Short-term debt	40	40	40	–	–	–	–
Long-term debt	651	773	16	93	178	194	292
Derivative financial liabilities							
Interest rate swaps (net settled)	1	2	–	–	–	1	1
Cross-currency interest rate swaps (gross settled)							
Inflows	–	(100)	–	(4)	(5)	(55)	(36)
Outflows	25	140	3	3	6	80	48
Forward exchange contracts (gross settled)							
Inflows	–	(101)	(80)	(14)	(7)	–	–
Outflows	2	104	83	15	6	–	–
	1,115	**1,254**	**456**	**94**	**179**	**220**	**305**

Contractual cash flows include contractual undiscounted principal and interest payments. The Group uses cash and derivative financial instruments to manage liquidity.

Notes to the financial statements

NOTE 20 Financial risk management (continued)

Credit risk

Credit risk arises in the normal course of the Group's business on cash, trade receivables, other receivables, finance lease receivables and derivative financial instruments if a counterparty fails to meet its contractual obligations. The Group has a credit policy that is used to manage this exposure, which includes limits on exposures with significant counterparties that have been set and approved by the Board and are monitored on a regular basis. The Group places its cash and derivative financial instruments with high credit quality financial institutions and sovereign bodies. The Group's financial instruments do not have significant concentration of risk with any single party.

The Group has certain derivative and debt agreements that are subject to bilateral credit support agreements that require the Group or the counterparty to post collateral funds to support the value of certain derivatives. As at 30 June 2015 no collateral was posted (30 June 2014: nil). In the event of a downgrade of the Company's credit rating to BBB+ (Standard & Poor's) no collateral would be required to be posted (30 June 2014: US$12 million).

Of the Group's assets, $764 million are subject to credit risk (30 June 2014: $972 million). The Group holds various letters of credit and guarantees over some of these amounts. The Group does not hold any collateral over these amounts.

Capital risk management

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

AS AT 30 JUNE	2015 $M	2014 $M
Cash	(80)	(208)
Short-term debt (note 17)	–	40
Long-term debt at hedged rates	710	683
Net debt	630	515
Total equity	1,778	1,708
Capital	**2,408**	**2,223**

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

As at 30 June 2015 the Company's Standard & Poor's credit ratings for long-term and short-term debt is A- and A-2 respectively, with outlook stable (30 June 2014: same).

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

AS AT 30 JUNE	2015 $M	2014 $M
Long-term debt (note 17)	692	650
Impact of hedged rates used	18	32
Unamortised discount	–	1
Long-term debt at hedged rates	**710**	**683**

NOTE 21 Leases

Operating lease commitments – Group as lessee

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

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

AS AT 30 JUNE	2015 $M	2014 $M
Less than 1 year	73	69
Between 1 and 5 years	209	200
More than 5 years	197	227
	479	**496**

The total of future minimum sublease payments expected to be received under non-cancellable subleases at the end of the year is $13 million (30 June 2014: $12 million).

Finance lease receivables – Group as lessor

The Group's finance leases as at 30 June 2014 related primarily to Telecom Rentals Limited, which was sold during the year. The profile of lease receipts (excluding Chorus leases) is set out below:

AS AT 30 JUNE	UNDISCOUNTED 2015 $M	DISCOUNTED 2015 $M	UNDISCOUNTED 2014 $M	DISCOUNTED 2014 $M
Less than 1 year	–	–	55	53
Between 1 and 5 years	–	–	74	60
Total minimum future lease receipts	**–**	**–**	**129**	**113**
Unguaranteed residual value	–	–	8	8
Gross finance lease receivables	**–**	**–**	**137**	**121**
Less unearned finance income	–	–	(16)	–
Present value of finance lease receivables	**–**	**–**	**121**	**121**
Short-term finance lease receivables		–		53
Long-term finance lease receivables		–		68
Allowance for uncollectable lease receivables	–	–	14	14

Notes to the financial statements

NOTE 21 Leases (continued)

Finance leases with Chorus

On demerger, the Group entered into a number of leases with Chorus for space in exchange buildings. Under these leases the Group is:

- a lessor for space in the Group's exchanges; and
- a lessee for space in Chorus exchanges.

These leases are generally accounted for as finance leases and include a legal right of offset, as the Group and Chorus settle the payments on a net basis. As such the finance lease payable and finance lease receivable are shown as a net finance lease receivable on the statement of financial position. There are no contingent rents on the leases with Chorus. The profile of lease net receipts is set out below:

	GROUP AS LESSOR		GROUP AS LESSEE		NET	
	UNDISCOUNTED	DISCOUNTED	UNDISCOUNTED	DISCOUNTED	UNDISCOUNTED	DISCOUNTED
AS AT 30 JUNE 2015	$M	$M	$M	$M	$M	$M
Less than 1 year	14	14	(6)	(6)	8	8
Between 1 and 3 years	28	24	(13)	(11)	15	13
Between 3 and 5 years	28	20	(13)	(9)	15	11
More than 5 years	374	95	(3)	(2)	371	93
Finance lease receivable/(payable)	**444**	**153**	**(35)**	**(28)**	**409**	**125**
Less unearned finance (income)/future finance charges	(291)	–	7	–	(284)	–
Present value of finance lease receivable/(payable)	**153**	**153**	**(28)**	**(28)**	**125**	**125**
Short-term finance lease receivable/(payable)		14		(6)		8
Long-term finance lease receivable/(payable)		139		(22)		117

	GROUP AS LESSOR		GROUP AS LESSEE		NET	
	UNDISCOUNTED	DISCOUNTED	UNDISCOUNTED	DISCOUNTED	UNDISCOUNTED	DISCOUNTED
AS AT 30 JUNE 2014	$M	$M	$M	$M	$M	$M
Less than 1 year	14	14	(6)	(6)	8	8
Between 1 and 3 years	28	24	(13)	(11)	15	13
Between 3 and 5 years	28	20	(13)	(9)	15	11
More than 5 years	388	98	(9)	(6)	379	92
Finance lease receivable/(payable)	**458**	**156**	**(41)**	**(32)**	**417**	**124**
Less unearned finance (income)/future finance charges	(302)	–	9	–	(293)	–
Present value of finance lease receivable/(payable)	**156**	**156**	**(32)**	**(32)**	**124**	**124**
Short-term finance lease receivable/(payable)		14		(6)		8
Long-term finance lease receivable/(payable)		142		(26)		116

The remaining term of the leases when the Group is the lessor is for seven years, with multiple rights of renewal for a further 24 years. The term of the leases when the Group is the lessee is less than one year, with rights of renewal for a further five years. The full term has been used in the calculation of the finance leases payable and receivable, as it is likely that due to the specialised nature of the buildings, the leases will be renewed to the maximum term.

NOTE 22 Commitments

Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

AS AT 30 JUNE	2015 $M	2014 $M
Property, plant and equipment	136	45
Intangible assets	72	166
	208	**211**

Commitments principally relate to telecommunications network equipment, the Tasman Global Access cable and cable capacity. As at 30 June 2014, $158 million related to 700 MHz radio spectrum.

Other commitments

As at 30 June 2015 the Group had other supplier commitments of $584 million (30 June 2014: $330 million) with $384 million due in the year ending 30 June 2016 (30 June 2014: $316 million due in the year ended 30 June 2015). Operating lease commitments are detailed in note 21.

NOTE 23 Contingencies

Effect of outstanding claims

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

Unbundled Copper Local Loop and Unbundled Bitstream Access price review

The Commerce Commission is currently undertaking Final Pricing Principle (FPP) reviews of the costs for the regulated Unbundled Copper Local Loop (UCLL) and Unbundled Bitstream Access (UBA) services. On 2 July 2015 it released its latest draft determinations for each service, with draft costs of $26.74 for UCLL and $11.15 for UBA. These compare with the Commission's Initial Pricing Principle costs for these services of $23.46 (for UCLL) and $10.92 (for UBA) and earlier draft FPP determinations of $28.22 for UCLL and $10.17 for UBA released on 2 December 2014. The Commission has indicated it expects to issue final determinations for these costs, following a consultation process, in December 2015. Its preliminary view is that the costs set in the final determination will take effect from the date of the final determination. This differs from the Commission's earlier view that these prices would take effect on 1 December 2014. The Group has provided for its commitment to pass the value of retail price increases related to the Commission's earlier view back to customers in a fair and transparent way if the decision on backdating is confirmed. Any increase in costs or their effective date when the final determinations are announced may have a material impact on the Group.

Notes to the financial statements

NOTE 24 Related party transactions

Transactions with associate and joint venture companies

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

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

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

AS AT AND FOR THE YEAR ENDED 30 JUNE	2015 $M	2014 $M
Revenue received[1]	59	73
Expenses paid	12	9
Capacity acquired and other capital expenditure[2]	9	21
Receivables	1	3

1 Includes dividends received from Southern Cross of $53 million for the year ended 30 June 2015 (30 June 2014: $67 million).

2 As at 30 June 2015 the Group has committed to purchases of $72 million for cable capacity from Southern Cross (30 June 2014: $8 million).

Key management personnel compensation

YEAR ENDED 30 JUNE	2015 $'000	2014 $'000
Directors' remuneration	1,223	1,239
Salary and other short-term benefits[1]	8,844	11,830
Redundancy and termination payments	583	1,549
Long-term incentives and share-based compensation	1,435	2,830
	12,085	**17,448**

1 Includes short-term benefits paid on termination.

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

NOTE 25 Subsidiaries

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

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

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

During the year the Group disposed of its international voice business, including Telecom New Zealand UK Limited, Telecom New Zealand Singapore Pte Limited and Telecom New Zealand International Australia Pty Limited. The Group also disposed of TCNZ Cook Islands Limited (which held the Group's 60% share of Telecom Cook Islands Limited) and Telecom Rentals Limited.

Telecom Mobile Limited, Telecom Leasing Limited, Telecom Mobile Leasing No. 1 Limited and Telecom Mobile Leasing No.2 Limited were amalgamated into Spark New Zealand Trading Limited on 1 July 2014, 1 April 2015 and 30 June 2015 respectively.

NOTE 26 Acquisitions

On 1 July 2014 the Group acquired 100% of the ordinary share capital of Appserv Limited (Appserv), a business Cloud services specialist, for cash consideration of $17 million. The acquisition of Appserv has revenue, cost and capital synergies that allow the Group to gain cost-efficient and effective access to additional specialised Cloud capabilities. The goodwill recognised on acquisition is allocated to the Home, Mobile & Business cash-generating unit.

The following values are recognised in the financial statements in respect of the Appserv acquisition:

	1 JULY 2014 $M
Assets	
Receivables and prepayments	1
Property, plant and equipment	3
Other intangible assets	6
Goodwill (note 9)	9
Total assets	**19**
Payables and accruals	(1)
Other liabilities	(1)
Total liabilities	**(2)**
Net assets acquired/consideration paid	**17**

Notes to the financial statements

NOTE 27 Discontinued operation

On 9 December 2013 the Group entered into a binding agreement to sell AAPT to TPG Telecom Limited and the sale was completed on 28 February 2014. The results of the discontinued operation for the year ended 30 June 2014 presented in the income statement, including directly attributable gains and costs from the sale, is as follows:

NET EARNINGS FROM DISCONTINUED OPERATION	2014 $M
Revenue	303
Expenses	(263)
Net earnings before income tax	**40**
Income tax expense	–
Net earnings for the period before directly attributable gains and costs	**40**
Directly attributable gains and costs	
Gain on sale	238
Transaction and other costs	(26)
Foreign currency translation reserve transferred to profit or loss	(112)
Tax expense on sale-related items	(3)
Net earnings for the year from discontinued operation	**137**
Basic and diluted earnings per share from discontinued operation (cents)	7

The cash flows of the discontinued operation for the year ended 30 June 2014 presented in the cash flow statement are as follows:

CASH FLOWS FROM DISCONTINUED OPERATION	2014 $M
Net cash flows from operating activities	33
Net cash flows from investing activities	(32)
Net cash flows from financing activities	(24)
Net cash flows from discontinued operation	**(23)**

NOTE 28 Significant events after balance date

Dividends

On 21 August 2015 the Board approved the payment of a second half dividend of 11 cents per share or approximately $201 million. The dividend will be fully imputed in line with the corporate income tax rate. 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, the Group will receive a tax credit from Inland Revenue equivalent to the amount of supplementary dividends paid.

Corporate governance and disclosures

Corporate governance

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

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

The Board of Directors is elected by shareholders to protect and enhance the value of the assets of Spark New Zealand in the interests of Spark New Zealand and its shareholders. The Board is responsible for all decision-making within the Company. The role and responsibilities of the Board are set out in the Board Charter, which may be found at: www.sparknz.co.nz/about/governance.

Three Board committees assist in the execution of the Board's responsibilities: the Human Resources and Compensation Committee (HRCC); the Nominations and Corporate Governance Committee (NOMs); and the Audit and Risk Management Committee (ARMC). Each Board committee has a charter summarising the role, rights, responsibilities and membership requirements for that committee. Committee charters may be found at: www.sparknz.co.nz/about/governance.

Stock exchange listings

Spark New Zealand ordinary shares are listed on the NZSX and ASX. Spark New Zealand has adopted the governance practices prescribed in the NZX Corporate Governance Best Practice Code, the ASX Corporate Governance Council's Principles and Recommendations (3rd Edition) and the Financial Markets Authority handbook Corporate Governance in New Zealand Principles and Guidelines. As at 21 August 2015 the Board considers that Spark New Zealand has complied with these practices for the FY15 reporting period. Further detail regarding such compliance can be found at: www.sparknz.co.nz/about/governance.

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

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

Risk factors

Spark New Zealand's ability to create acceptable returns for its shareholders requires successful execution of its business strategy and plans. Risks influencing its ability to do this include:

Mobile competition

Becoming number one in mobile requires Spark New Zealand to increase customer usage revenues and connection numbers. Natural tensions exist between growing scale and maintaining margins. The competitive intensity of New Zealand's mobile market exacerbates these. Remaining competitive may require Spark New Zealand to discount its prices and include more value in its bundled offers. These responses could reduce mobile business profitability and earnings growth potential.

Broadband competition

New Zealand's broadband market is increasingly commoditised following the structural separation of Chorus. Spark New Zealand's ability to retain its scale and price premium position is constantly challenged by industry competitors and new competitors from different industries (for instance electricity).

Monetising incremental broadband data growth

Unlimited broadband offers accelerate network capacity investment. It may not be possible to monetise this investment at current market price levels. This situation may be accelerated by expansion of the ultra fast broadband fibre network footprint. Competition and data monetisation risks may impair the returns available from broadband products.

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

Spark New Zealand is developing scalable platform-based IT solutions to replace legacy IT services, with the aim of growing IT services revenues and margins. Its ability to do this may be limited by the need to continue supporting legacy IT services until the transition to platform-based replacements is complete. The ability to improve service delivery and margin performance remain the largest risk factors affecting the performance of the IT services business.

Growing into adjacent sectors

Spark Ventures has launched new businesses offering media content, data analytics and smart living services in the last 18 months. Successfully growing these businesses may be challenged by risk factors, such as limited market acceptance or demand, requirements for higher levels of investment than Spark New Zealand is prepared to make or from aggressive incumbent responses. These risks may prevent successful monetisation of these new businesses.

Managing fixed margin decline

Customer demand for traditional fixed network products and services continues to decline. Due to the high relative margins of fixed network products and services, any acceleration in the rate of decline could materially impact Spark New Zealand's earnings performance.

Business efficiency

Spark New Zealand may be unable to continue reducing its cost base at the rates achieved by its Turnaround Programme without impacting its service levels. Future cost reductions will be more reliant on Spark New Zealand's ability to digitise and streamline its business processes and operations.

Regulatory environment

The final price determined by the Commerce Commission in December 2015 for UBA/UCLL input products and their backdating arrangements may impact the profitability of Spark New Zealand's broadband business. Future regulatory reviews are planned that may also influence price and non-price conditions for copper and fibre-based networks.

Meeting compliance obligations

Spark New Zealand must ensure it complies with a number of legislative and regulatory obligations without materially increasing its operating cost base. Key legislative compliance obligations exist under the Privacy Act 1993, Health and Safety in Employment Act 1992, Commerce Act 1986, and Fair Trading Act 1986. Spark New Zealand also has significant obligations under the Telecommunications Act 2001 (the Telecommunications Service Obligations (TSO)) and is subject to the NZX and ASX listing rules.

Technology performance

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

IT and data security risks

Spark New Zealand's role as a major provider of connectivity, storage and digital services makes it susceptible to cyber attacks motivated by denial of customer access to services or controlling technology for illegitimate purposes. The reputational consequences of a successful cyber or data security breach may include customer loss, additional investment in IT security or other internal controls or the imposition of injunctions or punitive measures, such as fines.

Further detail on Spark New Zealand's risk factors may be found at: www.sparknz.co.nz/about/governance.

Remuneration

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

The fees payable to non-executive directors during FY15 were:

BOARD/COMMITTEE[1]	CHAIR	MEMBER[2]
Board of Directors	$337,425	$132,925
Audit and Risk Management Committee	$35,788	$17,383
Human Resources and Compensation Committee	$30,675	$15,338
Nominations and Corporate Governance Committee	–	–

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

2 Member fees were payable for each committee.

Committee membership as at 30 June 2015 was as follows:

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

The total remuneration and other benefits received by non-executive directors of Spark New Zealand during FY15 were as follows:

NAME	TOTAL REMUNERATION (NZD)[1]
Paul Berriman	$150,690
Murray Horn	$168,713
Ido Leffler	$132,925
Maury Leyland	$102,212
Charles Sitch	$150,308
Justine Smyth	$180,983
Mark Verbiest	$337,425
Total	**$1,223,254**

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

The total remuneration earned by, or paid to, the Managing Director, Mr Simon Moutter, for FY15 was as follows:

BASE SALARY[1]	SHORT-TERM INCENTIVE[2]	EQUITY INCENTIVE[3]	LONG-TERM INCENTIVE
NZ$1,411,036	NZ$825,000	NZ$660,000	NZ$1,000,000 in the form of 333,123 performance rights[4]

1 Base salary includes employer contributions towards KiwiSaver. Mr Moutter does not receive any director fees.
2 Earned in FY15 and paid in FY16, as further described in Managing Director Annual Performance Incentive Scheme on www.sparknz.co.nz/about/governance. The gross amount earned in FY14 and paid in FY15 was $1,132,500.
3 Earned in FY15 and awarded in FY16 in the form of redeemable ordinary shares that will reclassify as ordinary shares in September 2017, as further described in Managing Director Performance Equity Scheme on www.sparknz.co.nz/about/governance. The gross amount earned in FY14 and awarded in FY15 was $906,000.
4 Granted in FY15 and, subject to specific performance hurdles, will vest in September 2017, as further described in Managing Director Performance Rights Scheme on www.sparknz.co.nz/about/governance.

The total remuneration earned by, or paid to, key management personnel, being the directors and members of the Leadership Team, is set out in note 24 of the financial statements.

Employees do not receive any additional remuneration or other benefits from Spark New Zealand for acting as directors of subsidiary companies. Mr Quince received a director's fee of NZ$10,000 (excluding GST) for acting as a director of Teleco Insurance (NZ) Limited. Appleby Services (Bermuda) Limited received a director's fee of US$2,000 in relation to Mr Rees Davies acting as a director of TCNZ (Bermuda) Limited.

Board and committee meeting attendance for FY15

The Board held eight formal meetings during FY15. The table below shows director attendance at these Board meetings and committee member attendance at committee meetings. Subcommittees of the Board also met regularly throughout the year to consider matters of special importance.

	BOARD	ARMC	HRCC	NOMS
Total number of meetings held	8	6	5	3
Paul Berriman[1]	8	6	1	3
Murray Horn	8	6	–	3
Ido Leffler[2]	8	–	–	–
Maury Leyland[3]	5	–	3	2
Simon Moutter	8	–	–	–
Charles Sitch	8	6	–	2
Justine Smyth	8	6	5	3
Mark Verbiest	8	6[4]	5	3

1 Mr Berriman was appointed to the HRCC on 26 May 2015 (and was eligible to attend one HRCC meeting during FY15).
2 Mr Leffler was appointed to the NOMs on 26 May 2015 (and was not eligible to attend any NOMs meetings during FY15).
3 Ms Leyland resigned from the Board on 28 February 2015 (and was eligible to attend five Board, four HRCC and two NOMs meetings during FY15).
4 Mr Verbiest attends ARMC meetings in an ex officio capacity.

The table below shows the number of employees and former employees, not being directors of Spark New Zealand Limited, who, in their capacity as employees, received remuneration and other benefits during FY15 totalling NZ$100,000 or more[1].

REMUNERATION RANGE	CURRENT EMPLOYEES	FORMER EMPLOYEES	TOTAL EMPLOYEES
$100,000 – $110,000	331	42	373
$110,001 – $120,000	290	35	325
$120,001 – $130,000	231	46	277
$130,001 – $140,000	162	31	193
$140,001 – $150,000	144	15	159
$150,001 – $160,000	104	15	119
$160,001 – $170,000	63	19	82
$170,001 – $180,000	46	7	53
$180,001 – $190,000	35	1	36
$190,001 – $200,000	21	5	26
$200,001 – $210,000	38	4	42
$210,001 – $220,000	26	6	32
$220,001 – $230,000	26	5	31
$230,001 – $240,000	19	5	24
$240,001 – $250,000	17	5	22
$250,001 – $260,000	14	2	16
$260,001 – $270,000	10	5	15
$270,001 – $280,000	12	4	16
$280,001 – $290,000	8	3	11
$290,001 – $300,000	8	–	8
$300,001 – $310,000	8	1	9
$310,001 – $320,000	3	–	3
$320,001 – $330,000	2	1	3
$330,001 – $340,000	4	–	4
$350,001 – $360,000	2	1	3
$360,001 – $370,000	1	–	1
$370,001 – $380,000	4	–	4
$380,001 – $390,000	2	–	2
$390,001 – $400,000	2	–	2
$400,001 – $410,000	2	–	2
$420,001 – $430,000	2	–	2
$430,001 – $440,000	–	2	2
$440,001 – $450,000	1	2	3
$450,001 – $460,000	1	1	2
$490,001 – $500,000	1	–	1
$500,001 – $510,000	–	1	1
$520,001 – $530,000	1	–	1
$530,001 – $540,000	1	1	2
$540,001 – $550,000	1	–	1
$560,001 – $570,000	1	–	1
$570,001 – $580,000	2	–	2
$600,001 – $610,000	1	1	2
$610,001 – $620,000	2	–	2
$630,001 – $640,000	2	–	2
$640,001 – $650,000	1	–	1

REMUNERATION RANGE	CURRENT EMPLOYEES	FORMER EMPLOYEES	TOTAL EMPLOYEES
$650,001 – $660,000	1	–	1
$690,001 – $700,000	–	1	1
$700,001 – $710,000	–	1	1
$720,001 – $730,000	–	1	1
$740,001 – $750,000	1	–	1
$830,001 – $840,000	1	–	1
$880,001 – $890,000	1	–	1
$930,001 – $940,000	1	1	2
$1,080,001 – $1,090,000	1	–	1
$1,150,001 – $1,160,000	1	–	1
$1,200,001 – $1,210,000	1	–	1
$2,080,001 – $2,090,000	–	1	1
Grand Total	**1,660**	**271**	**1,931**

1 The table includes base salaries, short-term incentives and vested or exercised long-term incentives. The table does not include: amounts paid after 30 June 2015 relating to FY15; long-term incentives that have been granted and have yet to vest (the total value of which was NZ$16,287,779 as at 30 June 2015); product and service concessions received by employees; contributions paid towards employee membership of the Marram Trust (a community healthcare and holiday accommodation provider); contributions paid to the Government Superannuation Fund (a legacy benefit provided to a small number of employees); and, if the individual is a KiwiSaver member, contributions of 3% of gross earnings towards that individual's KiwiSaver scheme.

Diversity

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

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

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

- continued sponsorship of current and emerging senior women leaders on the Global Women Breakthrough Leadership Programme of which we are a major partner;
- initiated internal forums to engage on diversity and inclusion, including external speakers and special interest groups;
- actively engaged and supported industry groups, such as Women in Technology and Global Telco Forum;
- sponsored emerging female talent onto targeted development programmes, such as the Global Women Activation series;
- partnered with the First Foundation to sponsor scholarships and provide work experience for talented young New Zealanders who lack the financial means to a tertiary education;
- sponsored leaders and high potential employees of Pasifika descent on the BEST Pasifika Leadership Programme; and
- engaged in the 'Champions for Change' initiative.

Gender composition of our workforce

The following table sets out the numbers of men and women at different levels of Spark New Zealand's workforce as at 30 June 2014 and 30 June 2015.[1]

	FEMALE				MALE			
	2014		2015		2014		2015	
	NO.	%	NO.	%	NO.	%	NO.	%
Directors	2	25%	1[2]	14%	6	75%	6	86%
Leadership Team[3]	1	14%	1	17%	6	86%	5	83%
Other leadership roles[4]	13	32%	13	33%	27	68%	26	67%
Overall workforce	**1,969**	**38%**	**1,771**	**37%**	**3,192**	**62%**	**2,984**	**63%**

1 The table includes details of permanent and fixed-term employees of Spark New Zealand Trading Limited and directors of Spark New Zealand.
2 Ms Leyland retired as a director of Spark New Zealand during FY15. Spark New Zealand is actively recruiting for a replacement director.
3 The Leadership Team is considered 'senior managers' for the purposes of the Financial Markets Conduct Act 2013 and 'senior executives' for the purposes of the ASX Corporate Governance Council's Principles and Recommendations.
4 Substantive roles that report directly to members of the Leadership Team or to their direct reports.

Director independence and interests

The Board has determined, based on information provided by directors regarding their interests, that at 30 June 2015: Mr Berriman, Dr Horn, Mr Leffler, Mr Sitch, Ms Smyth and Mr Verbiest were independent. The Board also determined that Mr Moutter was not independent due to his position as Managing Director. Further information regarding director independence may be found at: www.sparknz.co.nz/about/governance.

Directors made the following entries in the interests register for FY15:

- Directors disclosed, pursuant to section 140 of the Companies Act 1993, interests in the following entities during FY15:

DIRECTOR	ENTITY	RELATIONSHIP
Murray Horn	NZ Health Innovation Hub	Ceased to be Chairman
	Marisco Properties Limited	Ceased to be Chairman
Ido Leffler	Ruby Ribbon	Ceased to be a Board Member
	Asia Society	Trustee
Charles Sitch	Pacific Edge	Director
Justine Smyth	Pure Advantage	Ceased to be a Trustee
	Financial Markets Authority	Ceased to be a Board Member
Mark Verbiest	NZ Treasury Commercial Operations Advisory Board	Board Member
	MyCare Limited	Director

- Directors disclosed, pursuant to section 148 of the Companies Act 1993, the following acquisitions and disposals of relevant interests in Spark New Zealand shares during FY15:

NAME	DATE OF ACQUISITION / DISPOSAL	CONSIDERATION PAID / RECEIVED	NUMBER OF SHARES ACQUIRED / (DISPOSED)	CLASS OF FINANCIAL PRODUCT
Simon Moutter	15 September 2014	Services to Spark New Zealand	149,695	Ordinary shares
	22 September 2014	Services to Spark New Zealand	190,140	Redeemable ordinary shares
	22 September 2014	Services to Spark New Zealand	333,123	Performance rights
	23 September 2014	$150,358	(50,000)	Ordinary shares
	30 September 2014	Services to Spark New Zealand	127,740	Ordinary shares
	2 October 2014	$126,630	(42,000)	Ordinary shares
	6 October 2014	Nil (transferred as gifts to family members)	(4,000)	Ordinary shares
	16 April 2015	$2,338 (pursuant to Spark Share)	844	Ordinary shares

- Directors disclosed, for the purposes of section 162 of the Companies Act 1993, insurance effected for Spark New Zealand's directors and senior managers for the 12-month period from 1 June 2015 and deeds of indemnity provided to all directors and specified senior managers of Spark New Zealand.

Shareholdings

As at 24 July 2015 there were 1,829,864,090 Spark New Zealand 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	12,436	30.02	6,494,075	0.35
1,001–5,000	18,128	43.76	46,989,524	2.57
5,001–10,000	5,669	13.68	42,617,525	2.33
10,001–100,000	4,998	12.06	114,727,379	6.27
100,001 and over	197	0.48	1,619,035,587	88.48
Total		**100.00**		**100.00**

1 Includes 4,145,234 shares on issue held by Spark Trustee Limited on behalf of 69 beneficial holders and on trust for the Spark New Zealand Restricted Share Scheme and 788,071 shares on issue held by Spark Trustee Limited on behalf of 1,030 holders for Spark Share (as further described in note 16 of the financial statements).

As at 24 July 2015 there were 190,140 redeemable ordinary shares on issue held by the Managing Director and 3,909,663 share rights (including performance rights held by the Managing Director) on issue held by seven holders. Redeemable ordinary shares and shares held under Spark Share have the same voting rights as ordinary shares (but are subject to restrictions regarding disposal). Restricted shares and share rights are issued to Spark New Zealand employees as part of Spark New Zealand's long-term incentive schemes. Further information on these schemes is contained in note 16 of the financial statements and at www.sparknz.co.nz/about/governance.

As at 24 July 2015 there were 671 shareholders holding between 1 and 99 ordinary shares (a minimum holding under the NZX listing rules) and 786 shareholders holding less than a marketable share parcel of A$500 (under the ASX listing rules).

The 20 largest holders of Spark New Zealand shares at 24 July 2015 were:

	NAME[1]	NUMBER OF SHARES	%
1.	HSBC Nominees (New Zealand) Limited	502,403,029	27.45
2.	National Nominees New Zealand Limited	344,176,489	18.81
3.	JP Morgan Chase Bank	149,434,172	8.17
4.	Citibank Nominees (NZ) Limited	133,439,088	7.29
5.	Accident Compensation Corporation	57,742,812	3.16
6.	National Nominees Limited	47,351,870	2.59
7.	HSBC Custody Nominees (Australia) Limited	45,437,858	2.48
8.	BNP Paribas Nominees NZ Limited	42,787,374	2.34
9.	JP Morgan Nominees Australia Limited	34,540,897	1.89
10.	Cogent Nominees Limited	31,053,049	1.70
11.	New Zealand Superannuation Fund Nominees Limited	29,103,616	1.59
12.	Tea Custodians Limited	24,992,946	1.37
13.	BNP Paribas Noms Pty Limited	16,190,444	0.88
14.	Premier Nominees Limited	15,175,037	0.83
15.	FNZ Custodians Limited	12,999,605	0.71
16.	Guardian Nominees No.2 Limited	12,347,726	0.67
17.	Citicorp Nominees Pty Limited	9,406,664	0.51
18.	Cogent Nominees (NZ) Limited	7,574,454	0.41
19.	UBS Nominees Pty Limited	7,327,283	0.40
20.	New Zealand Depository Nominee Limited	6,278,275	0.34

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

According to substantial holder notices, as at 30 June 2015 and 24 July 2015, the substantial holders in Spark New Zealand were as follows:

NAME	NUMBER OF ORDINARY SHARES	% OF ORDINARY SHARES ON ISSUE[1]
Blackrock Investment Management (Australia) Limited	115,998,106	6.34%
The Bank of New York Mellon Corporation	150,507,420	8.23%

1 Based on issued share capital of 1,829,864,090 as at 30 June 2015 and 24 July 2015.

As at 30 June 2015 directors, or entities related to them, held relevant interests (as defined in the Financial Markets Conduct Act 2013) in Spark New Zealand shares as follows:

	RELEVANT INTEREST IN SPARK NEW ZEALAND SHARES AT 30 JUNE 2015	
NAME	NUMBER	%[1]
Paul Berriman	20,000	0.0011
Murray Horn	20,000	0.0011
Ido Leffler	–	–
Simon Moutter	1,994,689[2]	0.1090
Charles Sitch	13,934	0.0008
Justine Smyth	210,000	0.0115
Mark Verbiest	17,568	0.0010

1 Each percentage stated has been rounded to the nearest 1/1000th of a percent.
2 Held in the form of 331,974 ordinary shares, 190,140 redeemable ordinary shares and 1,472,575 share rights.

Subsidiary company directors

The following people held office as directors of subsidiary companies at 30 June 2015. Alternate directors are indicated with an (A).

SUBSIDIARY COMPANY	CURRENT DIRECTORS	DIRECTORS WHO RETIRED DURING THE YEAR
Appserv Limited	M Anastasiou, J Hodson, J Paris	C Aiken, G Clarke, M Clarke, M Jeffries, S Roest, C Quin
Blaxton Properties Limited	M Anastasiou, J Hodson, T Miles	S Roest
Digilife New Zealand Limited	R Snodgrass, D Werder	
Gen-i Australia Pty Limited	T Miles, M Pryke	M Munro, P O'Donohoe
Gen-i Limited	M Anastasiou, T Miles	S Roest
Lightbox New Zealand Limited	J Hodson, R Snodgrass	
Qrious Limited	J Hodson, R Snodgrass	
Revera (Australia) Pty Limited	M Anastasiou, M Pryke	M Munro, S Roest
Revera Limited	M Anastasiou, J Hodson, T Miles	S Roest
Spark Finance Limited	M Anastasiou, J Hodson, M Laing, M Sheppard	S Roest, J van Woerkom
Spark New Zealand Cables Limited	M Laing, M Sheppard	J van Woerkom
Spark New Zealand LS Limited	J Hodson, R Snodgrass	
Spark New Zealand Trading Limited	D Havercroft, J Hodson, T Miles, R Snodgrass, J Paris	C Quin
Spark Retail Holdings Limited	M Anastasiou, J Hodson	S Roest
Spark Trustee Limited	M Anastasiou, J Hodson	S Roest
TCNZ Australia Investments Pty Limited	M Pryke, F Evett	T Miles, M Munro, P O'Donohoe, J van Woerkom
TCNZ (Bermuda) Limited	L Cowley, S Rees Davies, J Wesley-Smith, M Amissah (A), T Counsell (A), S Demerling (A), J Redden (A), R Snodgrass (A), J Wilson (A), A Pirie (A), M Stribling (A)	N Clarke
TCNZ Cook Islands Holdings Limited	J van Woerkom	
TCNZ Financial Services Limited	M Anastasiou, M Laing	S Roest
TCNZ Solutions Australia Pty Limited	M Pryke	M Munro
TCNZ (United Kingdom) Securities Limited	M Laing, M Palmer, J Reader	K Duncan, M Scott
Teleco Insurance Limited	D Havercroft, M Laing, S Rees Davies, M Amissah (A), J Burke (A), S Demerling (A), F Evett (A), T Richardson-Augustus (A), R Snodgrass (A), T Woods (A)	N Clarke (A), S Roest (A)
Teleco Insurance (NZ) Limited	M Laing, R Quince	
Telecom 3G (Australia) Limited	M Anastasiou, J Hodson	S Roest
Telecom Capacity Limited	D Havercroft, J Hodson	
Telecom Enterprises Limited	M Anastasiou, J Hodson	S Roest
Telecom New Zealand International Limited	M Anastasiou, J Hodson	S Roest, C Walton
Telecom New Zealand (UK) Enterprises Limited	M Laing, M Sheppard	J van Woerkom
Telecom New Zealand USA Limited	L Cowley	N Clarke, C Walton
Telecom Pacific Limited	M Anastasiou, M Sheppard	S Roest, J van Woerkom
Telecom Southern Cross Limited	M Anastasiou, J Hodson	S Roest
Telecom Wellington Investments Limited	M Anastasiou, M Laing	S Roest
Telegistics Repair Limited	M Anastasiou, J Goddard	S Roest, J van Woerkom

Glossary

3G	means third-generation mobile network as defined by the International Telecommunications Union.
4G	means fourth-generation mobile network as defined by the International Telecommunications Union.
ADR	means an American Depositary Receipt.
ADS	means an American Depositary Share.
ARMC	means the Audit and Risk Management Committee.
ARPU	means Average Revenue per Unit/User.
ASX	means the Australian Securities Exchange.
Company	means Spark New Zealand Limited.
CPI	means Consumer Price Index.
CGU	means Cash Generating Units.
EBITDA	means Earnings before Interest, Tax Expense, Depreciation and Amortisation.
EMTN	means Euro Medium Term Notes.
FTE	means Full-time Equivalent.
HRCC	means the Human Resources and Compensation Committee.
ICT	means Information and Communications Technologies.
IFRS	means International Financial Reporting Standards.
LTE	means Long Term Evolution.
NZ GAAP	means Generally Accepted Accounting Practice in New Zealand.
NZ IFRS	means New Zealand Equivalent to International Financial Reporting Standards.
MMS	means Multimedia Messaging Service.
Naked Broadband	is a term used for a broadband connection that does not have a landline phone service.
NOMs	means the Nominations and Corporate Governance Committee.
NM	means not meaningful.
NPS	means Net Promoter Score.
NZ IAS	means New Zealand International Accounting Standard.
NZSX	means the main board equity security market operated by NZX.
NZX	means NZX Limited.
OTC	mean an over-the-counter market.
OTN	means Optical Transport Network.
PSTN	means the Public Switched Telephone Network, a nationwide dial-up telephone network used, or intended for use, in whole or in part, by the public for the purposes of providing telecommunications between telephone devices.
SEC	means the United States Securities and Exchange Commission.
SMS	means Short Message Service.
Southern Cross	means Southern Cross Cables group of companies, which consists of two sister companies, Southern Cross Cables Holdings Limited and Pacific Carriage Holdings Limited and their subsidiaries.
Spotify	means an application that allows access to digital music services.
SVOD	means Subscription Video on Demand.
UFB	means Ultra Fast Broadband.
VDSL	means Very-high-bit-rate Digital Subscriber Line.
WACC	means Weighted Average Cost of Capital.

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