



SPARK FINANCE LIMITED

Annual Report 2023

For the year ended 30 June 2023

Directors' report	2
Other information	3-5
Financial statements	6-8
Notes to the financial statements	9-19
Independent Auditor's Report	20-22
Contact details	23

Directors' report

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 10 in the Company's annual report. 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 2023 of \$188 million compared to \$207 million for the year ended 30 June 2022. 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 2023 was nil (30 June 2022: nil).

The net assets of Spark Finance as at 30 June 2023 were \$1,089 million compared to \$1,100 million as at 30 June 2022. The share capital of Spark Finance as at 30 June 2023 is \$883 million (30 June 2022: \$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 2023 (30 June 2022: nil).

On 26 August 2022, Spark Finance paid a dividend of 23.22 cents per share or \$205 million to Spark New Zealand Limited, which was paid through the intercompany current account (30 June 2022: 23.79 cents per share or \$210 million).

Additional funds deposited by fellow subsidiaries from the sale of Connexa (formerly TowerCo) were used to repay the maturing bond of \$100 million (see further details below), reduce bank funding arrangements to \$115 million, reduce commercial paper to \$90 million and \$11 million of cash was held on deposit.

On 10 March 2023, \$100 million of unsecured fixed-rate bonds with a coupon rate of 4.51% matured.

On 20 April 2023, Spark Finance extended the term of its NZ\$200 million committed standby revolving credit facility with ANZ Bank New Zealand Limited as the new facility agent (previously Citisecurities) by one year, to mature on 30 April 2026.

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 2023 can be found at 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

DocuSigned by:

 91F6B5A257A140A...
 Stefan Knight
 DIRECTOR

DocuSigned by:

 EAE6EF45F755407...
 Matthew Sheppard
 DIRECTOR

Date: 25 August 2023

Other information

Directors

The Directors of Spark Finance as at 30 June 2023 were:

Melissa Anastasiou
Stefan Knight
Matthew Sheppard
Alastair White

Gender composition

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

	As at 30 June 2023		As at 30 June 2022	
	Male	Female	Male	Female
Number of Directors ¹	3	1	3	1
Percentage of Directors	75%	25%	75%	25%
Number of Officers / Senior Managers ^{1,2}	-	1	-	1
Percentage of Officers / Senior Managers	0%	100%	0%	100%

¹ For the purposes of NZX Listing Rule 3.8.1(c) no Directors or Officers / Senior Managers self-identify as gender diverse.

² The Chief Executive 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.

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), with reference to the Spark Corporate Governance Statement 2023 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.

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 2023 are as follows:

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

OTHER INFORMATION**Spread of security holders**

As at 30 June 2023, Spark Finance had no 'quoted voting products' for the purposes of the Financial Markets Conduct Act 2013.

The spread of holders of quoted Spark Finance Domestic Notes as at 31 July 2023 was as follows:

NZX ticker code: SPF570

Range	Number of holders	% of holders	Number of bonds	% of bonds
1-1,000	-	-	-	-
1,001-5,000	4	1.05	20,000	0.02
5,001-10,000	41	10.73	390,000	0.31
10,001-50,000	233	60.99	6,781,000	5.42
50,001-100,000	57	14.92	4,068,000	3.25
100,001 and over	47	12.30	113,741,000	90.99
Total	382	99.99	125,000,000	99.99

NZX ticker code: SPF580

Range	Number of holders	% of holders	Number of bonds	% of bonds
1-1,000	-	-	-	-
1,001-5,000	4	2.63	20,000	0.02
5,001-10,000	25	16.45	244,000	0.20
10,001-50,000	71	46.71	1,911,000	1.53
50,001-100,000	15	9.87	1,353,000	1.08
100,001 and over	37	24.34	121,472,000	97.18
Total	152	100.00	125,000,000	100.01

OTHER INFORMATION

The twenty largest registered holders of Spark Finance Domestic Notes as at 31 July 2023 were as follows:

NZX ticker code: SPF570

Name ¹		Number of bonds	% of bonds
1	New Zealand Central Securities Depository Limited	47,558,000	38.05
2	Custodial Services Limited	24,700,000	19.76
3	FNZ Custodians Limited	11,619,000	9.30
4	Forsyth Barr Custodians Limited	5,668,000	4.53
5	Forsyth Barr Custodians Limited	2,603,000	2.08
6	FNZ Custodians Limited	2,599,000	2.08
7	University Of Otago Foundation Trust	2,510,000	2.01
8	JBWERE (Nz) Nominees Limited	2,010,000	1.61
9	Public Trust	2,000,000	1.60
10	Adminis Custodial Nominees Limited	1,900,000	1.52
11	Forsyth Barr Custodians Limited	1,119,000	0.90
12	Woolf Fisher Trust Inc	1,000,000	0.80
13	Investment Custodial Services Limited	800,000	0.64
14	Royce Joseph Moodabe & Ngaire Gay Moodabe & Amalgamated Trustee Limited	600,000	0.48
15	Investment Custodial Services Limited	472,000	0.38
16	Custodial Services Limited	449,000	0.36
17	Jo Ann Arlene Scoggin & John Michael Sundheim	446,000	0.36
18	Investment Custodial Services Limited	387,000	0.31
19	Ying Wang	338,000	0.27
20	Fang Zheng	336,000	0.27

NZX ticker code: SPF580

Name ¹		Number of bonds	% of bonds
1	New Zealand Central Securities Depository Limited	57,383,000	45.91
2	JBWERE (Nz) Nominees Limited	9,745,000	7.80
3	FNZ Custodians Limited	9,280,000	7.42
4	Custodial Services Limited	8,589,000	6.87
5	Investment Custodial Services Limited	5,804,000	4.64
6	Forsyth Barr Custodians Limited	5,792,000	4.63
7	Pin Twenty Limited	3,800,000	3.04
8	Nzx Wt Nominees Limited	3,329,000	2.66
9	FNZ Custodians Limited	3,041,000	2.43
10	University Of Otago Foundation Trust	2,000,000	1.60
11	Investment Custodial Services Limited	900,000	0.72
11	Dunedin City Council	900,000	0.72
13	Forsyth Barr Custodians Limited	810,000	0.65
14	JBWERE (Nz) Nominees Limited	800,000	0.64
14	JBWERE (Nz) Nominees Limited	800,000	0.64
14	JBWERE (Nz) Nominees Limited	800,000	0.64
17	Woolf Fisher Trust Inc	750,000	0.60
18	Investment Custodial Services Limited	686,000	0.55
19	Custodial Services Limited	641,000	0.51
20	Investment Custodial Services Limited	550,000	0.44

¹ Some names are repeated due to them having different holder identification numbers to each other.

Other statutory information

As at 30 June 2023, Spark Finance had no employees (30 June 2022: nil). Spark Finance made no charitable donations during the year ended 30 June 2023 (30 June 2022: nil). Net tangible assets per security as at 30 June 2023 were \$1.23 (30 June 2022: \$1.25). Net earnings per security for the year ended 30 June 2023 were \$0.213 (30 June 2022: \$0.234)

Statement of profit or loss and other comprehensive income

YEAR ENDED 30 JUNE	NOTES	2023	2022
		\$M	\$M
Finance income	2	422	424
Finance expense	2	(161)	(136)
Net finance income		261	288
Net earnings before income tax		261	288
Income tax expense	4	(73)	(81)
Net earnings		188	207
Other comprehensive income			
<i>Items that may be reclassified to profit or loss:</i>			
Change in hedge reserves net of tax	6	6	71
Other comprehensive income		6	71
Total comprehensive income		194	278

See accompanying notes to the financial statements.

Statement of changes in equity

YEAR ENDED 30 JUNE 2023	NOTE	SHARE CAPITAL	RETAINED EARNINGS	HEDGE RESERVES	TOTAL EQUITY
		\$M	\$M	\$M	\$M
Balance at 1 July 2022		883	212	5	1,100
Net earnings		-	188	-	188
Other comprehensive income		-	-	6	6
Total comprehensive income		-	188	6	194
Dividends	9	-	(205)	-	(205)
Balance at 30 June 2023		883	195	11	1,089

YEAR ENDED 30 JUNE 2022	NOTE	SHARE CAPITAL	RETAINED EARNINGS	HEDGE RESERVES	TOTAL EQUITY
		\$M	\$M	\$M	\$M
Balance at 1 July 2021		883	215	(66)	1,032
Net earnings		-	207	-	207
Other comprehensive income		-	-	71	71
Total comprehensive income		-	207	71	278
Dividends	9	-	(210)	-	(210)
Balance at 30 June 2022		883	212	5	1,100

See accompanying notes to the financial statements.

Statement of financial position

AS AT 30 JUNE	NOTES	2023 \$M	2022 \$M
Current assets			
Cash		13	2
Short-term derivative assets	6	2	5
Due from other Spark New Zealand Group companies	5	3,677	4,263
Total current assets		3,692	4,270
Non-current assets			
Long-term prepayments		1	1
Due from other Spark New Zealand Group companies	5	1,842	1,842
Long-term derivative assets	6	26	13
Total non-current assets		1,869	1,856
Total assets		5,561	6,126
Current liabilities			
Taxation payable		73	81
Due to other Spark New Zealand Group companies	7	3,251	3,373
Short-term derivative liabilities	6	4	5
Debt due within one year	8	227	261
Accrued interest		3	3
Total current liabilities		3,558	3,723
Non-current liabilities			
Long-term derivative liabilities	6	94	77
Long-term debt	8	816	1,224
Deferred tax liabilities	4	4	2
Total non-current liabilities		914	1,303
Total liabilities		4,472	5,026
Equity			
Share capital		883	883
Reserves		11	5
Retained earnings		195	212
Total equity		1,089	1,100
Total liabilities and equity		5,561	6,126

See accompanying notes to the financial statements.

On behalf of the Board of Spark Finance Limited

DocuSigned by:

 91F6B5A257A140A...
Stefan Knight
 DIRECTOR

DocuSigned by:

 EAE6EF45F755407...
Matthew Sheppard
 DIRECTOR

Authorised for issue on: 25 August 2023

Statement of cash flows

		2023	2022
YEAR ENDED 30 JUNE	NOTE	\$M	\$M
Cash flows from operating activities			
Interest receipts		5	-
Payments for interest		(65)	(55)
Net deposits from / (advances to) other Spark New Zealand Group companies		493	(179)
Net cash flows from operating activities		433	(234)
Cash flows from financing activities			
Proceeds from derivatives		-	7
Proceeds from long-term debt	8	8,924	19,505
Repayment of long-term debt	8	(9,274)	(19,300)
Proceeds from short-term debt	8	247	1,475
Repayment of short-term debt	8	(319)	(1,472)
Net cash flows from financing activities		(422)	215
Net cash flow		11	(19)
Opening cash position		2	21
Closing cash position		13	2

Reconciliation of net earnings to net cash flows from operating activities

		2023	2022
YEAR ENDED 30 JUNE	NOTE	\$M	\$M
Net earnings for the period		188	207
Adjustments to reconcile net earnings to net cash flows from operating activities			
Non-cash intercompany income	2	(417)	(424)
Non-cash intercompany expenses	2	102	83
Non-cash tax expense	4	73	81
Amortisation of discount		-	1
Non-cash release from hedge reserve		(6)	-
Revaluation of long-term debt in a fair value hedge		(20)	(96)
Revaluation of derivatives in a fair value hedge		20	96
Revaluation of other derivatives		-	(3)
Movement in amounts with Spark New Zealand Group companies		493	(179)
Net cash flows from operating activities		433	(234)

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.

Note 2 Finance income and expense

	2023	2022
YEAR ENDED 30 JUNE	\$M	\$M
Finance income:		
Interest income on loans to other Spark New Zealand Group companies	417	424
Interest income on cash	5	-
Total	422	424
Finance expense:		
Net finance expense on long-term debt:		
Foreign Currency Medium Term Notes	33	14
Domestic Notes	20	8
Bank Funding	6	5
Other Long-term Debt ¹	(9)	18
Interest expense on loans from other Spark New Zealand Group companies	102	83
Other interest and finance expense	9	8
Total	161	136

¹ This is net finance expense on interest rate swaps.

Note 3 Other income and expenses

Audit fees of \$22,900 have been paid for and recorded by a fellow subsidiary company (30 June 2022: \$21,400).

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 2022: nil). The Directors of Spark Finance receive remuneration (but no Directors' fees) from a fellow subsidiary company.

Notes to the financial statements

Note 4 Taxation

Income tax expense

	2023	2022
YEAR ENDED 30 JUNE	\$M	\$M
Net earnings before income tax	261	288
Tax at current rate of 28%	73	81
Total income tax expense	73	81

Deferred tax assets and liabilities

Deferred tax assets and liabilities are offset in the statement of financial position and presented as a net deferred tax liability (2022: net deferred tax liability). The balance relates to deferred tax on derivative instruments. The movement in the deferred tax assets and liabilities is provided below:

	2023	2022
AS AT 30 JUNE	\$M	\$M
Opening balance as at 1 July	(2)	26
Amounts recognised in equity		
Relating to the current period	(2)	(28)
Closing balance as at 30 June	(4)	(2)

Spark Finance has elected to be a member of the Spark New Zealand Imputation Group. As at 30 June 2023, the Spark New Zealand Imputation Group has a negative 32 million imputation credit account balance due to the timing of dividend and tax payments (30 June 2022: negative 16 million). The imputation credit account balance had a positive balance as at 31 March 2023 and 31 March 2022.

Note 5 Due from other Spark New Zealand Group companies

	2023	2022
AS AT 30 JUNE	\$M	\$M
Current assets:		
Advances to Spark New Zealand Limited	3,498	4,110
Advances to fellow subsidiaries	179	153
	3,677	4,263
Non-current assets:		
Advances to Spark New Zealand Limited	814	814
Advances to fellow subsidiaries	488	488
Redeemable shares held in fellow subsidiary	540	540
	1,842	1,842

Amounts due from Spark New Zealand Limited and fellow subsidiary companies have interest rates of between 4.25% and 8.11% (30 June 2022: between 4.86% and 8.0%). These amounts are repayable at the option of Spark Finance, Spark New Zealand Limited and fellow subsidiary companies (as applicable). Other term advances to Spark New Zealand Limited and fellow subsidiary companies have interest rates of between 8.0% and 9.0% (30 June 2022: between 8.0% and 9.0%). 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.

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 or Spark New Zealand Trading Limited. The receivable has been classified as a non-current asset based upon expected realisation and is held at amortised cost. Spark Finance holds 540,000,000 redeemable shares, these shares are redeemable at \$1.

Notes to the financial statements

Note 6 Derivative assets and liabilities

	2023		2022	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
AS AT 30 JUNE	\$M	\$M	\$M	\$M
Designated in a cash flow hedge	26	-	13	(2)
Designated in a fair value hedge	-	(13)	-	(12)
Designated in a dual fair value and cash flow hedge	-	(84)	-	(64)
Other	2	(1)	5	(4)
	28	(98)	18	(82)
Short-term derivatives	2	(4)	5	(5)
Long-term derivatives	26	(94)	13	(77)

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 2023 and 30 June 2022 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 \$13 million (30 June 2022: \$8 million), which if applied would result in a reduction of derivative assets and derivative liabilities.

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 probable forecast transactions
- 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.

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 probable forecast variable rate debt and aggregate variable interest rate exposures created by swapping local or foreign currency fixed rate debt into variable rate debt.

A reconciliation of movements in the hedge reserves, net of tax, is outlined below:

	2023	2022
YEAR ENDED 30 JUNE	\$M	\$M
Opening balance as at 1 July	5	(66)
Loss recognised in other comprehensive income	1	59
Amount reclassified to finance expense	5	12
Total movements to other comprehensive income	6	71
Closing balance as at 30 June	11	5

Included in the closing balance at 30 June 2023 is \$4 million relating to the cost of hedging reserve (30 June 2022: \$3 million).

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 2023 there has been no material ineffectiveness on fair value hedging relationships (30 June 2022: no material ineffectiveness) and as a result no material changes have been recognised in profit and loss.

Notes to the financial statements

Note 6 Derivative assets and liabilities (continued)

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 CCIRSs are 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.

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	
AS AT 30 JUNE 2023			\$M	\$M	\$M
Cash flow hedges					
Interest rate swaps	NZD 620m	Derivatives	26	-	26
Fair value hedges					
Interest rate swaps	NZD 250m	Derivatives	-	(13)	(13)
Fair value and cash flow hedges					
Cross-currency swaps	AUD 150m	Derivatives	-	(14)	(14)
Cross-currency swap	NOK ¹ 1b	Derivatives	-	(37)	(37)
Cross-currency swaps	AUD 125m	Derivatives	-	(23)	(23)
Cross-currency swaps	AUD 100m	Derivatives	-	(10)	(10)
			26	(97)	(71)

	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	
AS AT 30 JUNE 2022			\$M	\$M	\$M
Cash flow hedges					
Interest rate swaps	NZD 640m	Derivatives	13	(2)	11
Fair value hedges					
Interest rate swaps	NZD 350m	Derivatives	-	(12)	(12)
Fair value and cash flow hedges					
Cross-currency swaps	AUD 150m	Derivatives	-	(10)	(10)
Cross-currency swap	NOK ¹ 1b	Derivatives	-	(21)	(21)
Cross-currency swaps	AUD 125m	Derivatives	-	(23)	(23)
Cross-currency swaps	AUD 100m	Derivatives	-	(10)	(10)
			13	(78)	(65)

¹ Norwegian krone

Notes to the financial statements

Note 6 Derivative assets and liabilities (continued)

The details of the hedged items are as follows:

	STATEMENT OF FINANCIAL POSITION LINE ITEM	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 S
		ASSETS	LIABILITIES	ASSETS	LIABILITIES	
AS AT 30 JUNE 2023		\$M	\$M	\$M	\$M	\$M
Cash flow hedges						
Aggregated variable interest rate exposure	-	-	-	-	-	(26)
Fair value hedges						
Domestic Notes	Long-term debt	-	(238)	13	-	13
Fair value and cash flow hedges						
Australian Medium Term Note (AUD 150m)	Long-term debt	-	(154)	9	-	14
Norwegian Medium Term Note (NOK 1b)	Long-term debt	-	(137)	15	-	37
Australian Medium Term Note (AUD 125m)	Long-term debt	-	(112)	23	-	23
Australian Medium Term Note (AUD 100m)	Long-term debt	-	(97)	11	-	10
		-	(738)	71	-	71

	STATEMENT OF FINANCIAL POSITION LINE ITEM	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 S
		ASSETS	LIABILITIES	ASSETS	LIABILITIES	
AS AT 30 JUNE 2022		\$M	\$M	\$M	\$M	\$M
Cash flow hedges						
Aggregated variable interest rate exposure	-	-	-	-	-	(11)
Fair value hedges						
Domestic Notes	Long-term debt	-	(339)	12	-	12
Fair value and cash flow hedges						
Australian Medium Term Note (AUD 150m)	Long-term debt	-	(158)	7	-	10
Norwegian Medium Term Note (NOK 1b)	Long-term debt	-	(152)	11	-	21
Australian Medium Term Note (AUD 125m)	Long-term debt	-	(113)	25	-	23
Australian Medium Term Note (AUD 100m)	Long-term debt	-	(97)	13	-	10
		-	(859)	68	-	65

Notes to the financial statements

Note 7 Due to other Spark New Zealand Group companies

	2023	2022
AS AT 30 JUNE	\$M	\$M
Due to fellow subsidiary companies	3,251	3,373
	3,251	3,373

Amounts due to fellow subsidiary companies have interest rates of between 2.2% and 6.0% (30 June 2022: between 2.0% and 6.0%) and are repayable at book value at the option of either the fellow subsidiary company or Spark Finance (as applicable).

Note 8 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.

				2023	2022
AS AT 30 JUNE				\$M	\$M
FACE VALUE	FACILITY	COUPON RATE	MATURITY		
Short-term debt					
Short-term borrowings		Variable	< 1 month	-	1
Commercial paper		Variable	< 3 months	90	160
				90	161
Bank funding					
Westpac New Zealand Limited ¹	200 million NZD	Variable	30/11/2023	15	140
Commonwealth Bank of Australia ¹	100 million NZD	Variable	30/11/2024	100	100
MUFG Bank, Ltd. ¹	125 million NZD	Variable	30/11/2025	-	125
				115	365
Domestic notes					
100 million NZD		4.51%	10/03/2023	-	100
125 million NZD		3.37%	07/03/2024	122	122
125 million NZD		3.94%	07/09/2026	116	117
100 million NZD ²		4.37%	29/09/2028	100	100
				338	439
Foreign currency Medium Term Notes					
Australian Medium Term Notes - 100 million AUD		1.90%	05/06/2026	97	97
Australian Medium Term Notes - 150 million AUD		4.00%	20/10/2027	154	158
Australian Medium Term Notes - 125 million AUD		2.60%	18/03/2030	112	113
Norwegian Medium Term Notes - 1 billion NOK		3.07%	19/03/2029	137	152
				500	520
				1,043	1,485
Debt due within one year				227	261
Long-term debt				816	1,224

¹ These facilities are Sustainability-Linked Loans. Spark Finance will receive lower interest rates if it achieves sustainability targets or pay higher rates on the loans if it falls short of these targets.

² This bond is a Sustainability-Linked Bond. The bond includes an interest rate step up depending on the achievement of a sustainability target as at 30 June 2026.

Notes to the financial statements

Note 8 Debt (continued)

Additional funds deposited by fellow subsidiaries from the sale of Connexa (formerly TowerCo) were used to repay the maturing bond of \$100 million (see further details below), reduce bank funding arrangements to \$115 million, reduce commercial paper to \$90 million and \$11 million of cash was held on deposit.

On 10 March 2023, \$100 million of unsecured fixed-rate bonds with a coupon rate of 4.51% matured.

On 20 April 2023, Spark Finance extended the term of its NZ\$200 million committed standby revolving credit facility with ANZ Bank New Zealand Limited as the new facility agent (previously Citisecurities) by one year, to mature on 30 April 2026.

There have been no other changes in Spark Finance's short-term financing programmes or stand-by facilities since 30 June 2022.

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 2023 and 30 June 2022.

The fair value of long-term debt, including amounts due within one year, based on market observable prices was \$964 million compared to a carrying value of \$953 million (30 June 2022: fair value of \$1,336 million compared to a carrying value of \$1,324 million).

	2023	2022
AS AT 30 JUNE	\$M	\$M
Total debt	1,043	1,485
Less short-term debt	(90)	(161)
Total long-term debt (including long-term debt due within one year)	953	1,324

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	CASH FLOWS				NON-CASH MOVEMENTS				AS AT 30 JUNE
	AS AT 1 JULY	PROCEEDS	PAYMENTS	INTEREST	FAIR VALUE	EXCHANGE	OTHER	2023	
2023	2022			AMORTISATION	CHANGES	MOVEMENT		2023	
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	
Cash	(2)	(9,669)	9,658	-	-	-	-	(13)	
Short-term debt	161	247	(319)	1	-	-	-	90	
Long-term debt	1,324	8,924	(9,274)	-	(4)	(17)	-	953	
Derivatives	76	-	-	-	4	17	-	97	
Net debt	1,559	(498)	65	1	-	-	-	1,127	

YEAR ENDED 30 JUNE	CASH FLOWS				NON-CASH MOVEMENTS				AS AT 30 JUNE
	AS AT 1 JULY	PROCEEDS ¹	PAYMENTS	INTEREST	FAIR VALUE	EXCHANGE	OTHER	2022	
2022	2021			AMORTISATION	CHANGES	MOVEMENT		2022	
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	
Cash	(21)	(20,808)	20,827	-	-	-	-	(2)	
Short-term debt	158	1,475	(1,472)	-	-	-	-	161	
Long-term debt	1,213	19,505	(19,300)	-	(102)	8	-	1,324	
Derivatives	(18)	-	-	-	102	(8)	-	76	
Net debt	1,332	172	55	-	-	-	-	1,559	

¹ \$7 million of proceeds were received from closing out derivatives and are included in the net proceeds from debt as shown in statement of cash flows. These derivatives were in a cash flow hedge relationship, so do not form part of net debt and are not included in the above table.

Note 9 Equity and dividends

Contributed capital

As at 30 June 2023 contributed capital consisted of 882,872,600 (30 June 2022: 882,872,600) issued and fully paid shares, of which 342,872,600 (30 June 2022: 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 2022: 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 26 August 2022, Spark Finance paid a dividend of 23.22 cents per share or \$205 million to Spark New Zealand Limited, which was paid through the intercompany current account (30 June 2022: 23.79 cents per share or \$210 million).

Notes to the financial statements

Note 10 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 manages the concentration of exposures using well-defined market and credit risk limits and through timely reporting to senior management. All contracts have been entered into with high-credit quality financial institutions. The risk associated with these transactions is that the fair value or cash flows of financial instruments will change due to movements in market rates or, in the case of default by a counterparty, through the cost of replacement at the current market rates.

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	NOK	TOTAL
	NZ\$M	NZ\$M	NZ\$M	NZ\$M
AS AT 30 JUNE 2023				
Exposures				
Cash	-	1	-	1
Long-term debt	(408)	-	(152)	(560)
Due from other Spark New Zealand Group companies	4	10	-	14
Total exposure from non-derivative financial instruments	(404)	11	(152)	(545)
Hedging instruments				
Foreign exchange contracts	-	(10)	-	(10)
NZD cross-currency interest rate swaps	408	-	152	560
Total exposure from hedging instruments	408	(10)	152	550

	AUD	USD	NOK	TOTAL
	NZ\$M	NZ\$M	NZ\$M	NZ\$M
AS AT 30 JUNE 2022				
Exposures				
Cash	-	1	-	1
Long-term debt	(414)	-	(163)	(577)
Due from other Spark New Zealand Group companies	-	18	-	18
Total exposure from non-derivative financial instruments	(414)	19	(163)	(558)
Hedging instruments				
Foreign exchange contracts	-	(18)	-	(18)
NZD cross-currency interest rate swaps	414	-	163	577
Total exposure from hedging instruments	414	(18)	163	559

Spark Finance manages currency risk arising from foreign currency debt through hedging. Spark Finance's long-term debt issued in NOK and AUD is fully hedged using cross-currency interest rate swaps to convert foreign currency cashflows 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 2023 a movement of 10% in the New Zealand dollar would (after hedging) impact Spark Finance's statement of profit or loss and other comprehensive income by less than \$3 million (30 June 2022: less than \$3 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 10 Financial instruments and risk management (continued)

Exposure and risk management

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

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

Sensitivity to interest rate movements

As at 30 June 2023 a movement in interest rates of 25 basis points would (after hedging) impact the statement of profit or loss by less than \$1 million (30 June 2022: less than \$1 million) and statement of changes in equity by less than \$1 million (30 June 2022: less than \$1 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 obligations.

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 2023 are \$5,560 million (30 June 2022: \$6,125 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 and ongoing increase in credit risk at the end of each reporting period. To assess this 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 is considered, especially the following indicators:

- External credit rating (as far as available)
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer or counterparty's ability to meet their obligations
- 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 arrangements that are subject to bilateral credit support agreements that require Spark Finance or its counterparties to post collateral funds to support the value of certain derivatives subject to certain agreed threshold amounts. As at 30 June 2023 no collateral was posted (30 June 2022: nil). Letters of credit and guarantees may 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. In general, 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 undrawn committed standby facility of \$200 million with a number of creditworthy banks (30 June 2022: \$200 million)
- Committed bank facilities of \$425 million with \$115 million drawn as at 30 June 2023 (30 June 2022: \$425 million facility with \$365 million drawn)
- Undrawn committed bank overdraft facilities of \$15 million with New Zealand banks (30 June 2022: \$15 million).

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 FY23 liquidity policy is to maintain unutilised committed facilities of at least 110% of the next 12 months' forecast peak net funding requirements, including coverage for short-term capital market issues. Spark's funding policy requires that no more than 30% of long-term debt (including undrawn and standby facilities) can mature within the next 12 months, which has been met.

Notes to the financial statements

Note 10 Financial instruments and risk management (continued)

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
AS AT 30 JUNE 2023							
Non-derivative financial liabilities							
Due to other Spark New Zealand Group companies	3,251	3,251	2,955	296	-	-	-
Short and long-term debt	1,043	1,246	217	141	26	459	403
	4,294	4,497	3,172	437	26	459	403
Derivative financial liabilities							
Interest rate swaps - (net settled)	13	(14)	(3)	(3)	(5)	(2)	(1)
Cross-currency interest rate swaps - (gross settled)							
Inflows	-	(650)	(6)	(11)	(17)	(315)	(301)
Outflows	84	755	22	21	38	351	323
Forward exchange contracts - (gross settled)							
Inflows	-	(77)	(77)	-	-	-	-
Outflows	1	77	77	-	-	-	-
	98	91	13	7	16	34	21
	4,392	4,588	3,185	444	42	493	424

	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
AS AT 30 JUNE 2022							
Non-derivative financial liabilities							
Due to other Spark New Zealand Group companies	3,373	3,372	3,083	289	-	-	-
Short and long-term debt	1,485	1,721	540	119	155	310	597
	4,858	5,093	3,623	408	155	310	597
Derivative financial liabilities							
Interest rate swaps - (net settled)	14	-	3	-	-	(2)	(1)
Cross-currency interest rate swaps - (gross settled)							
Inflows	-	(686)	(6)	(11)	(17)	(161)	(491)
Outflows	64	771	14	17	34	197	509
Forward exchange contracts - (gross settled)							
Inflows	-	(102)	(99)	(2)	(1)	-	-
Outflows	4	97	94	2	1	-	-
	82	80	6	6	17	34	17
	4,940	5,173	3,629	414	172	344	614

Notes to the financial statements

Note 10 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 \$25 million for a fellow subsidiary company (30 June 2022: \$25 million). As at 30 June 2023 it is considered unlikely that this indemnity will be called upon.

Note 11 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:

	2023	2022
AS AT 30 JUNE	\$M	\$M
Forward exchange contracts	77	78

Note 12 Fellow subsidiary companies

As at 30 June 2023, significant fellow subsidiaries of Spark Finance in the Spark New Zealand Group were as follows:

	COUNTRY	SPARK NEW ZEALAND GROUP OWNERSHIP	PRINCIPAL ACTIVITY
Computer Concepts Limited	New Zealand	100%	IT infrastructure and business cloud services
Connect 8 Limited	New Zealand	100%	Mobile infrastructure business
Digital Island Limited	New Zealand	100%	Business telecommunications provider
Entelar Limited	New Zealand	100%	Mobile phone repair and equipment distribution
Entelar Group Limited	New Zealand	100%	Telecommunications and IT infrastructure build and maintenance services, and distribution and supply chain services
Gen-i Australia Pty Limited	Australia ¹	100%	Provides international wholesale and outsourced telecommunications services
Mattr Limited	New Zealand	94%	Software company focused on decentralised identity and verifiable data
Qrious Limited	New Zealand	100%	Data analytics business
Revera Limited	New Zealand	100%	IT infrastructure and data centre provider
Spark New Zealand Trading Limited	New Zealand	100%	Telecommunications and digital services company
TCNZ (Bermuda) Limited	New Zealand	100%	A holding company
Teleco Insurance Limited	Bermuda ¹	100%	A Group insurance company
Telecom New Zealand USA Limited	United States ¹	100%	Provides international wholesale telecommunications services
Telecom Southern Cross Limited	New Zealand	100%	A holding company

¹ These foreign incorporated entities are tax resident in New Zealand.

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

Note 13 Commitments and contingencies

There are no commitments or contingencies other than those outlined in the above notes (30 June 2022: nil).

Note 14 Subsequent events after balance date

On 24 August 2023, the Directors approved a dividend of 20.95 cents per share or \$185 million to Spark New Zealand Limited to be paid on 25 August 2023.



Independent Auditor's Report

To the Shareholder of Spark Finance Limited

Opinion

We have audited the financial statements of Spark Finance Limited (the 'Company'), which comprise the statement of financial position as at 30 June 2023, and the statement 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 to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, on pages 6 to 19, present fairly, in all material respects, the financial position of the Company as at 30 June 2023, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Other than in our capacity as auditor, we have no relationship with or interests in the Company. Our firm carries out other assignments for the Parent, Spark New Zealand Limited in relation to regulatory audit, other assurance related services (such as trustee reporting) and non-assurance services provided to the Corporate Taxpayers Group, of which the Parent is a member. These services have not impaired our independence as auditor of the Company or its Parent. In addition to this, the Chief Executive has both a sister and brother-in-law that are partners at Deloitte. These Deloitte partners are not involved in the provision of any services to the Company or its Parent and this matter has not impacted our independence. Also, partners and employees of our firm deal with Spark New Zealand Limited on normal terms within the ordinary course of trading activities of its business. The firm has no other relationship with, or interest in the Company or its Parent.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Company that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Company's financial statements as a whole to be \$13 million.



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 of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Application of hedge accounting</p> <p>As outlined in Notes 6, 8 and 10 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.</p> <p>Hedge accounting is applied where specific requirements are met around eligibility of the hedged item and hedging instruments for hedge accounting, documentation of the hedge relationship, and the relationship is demonstrated as being an effective hedge.</p> <p>Hedge accounting is complex, particularly as regards determining 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 its statement of profit or loss and other comprehensive income from changes in the fair value of the derivatives.</p> <p>Based on the complexity and impact of hedge accounting, we consider this to be a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Agreeing the terms of the derivatives to the confirmation provided by the derivative counterparty; • Using our internal specialist, we independently recalculated the fair value of a sample of derivatives; • Reviewing hedge accounting adjustments for all debt designated in a hedging relationship; • Determining whether the designated hedges and hedge documentation supporting the application of hedge accounting were in accordance with relevant accounting standards; and • Determining that management's hedge effectiveness calculations were correctly performed using appropriate source information.

Other information

The directors are responsible on behalf of the Company for the other information. The other information comprises the information in the Annual Report that accompanies the financial statements and the audit report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The directors are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible on behalf of the Company for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objectives are 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 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 and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 the financial statements is located on the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2>

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an 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 Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

**Jason Stachurski, Partner
for Deloitte Limited**
Auckland, New Zealand
25 August 2023

Contact details

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