



**SPARK FINANCE LIMITED**

# **Annual Report 2019**

For the year ended 30 June 2019

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## DIRECTORS' REPORT

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Spark Finance Limited ('Spark Finance' or 'the Company') is a wholly-owned subsidiary of Spark New Zealand Limited ('Spark New Zealand' and together with its subsidiaries, the 'Spark New Zealand Group').

### Principal activities

The principal activity of Spark Finance is that of a finance company for the Spark New Zealand Group and was incorporated in 1991. Spark Finance raises debt funding in New Zealand and internationally. The majority of these funds are then advanced to other members of the Spark New Zealand Group in order to assist in funding their operations.

### Principal risks

The key risks to Spark Finance are currency, interest rate, credit and liquidity risks. A summary of these risks and Spark Finance's risk management objectives and policies are set out in note 11 to the following financial statements. The Directors of Spark Finance do not believe there is any significant financial risk to Spark Finance as financial assets are matched by financial liabilities with similar characteristics. Spark Finance enters into derivative financial instruments in order to manage the currency and interest rate risks associated with its borrowings, as well as to manage the currency risk associated with the operations of the Spark New Zealand Group. As the proceeds of debt are advanced to other members of the Spark New Zealand Group, the ability of Spark Finance to meet its obligations under the debt issues depends upon the payment of principal and interest due from other Spark New Zealand Group companies.

### Business review

Spark Finance recorded net earnings after tax for the year ended 30 June 2019 of \$159 million compared to \$165 million for the year ended 30 June 2018. Potential volatility in earnings caused by Spark Finance's exposure to movements in foreign exchange rates on financial instruments that are held on behalf of members of the Spark New Zealand Group is mitigated by back-to-back deals with these members. The net foreign exchange loss for the year ended 30 June 2019 was nil (30 June 2018: nil).

The net assets of Spark Finance as at 30 June 2019 were \$962 million compared to \$1,218 million as at 30 June 2018. The share capital of Spark Finance is \$883 million (30 June 2018: \$883 million) consisting of 882,872,600 issued and fully paid shares, of which 342,872,600 are ordinary shares. Spark Finance did not acquire any of its own shares during the year ended 30 June 2019 (30 June 2018: nil).

During the year ended 30 June 2019 Spark Finance paid a dividend of 41.5 cents per share or \$366 million to Spark New Zealand Limited via an intercompany advance through a current account (30 June 2018: 52.1 cents per share or \$460 million).

The Directors of Spark Finance consider the results of the Company to be satisfactory and the Company to be in a sound financial position.

Spark Finance solely lends to other companies within the Spark New Zealand Group and, accordingly, its financial performance should be considered in conjunction with the financial performance of the Spark New Zealand Group. A copy of the Spark New Zealand Group's results for the year ended 30 June 2019 can be found at [investors.sparknz.co.nz](http://investors.sparknz.co.nz).

Based on current expectations, Spark Finance will continue to operate as the principal finance company for the Spark New Zealand Group. Spark Finance does not engage in research and development activities.

On behalf of the Board



David Chalmers  
DIRECTOR



Matthew Sheppard  
DIRECTOR

Date: 26 August 2019

## DIRECTORS' REPORT

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### Declaration pursuant to Article 3(2)(c) of the Luxembourg Transparency Law dated 11 January 2008

We, David Chalmers and Matthew Sheppard, both directors of Spark Finance Limited (herein after the 'Issuer') hereby declare that, to the best of our knowledge, the financial statements for the year ended 30 June 2019, which have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and performance of the Issuer and that the Directors' report includes a fair review of the development and performance of the business and the position of the Issuer, together with a description of the principal risks and uncertainties that the Issuer faces.



David Chalmers  
DIRECTOR



Matthew Sheppard  
DIRECTOR

Date: 26 August 2019

## OTHER INFORMATION

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### Directors

The Directors of Spark Finance as at 30 June 2019 were:

Melissa Anastasiou  
David Chalmers  
Matthew Sheppard  
Dean Werder

### Gender composition

The following table details the gender composition of Spark Finance's Board of Directors and Officers / Senior Managers:

	As at 30 June 2019		As at 30 June 2018	
	Male	Female	Male	Female
Number of Directors	3	1	3	1
Percentage of Directors	75%	25%	75%	25%
Number of Officers / Senior Managers	1	-	1	-
Percentage of Officers / Senior Managers	100%	0%	100%	0%

### Corporate governance

The Board of Spark New Zealand is committed to ensuring that the Spark New Zealand Group maintains a high standard of corporate governance and adheres to high ethical standards. Spark Finance operates within the corporate governance policies, practices and processes of the Spark New Zealand Group. Full descriptions of these policies, practices and processes are referred to in the Spark New Zealand annual report (available at [investors.sparknz.co.nz](http://investors.sparknz.co.nz)), with reference to the Spark Corporate Governance Statement 2019 and the Diversity and Inclusion Policy (including an evaluation of the Spark New Zealand Group's performance with respect to that Policy and the NZX Corporate Governance Code), which are available at [www.sparknz.co.nz/about/governance](http://www.sparknz.co.nz/about/governance).

### Interests

Deeds of indemnity have been granted to the Directors of Spark Finance in relation to potential liabilities and costs that they may incur for acts or omissions in their capacity as Directors of Spark Finance and as employees of the Spark New Zealand Group. In addition, the Directors of Spark New Zealand have approved directors and officers liability insurance to cover risks normally covered by such policies arising out of the acts or omissions of Directors of Spark New Zealand and its subsidiaries, including Spark Finance, and of employees of the Spark New Zealand Group. This insurance does not cover dishonest, fraudulent, malicious or wilful acts.

### Credit rating

Spark New Zealand (which guarantees Spark Finance's debt) has credit ratings from Standard & Poor's on its indebtedness. Details of ratings as at 30 June 2019 are as follows:

Long-term senior debt: A-  
Short-term debt: A-2  
Outlook: Stable

<sup>1</sup>The Managing Director of Spark New Zealand is considered an "officer" for the purposes of the NZX Main Board / Debt Market Listing Rules and a "senior manager" for the purposes of the Financial Markets Conduct Act 2013.

## OTHER INFORMATION

### Directors

As at 30 June 2019, Spark Finance had no 'quoted voting products' for the purposes of the Financial Markets Conduct Act 2013.

NZX granted Spark Finance a waiver on 16 August 2018 in respect of SPF580 where a class of debt securities will generally not be considered for Quotation on the NZDX unless it satisfies the spread requirements from LR 5.2.3. This waiver applied for the period from issue on 7 September 2018 to 1 January 2019.

The spread of holders of quoted Spark Finance Domestic Notes as at 31 July 2019 was as follows:

NZX ticker code: SPF560

Range	Number of holders	% of holders	Number of bonds	% of bonds
1-1,000	-	-	-	-
1,001-5,000	24	5.12	120,000	0.12
5,001-10,000	98	20.90	940,000	0.94
10,001-50,000	263	56.06	6,745,000	6.75
50,001-100,000	42	8.96	3,382,000	3.38
100,001 and over	42	8.96	88,813,000	88.81
Total	469	100.00	100,000,000	100.00

NZX ticker code: SPF570

Range	Number of holders	% of holders	Number of bonds	% of bonds
1-1,000	-	-	-	-
1,001-5,000	5	1.25	25,000	0.02
5,001-10,000	39	9.75	368,000	0.29
10,001-50,000	244	61.00	6,948,000	5.56
50,001-100,000	54	13.50	3,753,000	3.00
100,001 and over	58	14.50	113,906,000	91.13
Total	400	100.00	125,000,000	100.00

NZX ticker code: SPF580

Range	Number of holders	% of holders	Number of bonds	% of bonds
1-1,000	-	-	-	-
1,001-5,000	3	2.17	15,000	0.01
5,001-10,000	26	18.84	254,000	0.20
10,001-50,000	71	51.45	1,787,000	1.43
50,001-100,000	11	7.97	1,008,000	0.81
100,001 and over	27	19.57	121,936,000	97.55
Total	138	100.00	125,000,000	100.00

### Other statutory information

As at 30 June 2019, Spark Finance had no employees (30 June 2018: nil). Spark Finance made no charitable donations during the year ended 30 June 2019 (30 June 2018: nil). Net tangible assets per security as at 30 June 2019 were \$1.09 (30 June 2018: \$1.38). Net earnings per security for the year ended 30 June 2019 were \$0.180 (30 June 2018: \$0.186).

## Statement of profit or loss and other comprehensive income

YEAR ENDED 30 JUNE	NOTES	2019 \$M	2018 \$M
Finance income	2	566	558
Finance expense	2	(343)	(330)
Net finance income		223	228
Other income	3	-	2
Other expenses	3	-	(1)
Net earnings before income tax		223	229
Income tax expense	4	(64)	(64)
Net earnings		159	165
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Cash flow hedges net of tax		(49)	(14)
Other comprehensive loss		(49)	(14)
<b>Total comprehensive income</b>		<b>110</b>	<b>151</b>

See accompanying notes to the financial statements.

## Statement of changes in equity

YEAR ENDED 30 JUNE 2019	SHARE CAPITAL \$M	RETAINED EARNINGS \$M	HEDGE RESERVE \$M	TOTAL EQUITY \$M
Balance at 1 July 2018	883	366	(31)	1,218
Net earnings	-	159	-	159
Other comprehensive loss	-	-	(49)	(49)
<b>Total comprehensive income</b>	-	<b>159</b>	<b>(49)</b>	<b>110</b>
Dividends paid	-	(366)	-	(366)
<b>Balance at 30 June 2019</b>	<b>883</b>	<b>159</b>	<b>(80)</b>	<b>962</b>

YEAR ENDED 30 JUNE 2018	SHARE CAPITAL \$M	RETAINED EARNINGS \$M	HEDGE RESERVE \$M	TOTAL EQUITY \$M
Balance at 1 July 2017	883	661	(17)	1,527
Net earnings	-	165	-	165
Other comprehensive loss	-	-	(14)	(14)
<b>Total comprehensive income</b>	-	<b>165</b>	<b>(14)</b>	<b>151</b>
Dividends paid	-	(460)	-	(460)
<b>Balance at 30 June 2018</b>	<b>883</b>	<b>366</b>	<b>(31)</b>	<b>1,218</b>

## Statement of financial position

AS AT 30 JUNE	NOTES	2019 \$M	2018 \$M
<b>Current assets</b>			
Cash		-	11
Prepayments		2	1
Short-term derivative assets	6	3	6
Due from other Spark New Zealand Group companies	5	3,963	3,422
<b>Total current assets</b>		<b>3,968</b>	<b>3,440</b>
<b>Non-current assets</b>			
Due from other Spark New Zealand Group companies	5	2,708	3,498
Long-term derivative assets	6	31	10
Deferred tax assets	4	31	12
Investment in fellow Spark New Zealand Group companies	7	540	540
<b>Total non-current assets</b>		<b>3,310</b>	<b>4,060</b>
<b>Total assets</b>		<b>7,278</b>	<b>7,500</b>
<b>Current liabilities</b>			
Taxation payable		64	64
Due to other Spark New Zealand Group companies	8	4,732	4,946
Short-term derivative liabilities	6	16	6
Debt due within one year	9	433	249
Accrued interest		4	4
Short-term payables		1	1
<b>Total current liabilities</b>		<b>5,250</b>	<b>5,270</b>
<b>Non-current liabilities</b>			
Long-term derivative liabilities	6	104	64
Long-term debt	9	962	948
<b>Total non-current liabilities</b>		<b>1,066</b>	<b>1,012</b>
<b>Total liabilities</b>		<b>6,316</b>	<b>6,282</b>
<b>Equity</b>			
Share capital		883	883
Reserves		(80)	(31)
Retained earnings		159	366
<b>Total equity</b>		<b>962</b>	<b>1,218</b>
<b>Total liabilities and equity</b>		<b>7,278</b>	<b>7,500</b>

See accompanying notes to the financial statements.

On behalf of the Board of Spark Finance Limited



David Chalmers  
DIRECTOR



Matthew Sheppard  
DIRECTOR

Authorised for issue on: 26 August 2019

## Statement of cash flows

	2019	2018
	\$M	\$M
<b>YEAR ENDED 30 JUNE</b>		
<b>Cash flows from operating activities</b>		
Interest receipts	-	1
Payments for interest	(51)	(44)
<b>Net cash flows from operating activities</b>	<b>(51)</b>	<b>(43)</b>
<b>Cash flows from investing activities</b>		
Net advances to other Spark New Zealand Group companies	(114)	(118)
<b>Net cash flows from investing activities</b>	<b>(114)</b>	<b>(118)</b>
<b>Cash flows from financing activities</b>		
Proceeds from derivatives	169	209
Repayment of derivatives	(171)	(232)
Proceeds from long-term debt	2,039	1,287
Repayment of long-term debt	(1,880)	(1,079)
Proceeds from short-term debt	1,358	1,262
Repayment of short-term debt	(1,361)	(1,273)
<b>Net cash flows from financing activities</b>	<b>154</b>	<b>174</b>
<b>Net cash flow</b>	<b>(11)</b>	<b>13</b>
Opening cash position	11	(2)
<b>Closing cash position</b>	<b>-</b>	<b>11</b>

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

	2019	2018
	\$M	\$M
<b>YEAR ENDED 30 JUNE</b>		
<b>Net earnings for the period</b>	<b>159</b>	<b>165</b>
Adjustments to reconcile net earnings to net cash flows from operating activities		
Non-cash intercompany income	(566)	(557)
Non-cash intercompany expenses	284	278
Amortisation of discount	5	4
Net realised and unrealised losses on financial instruments	-	1
Revaluation of long-term debt in fair value hedge	39	7
Revaluation of derivatives in a fair value hedge	(37)	(6)
Revaluation of other derivatives	-	(1)
Other	1	2
Changes in assets and liabilities net of effects of non-cash and investing and financing activities		
Movement in current taxation	64	64
<b>Net cash flows from operating activities</b>	<b>(51)</b>	<b>(43)</b>



# Notes to the financial statements

## Note 1 Statement of accounting policies

### Reporting entity

Spark Finance Limited 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. In these accounts, the term 'fellow subsidiaries' is used to describe other subsidiaries of Spark New Zealand Limited.

### 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 financial instruments as identified in the specific accounting policies below and in the accompanying notes.

These financial statements are expressed in New Zealand dollars, which is Spark Finance's functional and presentation currency. All financial information has been rounded to the nearest million, unless otherwise stated.

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

### Use of estimates and judgement

The principal areas of judgement in preparing these financial statements are set out below.

### Valuation of investments

Management performs assessments of the carrying value of long-term investments. In assessing whether there has been impairment, consideration is given to the financial performance of the investee and other factors that impact management's expectation of recovering the value of the investment. This assessment also requires management to make judgements about the expected future performance and cash flows of the investee in order to determine the fair value of investments.

### Adoption of NZ IFRS 15 Revenue from contracts with customers (NZ IFRS 15) and early adoption of NZ IFRS 16 Leases (NZ IFRS 16)

Spark Finance has adopted NZ IFRS 15 and NZ IFRS 16. As Spark Finance has no revenue from contracts with customers and no lease arrangements, there is no financial impact on adoption.

## Note 2 Finance income and expense

	2019	2018
YEAR ENDED 30 JUNE	\$M	\$M
Finance income:		
Interest income on loans to other Spark New Zealand Group companies	566	557
Interest income from cash	-	1
<b>Total finance income</b>	<b>566</b>	<b>558</b>
Finance expense:		
Finance expense on long-term debt:		
Foreign Currency Medium Term Notes	10	9
Domestic Notes	28	24
Bank Funding	5	6
Other Long-term Debt (Forward start swaps)	5	2
Interest expense on loans from other Spark New Zealand Group companies	285	278
Other interest and finance expense	10	11
<b>Total finance expense</b>	<b>343</b>	<b>330</b>

## Notes to the financial statements

### Note 3 Other income and expenses

	2019	2018
YEAR ENDED 30 JUNE	\$M	\$M
Other income:		
Revaluation of derivatives	-	2
<b>Total other income</b>	<b>-</b>	<b>2</b>
Other expenses:		
Net realised and unrealised losses on financial instruments	-	1
<b>Total other expenses</b>	<b>-</b>	<b>1</b>

Audit fees of \$21,000 have been paid for and recorded by a fellow subsidiary company (30 June 2018: \$21,000).

No fees or other remuneration have been paid to the directors by Spark Finance or any related party in respect of services provided by the directors to Spark Finance (30 June 2018: nil). The Directors of Spark Finance receive remuneration (but no Directors' fees) from a fellow subsidiary company.

### Note 4 Taxation

#### Income tax expense

	2019	2018
YEAR ENDED 30 JUNE	\$M	\$M
<b>Net earnings before income tax</b>	<b>223</b>	<b>229</b>
Tax at current rate of 28%	62	64
Adjustments to taxation		
Adjustments in respect of prior periods	2	-
<b>Total income tax expense</b>	<b>64</b>	<b>64</b>

#### Deferred tax assets and liabilities

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

	2019	2018
AS AT 30 JUNE	\$M	\$M
<b>Balance at the beginning of the year</b>	<b>12</b>	<b>6</b>
Amounts recognised in equity		
Relating to the current period	19	6
<b>Balance at the end of the year</b>	<b>31</b>	<b>12</b>

Spark Finance has elected to be a member of the Spark New Zealand Imputation Group. As at 30 June 2019, the Spark New Zealand Imputation Group has a negative imputation credit account balance of \$21 million due to the timing of dividend and tax payments (30 June 2018: \$45 million negative balance). The imputation credit account balance had a positive balance as at 31 March 2019 and 31 March 2018.

## Notes to the financial statements

### Note 5 Due from other Spark New Zealand Group companies

	2019	2018
	\$M	\$M
<b>AS AT 30 JUNE</b>		
Current assets:		
Advances to Spark New Zealand Limited	2,813	2,825
Advances to fellow subsidiaries	1,150	597
	<b>3,963</b>	<b>3,422</b>
Non-current assets:		
Advances to Spark New Zealand Limited	2,220	2,033
Advances to fellow subsidiaries	488	1,465
	<b>2,708</b>	<b>3,498</b>

Current amounts due from Spark New Zealand Limited and fellow subsidiary companies have interest rates of between 4.0% and 9.0% (30 June 2018: between 2.3% and 9.0%). These amounts are repayable at the option of Spark Finance and Spark New Zealand Limited and fellow subsidiary companies (as applicable). Other term advances to Spark New Zealand Limited and fellow subsidiary companies have an interest rate of 8.0% (30 June 2018: 8.0%). These advances can be redeemed at book value at the option of either party. For the purposes of classification between current and non-current assets in the statement of financial position, these items have been allocated based upon expected realisation. An item is classified as current when it is expected to be realised within twelve months after the reporting period.

### Note 6 Derivative assets and liabilities

	2019		2018	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
	\$M	\$M	\$M	\$M
<b>AS AT 30 JUNE</b>				
Designated in a cash flow hedge	-	(111)	7	(53)
Designated in a fair value hedge	21	-	6	(5)
Designated in a dual fair value and cash flow hedge	6	-	-	(6)
Other	7	(9)	3	(6)
	<b>34</b>	<b>(120)</b>	<b>16</b>	<b>(70)</b>
Short-term derivatives	3	(16)	6	(6)
Long-term derivatives	31	(104)	10	(64)

Spark Finance's derivatives are held at fair value, calculated using discounted cash flow models and observable market rates of interest and foreign exchange. This represents a level two measurement under the fair value measurement hierarchy, being inputs other than quoted prices included within level one that are observable for the asset or liability. As at 30 June 2019 and 30 June 2018 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.

#### Hedge accounting

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

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

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

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

## Notes to the financial statements

### Note 6 Derivative assets and liabilities (continued)

#### Cash flow hedges

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

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

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

	2019	2018
	\$M	\$M
<b>YEAR ENDED 30 JUNE</b>		
<b>Balance at the beginning of the year</b>	(31)	(17)
Loss recognised in other comprehensive income	(52)	(17)
Amount reclassified to finance expense	3	3
<b>Total movements to other comprehensive income / (loss)</b>	<b>(49)</b>	<b>(14)</b>
<b>Balance at the end of the year</b>	<b>(80)</b>	<b>(31)</b>

Other amounts deferred in equity will be transferred to the income statement over the next six years (30 June 2018: seven years). As at 30 June 2019 the cost of hedging reserve was \$1 million (30 June 2018: nil).

#### Fair value hedges

Interest rate swaps are designated in a fair value hedge to manage interest rate risk in relation to debt. The gain or loss from remeasuring the interest rate swaps and debt at fair value is recognised in the statement of profit or loss and other comprehensive income. During the year ended 30 June 2019 there has been no material ineffectiveness on fair value hedging relationships (30 June 2018: No material ineffectiveness).

#### Dual fair value and cash flow hedges

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

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

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

## Notes to the financial statements

### Note 6 Derivative assets and liabilities (continued)

The details of the hedging instruments are as follows:

	NOTIONAL AMOUNT OF HEDGING INSTRUMENT	STATEMENT OF FINANCIAL POSITION LINE ITEM	CARRYING AMOUNT OF THE HEDGING INSTRUMENT		LIFE TO DATE CHANGE IN VALUE USED FOR CALCULATING HEDGE INEFFECTIVENESS
			ASSETS	LIABILITIES	
			\$M	\$M	\$M
<b>AS AT 30 JUNE 2019</b>					
<b>Cash flow hedges</b>					
Cross-currency swap	GBP <sup>1</sup> 18m	Derivatives	-	(12)	(12)
Interest rate swaps	NZD 866m	Derivatives	-	(99)	(99)
<b>Fair value hedges</b>					
Interest rate swaps	NZD 390m	Derivatives	21	-	21
<b>Fair value and cash flow hedges</b>					
Cross-currency swaps	AUD 150m	Derivatives	3	-	3
Cross-currency swap	NOK 1bn	Derivatives	3	-	3
			<b>27</b>	<b>(111)</b>	<b>(84)</b>
<b>AS AT 30 JUNE 2018</b>					
<b>Cash flow hedges</b>					
Cross-currency swap	GBP <sup>1</sup> 18m	Derivatives	-	(10)	(10)
Interest rate swaps	NZD 786m	Derivatives	-	(36)	(36)
<b>Fair value hedges</b>					
Interest rate swaps	NZD 265m	Derivatives	6	(5)	1
<b>Fair value and cash flow hedges</b>					
Cross-currency swaps	AUD 150m	Derivatives	-	(6)	(6)
			<b>6</b>	<b>(57)</b>	<b>(51)</b>

<sup>1</sup> British pounds sterling

# Notes to the financial statements

## Note 6 Derivative assets and liabilities (continued)

The details of the hedged items are as follows:

	NOTIONAL AMOUNT OF HEDGING INSTRUMENT	CARRYING AMOUNT OF THE HEDGED ITEM		ACCUMULATED AMOUNT OF FAIR VALUE HEDGE ADJUSTMENTS ON THE HEDGED ITEM INCLUDED IN THE CARRYING AMOUNT OF THE HEDGED ITEM		LIFE TO DATE CHANGE IN VALUE USED FOR CALCULATING HEDGE INEFFECTIVENES FOR
		ASSETS	LIABILITIES	ASSETS	LIABILITIES	
		\$M	\$M	\$M	\$M	
<b>AS AT 30 JUNE 2019</b>						
<b>Cash flow hedges</b>						
Euro Medium Term Note (GBP 18m)	Long-term debt	-	(33)	-	-	12
Aggregated variable interest rate exposure	-	-	-	-	-	58
Highly probably forecast variable rate debt	-	-	-	-	-	41
<b>Fair value hedges</b>						
Domestic Notes	Long-term debt	-	(411)	-	(21)	(21)
<b>Fair value and cash flow hedges</b>						
Australian Medium Term Note (AUD 150m)	Long-term debt	-	(173)	-	(18)	(3)
Norwegian Medium Term Note (NOK 1bn)	Long-term debt	-	(178)	-	(3)	(3)
		-	(795)	-	(42)	84

	NOTIONAL AMOUNT OF HEDGING INSTRUMENT	CARRYING AMOUNT OF THE HEDGED ITEM		ACCUMULATED AMOUNT OF FAIR VALUE HEDGE ADJUSTMENTS ON THE HEDGED ITEM INCLUDED IN THE CARRYING AMOUNT OF THE HEDGED ITEM		LIFE TO DATE CHANGE IN VALUE USED FOR CALCULATING HEDGE INEFFECTIVENES FOR
		ASSETS	LIABILITIES	ASSETS	LIABILITIES	
		\$M	\$M	\$M	\$M	
<b>AS AT 30 JUNE 2018</b>						
<b>Cash flow hedges</b>						
Euro Medium Term Note (GBP 18m)	Long-term debt	-	(34)	-	-	10
Aggregated variable interest rate exposure	-	-	-	-	-	9
Highly probably forecast variable rate debt	-	-	-	-	-	27
<b>Fair value hedges</b>						
Domestic Notes	Long-term debt	-	(266)	-	(1)	(1)
<b>Fair value and cash flow hedges</b>						
Australian Medium Term Note (AUD 150m)	Long-term debt	-	(163)	-	(2)	6
		-	(463)	-	(3)	51

## Notes to the financial statements

### Note 7 Investment in fellow Spark New Zealand Group companies

	2019	2018
AS AT 30 JUNE	\$M	\$M
Redeemable shares held in fellow subsidiary	540	540
	<b>540</b>	<b>540</b>

The redeemable shares held in a fellow subsidiary company do not confer voting rights to Spark Finance and are redeemable at the option of Spark Finance. The investment has been classified as a non-current asset based upon expected realisation.

The fair value of Spark Finance's investment is difficult to value as there is no active market price. The range of fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed and therefore Spark Finance is precluded from measuring its investment at fair value. Given the lack of reliable fair value, Spark Finance continues to hold its investment at cost.

### Note 8 Due to other Spark New Zealand Group companies

	2019	2018
AS AT 30 JUNE	\$M	\$M
Due to fellow subsidiary companies	4,732	4,946
	<b>4,732</b>	<b>4,946</b>

Current amounts due to fellow subsidiary companies have interest rates of between 1.4% and 6.0% (30 June 2018: between 1.8% and 6.0%) and are repayable at book value at the option of either the fellow subsidiary company or Spark Finance (as applicable).

### Note 9 Debt

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

				2019	2018
AS AT 30 JUNE				\$M	\$M
<b>FACE VALUE</b>	<b>FACILITY</b>	<b>COUPON RATE</b>	<b>MATURITY</b>		
Short-term debt					
Commercial paper		Variable	< 5 months	150	149
				150	149
Bank funding					
Bank of New Zealand	100 million NZD	Variable	31/10/2018	-	100
Westpac New Zealand Limited	200 million NZD	Variable	30/11/2020	-	50
The Hongkong and Shanghai Banking Corporation Limited	100 million NZD	Variable	30/11/2021	40	-
MUFG Bank, Ltd	125 million NZD	Variable	30/11/2022	100	125
				140	275
Domestic notes					
250 million NZD		5.25%	25/10/2019	250	250
100 million NZD		4.50%	25/03/2022	103	102
100 million NZD		4.51%	10/03/2023	107	104
125 million NZD		3.37%	07/03/2024	130	-
125 million NZD		3.94%	07/09/2026	131	120
				721	576
Foreign currency Medium Term Notes					
Euro Medium Term Notes - 18 million GBP		5.75%	06/04/2020	33	34
Australian Medium Term Notes - 150 million AUD		4.00%	20/10/2027	173	163
Norwegian Medium Term Notes - 1 billion NOK		3.07%	19/03/2029	178	-
				384	197
				<b>1,395</b>	<b>1,197</b>
Debt due within one year				433	249
Long-term debt				962	948

## Notes to the financial statements

### Note 9 Debt (continued)

On 7 September 2018 Spark Finance issued \$125 million of unsecured, unsubordinated fixed rate bonds with a coupon rate of 3.37%, maturing on 7 March 2024. On 31 October 2018 Spark Finance established a new NZ\$100 million committed revolving facility with The Hongkong and Shanghai Banking Corporation Limited, to mature on 30 November 2021. On 19 March 2019, Spark Finance issued NOK 1 billion 10-year fixed rate notes with a coupon rate of 3.065%, maturing on 19 March 2029, under Spark Finance's existing Australian debt issuance programme.

There have been no other changes in Spark Finance's short-term financing programmes or stand-by facilities since 30 June 2018.

None of Spark Finance's debt is secured and all debt ranks equally with other liabilities. There are no financial covenants over Spark Finance's debt, however, there are certain triggers in the event of default, as defined in the various debt agreements. There have been no events of default over Spark Finance's debt in the years ended 30 June 2019 and 30 June 2018.

The fair value of long-term debt, including amounts due within one year, (calculated based on the present value of future principal and interest cash flows, discounted at market interest rates at balance date) was \$1,258 million compared to a carrying value of \$1,245 million (30 June 2018: fair value of \$1,072 million compared to a carrying value of \$1,048 million).

#### Net debt

Net debt includes external 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 the movements in net debt is provided below:

YEAR ENDED 30 JUNE 2019	CASH FLOWS				NON-CASH MOVEMENTS			AS AT 30 JUNE 2019
	AS AT 1 JULY 2018	PROCEEDS	PAYMENTS	INTEREST AMORTISATION	FAIR VALUE CHANGES	FOREIGN EXCHANGE MOVEMENT	OTHER	
Cash	(11)	(3,566)	3,577	-	-	-	-	-
Short-term debt	149	1,358	(1,361)	4	-	-	-	150
Long-term debt	1,048	2,039	(1,880)	2	38	(1)	(1)	1,245
Derivatives	14	169	(171)	-	-	(6)	-	6
<b>Net debt</b>	<b>1,200</b>	<b>-</b>	<b>165</b>	<b>6</b>	<b>38</b>	<b>(7)</b>	<b>(1)</b>	<b>1,401</b>

YEAR ENDED 30 JUNE 2018	CASH FLOWS				NON-CASH MOVEMENTS			AS AT 30 JUNE 2018
	AS AT 1 JULY 2017	PROCEEDS	PAYMENTS	INTEREST AMORTISATION	FAIR VALUE CHANGES	FOREIGN EXCHANGE MOVEMENT	OTHER	
Cash	2	(2,759)	2,746	-	-	-	-	(11)
Short-term debt	155	1,262	(1,273)	4	-	-	1	149
Long-term debt	832	1,287	(1,079)	-	6	2	-	1,048
Derivatives	39	209	(232)	-	-	(2)	-	14
<b>Net debt</b>	<b>1,028</b>	<b>(1)</b>	<b>162</b>	<b>4</b>	<b>6</b>	<b>-</b>	<b>1</b>	<b>1,200</b>

### Note 10 Equity and dividends

#### Contributed capital

As at 30 June 2019 contributed capital consisted of 882,872,600 (30 June 2018: 882,872,600) issued and fully paid shares, of which 342,872,600 (30 June 2018: 342,872,600) were ordinary shares. Each of the shares confers on the holder the right to vote at any general meeting of Spark Finance. 540,000,000 (30 June 2018: 540,000,000) of the shares are redeemable at the option of Spark Finance, in accordance with the terms of its constitution. No other conditions are attached to the ordinary and redeemable shares. There is no par value on the ordinary shares issued by Spark Finance.

#### Dividend

On 24 August 2018, Spark Finance paid a dividend of 41.5 cents per share or \$366 million to Spark New Zealand Limited, which was paid through the intercompany current account. (30 June 2018: 52.1 cents per share or \$460 million).



# Notes to the financial statements

## Note 11 Financial instruments and risk management

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

Spark Finance 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.

### i) Currency risk

#### Nature of the risk

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

#### Exposure and risk management

Spark Finance's exposure to foreign currencies arising from financial instruments is:

	AUD	USD	GBP	NOK	TOTAL
	NZ\$M	NZ\$M	NZ\$M	NZ\$M	NZ\$M
<b>AS AT 30 JUNE 2019</b>					
<b>Exposures</b>					
Long-term debt	(157)	-	(34)	(175)	(366)
Due from other Spark New Zealand Group companies	10	13	-	-	23
<b>Total exposure from non-derivative financial instruments</b>	<b>(147)</b>	<b>13</b>	<b>(34)</b>	<b>(175)</b>	<b>(343)</b>
<b>Hedging instruments</b>					
Foreign exchange contracts	-	(13)	-	-	(13)
NZD cross-currency interest rate swaps	155	-	34	175	364
<b>Total exposure from hedging instruments</b>	<b>155</b>	<b>(13)</b>	<b>34</b>	<b>175</b>	<b>351</b>
<b>AS AT 30 JUNE 2018</b>					
<b>Exposures</b>					
Long-term debt	(163)	-	(34)	-	(197)
Due from other Spark New Zealand Group companies	4	12	-	-	16
<b>Total exposure from non-derivative financial instruments</b>	<b>(159)</b>	<b>12</b>	<b>(34)</b>	<b>-</b>	<b>(181)</b>
<b>Hedging instruments</b>					
Foreign exchange contracts	-	(12)	-	-	(12)
NZD cross-currency interest rate swaps	163	-	34	-	197
<b>Total exposure from hedging instruments</b>	<b>163</b>	<b>(12)</b>	<b>34</b>	<b>-</b>	<b>185</b>

Spark Finance manages currency risk arising from debt not denominated in New Zealand dollars through hedging. Spark Finance's long-term debt issued in NOK, AUD and GBP are fully hedged using cross-currency interest rate swaps to convert these borrowings into a floating rate New Zealand dollar exposure.

Spark Finance enters into forward exchange contracts to protect the Spark New Zealand Group from the risk that the eventual New Zealand dollar net cash flows will be adversely affected by changes in foreign currency exchange rates. Forward exchange contracts are used to hedge the Spark New Zealand Group's forecast transactions that have a high probability of occurrence and firm purchase commitments in fellow subsidiaries (mainly denominated in US dollars). Forward exchange contracts are also used to hedge foreign currency assets held by the Spark New Zealand Group. These forward exchange contracts are not designated as hedging instruments and are therefore classified as held for trading.

#### Sensitivity to foreign exchange rate movements

As at 30 June 2019 a movement of 10% in the New Zealand dollar would impact Spark Finance's statement of profit or loss and other comprehensive income by less than \$2 million (30 June 2018: less than \$1 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.

### ii) Interest rate risk

#### Nature of the risk

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

# Notes to the financial statements

## Note 11 Financial instruments and risk management (continued)

### Exposure and risk management

Spark Finance is exposed to interest rate risk from its borrowings, which may be issued at floating rates or in foreign currency. Spark Finance employs the use of derivative financial instruments for the purpose of reducing its exposure to fluctuations in interest rates with the objective to minimise the cost of net borrowings and to minimise the impact of interest rate movements on Spark Finance's finance expense and net earnings.

Spark Finance 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, Spark Finance's interest rate positions are limited to New Zealand yield curves.

### Sensitivity to interest rate movements

As at 30 June 2019 a movement of 100 basis points would impact Spark Finance's statement of profit or loss and other comprehensive income (after hedging) by less than \$59 million (30 June 2018: \$46 million).

### iii) Credit risk

#### Nature of the risk

Credit risk arises in the normal course of Spark Finance's business from financial instruments, including cash, advances to Spark New Zealand Group companies and derivative financial instruments if a counterparty fails to meet its contractual obligation.

### Exposure and risk management

Spark Finance is exposed to credit risk if Spark New Zealand Group companies and counterparties fail to make payments in respect of:

- Term advances that fall due; and
- Contractual cash flows of derivative assets held at fair value.

Spark Finance's assets subject to credit risk as at 30 June 2019 are \$6,705 million (30 June 2018: \$6,947 million).

Spark Finance considers the probability of default upon initial recognition of financial instruments, advances to Spark New Zealand Group companies and derivative assets and whether there has been a significant increase in credit risk on an ongoing basis at the end of each reporting period. To assess whether there is a significant increase in credit risk, Spark Finance compares the risk of default occurring on these assets at the reporting date with the risk of default at the date of initial recognition. Available reasonable and supportive forward-looking information are considered, especially the following indicators:

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

Spark Finance manages its exposure using a credit policy that includes limits on exposures with significant counterparties that have been set and approved by the Board and are monitored on a regular basis. Spark Finance places its cash and derivative financial instruments with high-credit quality financial institutions and does not have significant concentration of risk with any single party. Concentration of credit risk for advances to Spark New Zealand Group companies is managed through guarantees provided by Spark New Zealand Limited.

Spark Finance has certain derivatives and debt agreements that are subject to bilateral credit support agreements that require Spark Finance or the counterparty to post collateral funds to support the value of certain derivatives. As at 30 June 2019 no collateral was posted (30 June 2018: nil). Letters of credit and guarantees may also be held over some receivable amounts. The carrying amounts of financial assets represent the maximum credit exposure.

### iv) Liquidity risk

#### Nature of the risk

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

### Exposure and risk management

Spark Finance evaluates its liquidity requirements on an ongoing basis. Generally, Spark Finance generates sufficient cash flows from its operating activities to meet financing costs on external debt. If this is not the case, Spark Finance would have to recall funds advanced to other Spark New Zealand Group companies in order to repay its short and long-term debt.

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

- An uncommitted \$500 million Note Facility with \$150 million drawn as at 30 June 2019 (30 June 2018: \$500 million facility, \$150 million drawn);
- An undrawn committed standby facility of \$200 million with a number of creditworthy banks (30 June 2018: \$200 million);
- Committed bank facilities of \$425 million with \$140 million drawn as at 30 June 2019 (30 June 2018: \$325 million facility with \$275 million drawn); and
- Committed bank overdraft facilities of \$15 million with New Zealand banks (30 June 2018: \$15 million).

## Notes to the financial statements

### Note 11 Financial instruments and risk management (continued)

There are no compensating balance requirements associated with these facilities.

In the event that Spark Finance is liquidated or ceases to trade, all non-preferential external creditors rank equally in their claims to the financial assets of Spark Finance. The Company's Policy provides for maintaining 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 \$300 million, which has been met.

#### Maturity analysis

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

	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	5+ years
	\$M	\$M	\$M	\$M	\$M	\$M	\$M
<b>AS AT 30 JUNE 2019</b>							
<b>Non-derivative financial liabilities</b>							
Due to other Spark New Zealand Group companies	(4,732)	(4,732)	(4,732)	-	-	-	-
Short and long-term debt	(1,395)	(1,559)	(419)	(54)	(30)	(539)	(517)
	<b>(6,127)</b>	<b>(6,291)</b>	<b>(5,151)</b>	<b>(54)</b>	<b>(30)</b>	<b>(539)</b>	<b>(517)</b>
<b>Derivative financial liabilities</b>							
Interest rate swaps - (net settled)	(105)	(114)	(7)	(10)	(19)	(45)	(33)
Cross-currency interest rate swaps - (gross settled)							
Inflows		35	-	35	-	-	-
Outflows	(12)	(48)	(1)	(47)	-	-	-
Forward exchange contracts - (gross settled)							
Inflows		142	129	11	2	-	-
Outflows	(3)	(145)	(132)	(11)	(2)	-	-
	<b>(120)</b>	<b>(130)</b>	<b>(11)</b>	<b>(22)</b>	<b>(19)</b>	<b>(45)</b>	<b>(33)</b>
	<b>(6,247)</b>	<b>(6,421)</b>	<b>(5,162)</b>	<b>(76)</b>	<b>(49)</b>	<b>(584)</b>	<b>(550)</b>
<b>AS AT 30 JUNE 2018</b>							
<b>Non-derivative financial liabilities</b>							
Due to other Spark New Zealand Group companies	(4,946)	(4,946)	(4,946)	-	-	-	-
Short and long-term debt	(1,197)	(1,327)	(267)	(18)	(295)	(429)	(318)
	<b>(6,143)</b>	<b>(6,273)</b>	<b>(5,213)</b>	<b>(18)</b>	<b>(295)</b>	<b>(429)</b>	<b>(318)</b>
<b>Derivative financial liabilities</b>							
Interest rate swaps - (net settled)	(47)	(52)	(3)	(4)	(11)	(25)	(9)
Cross-currency interest rate swaps - (gross settled)							
Inflows		264	3	5	43	20	193
Outflows	(16)	(284)	(4)	(4)	(54)	(21)	(201)
Forward exchange contracts - (gross settled)							
Inflows		130	109	8	13	-	-
Outflows	(7)	(137)	(114)	(8)	(15)	-	-
	<b>(70)</b>	<b>(79)</b>	<b>(9)</b>	<b>(3)</b>	<b>(24)</b>	<b>(26)</b>	<b>(17)</b>
	<b>(6,213)</b>	<b>(6,352)</b>	<b>(5,222)</b>	<b>(21)</b>	<b>(319)</b>	<b>(455)</b>	<b>(335)</b>

# Notes to the financial statements

## Note 11 Financial instruments and risk management (continued)

Carrying amounts are as disclosed in the statement of financial position in accordance with Spark Finance's accounting policies. Contractual cash flows include undiscounted principal and interest payments and are presented at the earliest date on which Spark Finance could be required to repay.

### Guarantees

Spark Finance has granted an indemnity in relation to a performance bank guarantee of \$27 million for a fellow subsidiary company (30 June 2018: \$27 million). As at 30 June 2019 it is considered unlikely that this indemnity will be called upon.

## Note 12 Related party transactions

Spark Finance provides financing for the Spark New Zealand Group. These entities are all related parties by virtue of their common control. Transactions and amounts owing to and from these companies are separately disclosed throughout these financial statements. Spark Finance also enters into derivative financial instruments with fellow subsidiaries. These arrangements are matched with similar derivative financial instruments obtained from the external market.

The notional principal or contract amounts outstanding are as follows:

	2019	2018
AS AT 30 JUNE	\$M	\$M
Forward exchange contracts	143	118

## Note 13 Fellow subsidiary companies

At 30 June 2019 the significant fellow subsidiaries of Spark Finance were as follows:

	COUNTRY	OWNERSHIP	PRINCIPAL ACTIVITY
Computer Concepts Limited	New Zealand	100%	IT infrastructure and business cloud services
Digital Island Limited	New Zealand	100%	Business telecommunications provider
Gen-i Australia Pty Limited	Australia	100%	Provides outsourced telecommunications services
Lightbox New Zealand Limited	New Zealand	100%	Subscription video-on-demand service
Qrious Limited	New Zealand	100%	Big data analytics business
Revera Limited	New Zealand	100%	IT infrastructure and data centre provider
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
Telegistics Limited	New Zealand	100%	Mobile phone repair and equipment distribution

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

## Note 14 Commitments and contingencies

There are no commitments or contingencies other than those outlined in the above notes (30 June 2018: nil).

## Note 15 Subsequent events after balance date

On 23 August 2019 the Directors approved a dividend of 18 cents per share or \$159 million to Spark New Zealand Limited to be paid on 26 August 2019.

On 23 August 2019, Spark Finance has mandated ANZ and Westpac to arrange a series of fixed income investor meetings commencing 5 September 2019. A 10.5 year AUD denominated senior unsecured transaction may follow, subject to market conditions.



# Independent Auditor's Report

To the shareholder of Spark Finance Limited

## Report on the financial statements

### Opinion

In our opinion, the accompanying financial statements of Spark Finance Limited (the 'company') on pages 6 to 20:

- i. present fairly in all material respects the company's financial position as at 30 June 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2019;
- the statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



### Basis for opinion

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

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

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

Other than in our capacity as auditor we have no relationship with, or interests in, the company.



### Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$36.4m determined with reference to a benchmark of net assets. We chose the benchmark because, in our view, this is a key measure of the company's performance.

## Key audit matters

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

### The key audit matter

### How the matter was addressed in our audit

#### Completeness and recognition of external debt

Refer to Note 9 to the Financial Statements.

Spark Finance Limited obtains external funding in the form of bank facilities, issued notes and commercial paper. Debt is recognised initially at fair value less attributable transaction costs.

Subsequent to initial recognition, debt is classified and measured at amortised cost plus, for hedged liabilities that are in a fair value hedging relationship, adjustments for fair value changes attributable to the risk being hedged.

Based on their materiality, and the level of judgement involved for hedge accounting, external debt is considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- understanding the processes in place to address segregation of duties in the issue of external debt.
- agreeing maturity and face value of the external debt balances at 30 June 2019 to confirmations received from external counterparties.
- reviewed hedge accounting adjustments for debt which is in a fair value hedge relationship.

We did not identify any material differences in relation to the completeness and recognition of external debt.

#### Application of hedge accounting

Refer to Note 6 of the Financial Statements.

Spark Finance Limited enters into cross currency and interest rate swap derivatives to manage interest rate risk and foreign exchange rate risk on external debt. Hedge accounting is applied where specific requirements are met around documentation of the hedge relationship and the relationship is demonstrated as being an effective hedge.

Hedge accounting is complex, particularly in the area of whether the requirements (both initial and ongoing) for its application are met. Should the requirements for hedge accounting not be met, Spark Finance Limited could experience significant volatility in the statement of profit or loss and other comprehensive income from changes in the fair value of the derivatives.

Due to the size of the derivative positions and the complexity of hedge accounting we consider this to be a key audit matter.

Our audit procedures included:

- agreeing the terms of the derivatives to the confirmation provided by the derivative counterparty.
- using our treasury valuation specialists we independently recalculated the fair value of all of the derivatives recorded by Spark Finance Limited.
- ensuring the hedge documentation supporting the application of hedge accounting was in accordance with relevant accounting standards.
- determining that management's hedge effectiveness calculations were correctly performed using appropriate source information.

We did not identify any material differences in relation to the application of hedge accounting.

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## Other information

The Directors, on behalf of the company, are responsible for the other information included in the entity's Annual Report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

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## Use of this independent auditor's report

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

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## Responsibilities of the Directors for the financial statements

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

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

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

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

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

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



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

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-4/>

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

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

For and on behalf of

A handwritten signature in blue ink that reads 'KPMG'. The letters are stylized and connected, with a long horizontal stroke extending from the end of the 'G'.

KPMG  
Wellington  
26 August 2019



**Contact details***Registered office*

The registered office of Spark Finance is:

Level 2  
Spark City  
167 Victoria Street West  
Auckland 1010  
New Zealand  
Ph +64 4 471 1638 or 0800 108 010

*Inquiries*

Bondholders with inquiries about transactions, changes of address or interest payments should contact:

Link Market Services Limited  
Level 11 Deloitte Centre  
PO Box 91976  
80 Queen Street  
Auckland 1142  
Ph +64 9 375 5998 (investor inquiries) or +64 9 375 5999  
Fax +64 9 375 5990  
enquiries@linkmarketservices.com  
linkmarketservices.co.nz

For inquiries about the operating and financial performance of Spark Finance or the Spark New Zealand Group contact:

investor-info@sparknz.co.nz

Investor Relations  
Spark Finance Limited  
Private Bag 92028  
Auckland 1142  
New Zealand

Visit the Spark New Zealand website at [www.sparknz.co.nz](http://www.sparknz.co.nz)