



**Spark
New Zealand**

Spark Finance Limited

Annual Report

For the year ended 30 June 2014

Directors' report

For the year ended 30 June 2014

Spark Finance Limited (formerly TCNZ Finance Limited) ('Spark Finance' or 'the Company') is a wholly-owned subsidiary of Spark New Zealand Limited (formerly Telecom Corporation of New Zealand Limited) ('Spark New Zealand' and together with its subsidiaries, the 'Spark New Zealand Group'). Spark Finance is the principal finance company for the Spark New Zealand Group. Spark Finance was incorporated in 1991 and established an Australian branch in 2001 and a Bermudian branch in 2004. These branches closed their operations in the period ended 30 June 2012 as part of the Spark New Zealand Group restructure following the demerger of Chorus Limited. The Company changed its name to Spark Finance Limited from TCNZ Finance Limited on 8 August 2014.

Principal activities

The principal activity of Spark Finance is that of a finance company for the Spark New Zealand Group. Spark Finance raises debt funding in New Zealand and internationally. 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 foreign exchange rate, interest rate, credit, liquidity, and equity price risks. A summary of these risks and Spark Finance's risk management objectives and policies are set out in notes 13 to 15 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. There have been no material events or circumstances that have occurred subsequent to balance date. Spark Finance enters into derivative financial instruments in order to manage the foreign exchange and interest rate risks associated with its borrowings, as well as to manage the foreign exchange 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 a net profit for the year ended 30 June 2014 of \$98 million compared to a net profit of \$136 million for the year ended 30 June 2013.

Volatility in earnings is caused by Spark Finance's exposure to movements in foreign exchange rates on financial instruments that are held on behalf of the Spark New Zealand Group. The net foreign exchange loss for the year ended 30 June 2014 was \$230 million (30 June 2013: \$167 million loss).

The net assets of Spark Finance as at 30 June 2014 were \$1,663 million compared to \$1,563 million as at 30 June 2013. The share capital of Spark Finance is \$883 million (30 June 2013: \$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 2014 (30 June 2013: nil).

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 2014 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



John van Woerkom
DIRECTOR
27 August 2014



Mark Laing
DIRECTOR

Directors' report

For the year ended 30 June 2014

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

We, John van Woerkom and Mark Laing, 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 2014, 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 income statement 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.



John van Woerkom
DIRECTOR



Mark Laing
DIRECTOR

27 August 2014

Other information

For the year ended 30 June 2014

Directors

The Directors of Spark Finance as at 30 June 2014 were:

Jolie Hodson

Mark Laing

Silvana Roest (appointed as a Director of the Company on 2 September 2013)

John van Woerkom

Laura Byrne resigned as a Director of the Company on 2 September 2013.

The gender composition of the Board of Directors of Spark Finance as at 30 June 2014 was 50% male and 50% female (30 June 2013: 50% male and 50% female). The Directors of Spark Finance are all employees of the Spark New Zealand Group and, accordingly, are not independent directors. As at 30 June 2014 no Spark Finance Director held any TeleBonds and no Spark Finance Director acquired or disposed of TeleBonds during the financial year.

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 New Zealand Corporate Governance Statement and Diversity Policy (including an evaluation of the Spark New Zealand Group's performance with respect to that Policy and the NZX Corporate Governance Best Practice 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 and Moody's Investors Service on its indebtedness. Details of ratings as at 30 June 2014 are as follows:

<i>Standard & Poor's</i>	<i>Moody's Investors Service</i>
Long-term senior debt: A-	Long-term senior debt: A3
Short-term debt: A-2	Short-term debt: P-2
Outlook: Stable	Outlook: Stable

Spread of security holders

The spread of holders of quoted Spark Finance TeleBonds (with NZX tickers SPF490, SPF520 and SPF550) as at 31 July 2014 was as follows:

	<i>Number of holders</i>	<i>% of holders</i>	<i>Number of bonds</i>	<i>% of bonds</i>
1-1,000	-	-	-	-
1,001-5,000	41	3.78	195,500	0.09
5,001-10,000	149	13.73	1,423,000	0.64
10,001-100,000	767	70.69	31,504,000	14.13
100,001 and over	128	11.80	189,860,000	85.14
Total	1,085	100.00	222,982,500	100.00

Other statutory information

As at 30 June 2014 Spark Finance had no employees (30 June 2013: nil). Spark Finance made no charitable donations during the year ended 30 June 2014. Net tangible assets per security as at 30 June 2014 were \$1.88 (30 June 2013: \$1.77). Net earnings per security for the year ended 30 June 2014 were \$0.111 (30 June 2013: \$0.154).

Income Statement*For the years ended 30 June 2014 and 2013*

Year ended 30 June	Notes	2014 \$m	2013 \$m
Finance income	2	820	884
Finance expense	2	(367)	(464)
Net finance income		453	420
Other income	3	2	6
Other expenses	3	(230)	(173)
Net earnings before income tax		225	253
Income tax expense	4	(127)	(117)
Net earnings for the year		98	136

Statement of Comprehensive Income*For the years ended 30 June 2014 and 2013*

Year ended 30 June	Notes	2014 \$m	2013 \$m
Net earnings for the year		98	136
Other comprehensive income			
Cash flow hedges		2	5
Income tax relating to components of other comprehensive income	11	-	(1)
Other comprehensive income for the year, net of tax		2	4
Total comprehensive income for the year		100	140

The accompanying notes from part of and are to be read in conjunction with these financial statements.

Statement of Changes in Equity*For the years ended 30 June 2014 and 2013*

	Contributed capital	Contributed capital	Retained earnings	Hedge reserve	Total equity
	Number (m)	\$m	\$m	\$m	\$m
Balance as at 1 July 2013	883	883	682	(2)	1,563
Net earnings for the year	-	-	98	-	98
Other comprehensive income for the year	-	-	-	2	2
Total comprehensive income for the year	-	-	98	2	100
Balance as at 30 June 2014	883	883	780	-	1,663

	Contributed capital	Contributed capital	Retained earnings	Hedge reserve	Total equity
	Number (m)	\$m	\$m	\$m	\$m
Balance as at 1 July 2012	883	883	546	(6)	1,423
Net earnings for the year	-	-	136	-	136
Other comprehensive income for the year	-	-	-	4	4
Total comprehensive income for the year	-	-	136	4	140
Balance as at 30 June 2013	883	883	682	(2)	1,563

The accompanying notes form part of and are to be read in conjunction with these financial statements.

Statement of Financial Position

As at 30 June 2014 and 2013

As at 30 June	Notes	2014 \$m	2013 \$m
ASSETS			
Current assets:			
Cash		150	-
Prepayments		1	2
Due from other Spark New Zealand Group companies	5	5,075	997
Short-term derivative assets	6	3	6
Total current assets		5,229	1,005
Non-current assets:			
Due from other Spark New Zealand Group companies	5	5,228	9,201
Long-term derivative assets	6	22	16
Investments	7	540	540
Total non-current assets		5,790	9,757
Total assets		11,019	10,762
LIABILITIES AND EQUITY			
Current liabilities:			
Bank overdraft		-	2
Sundry creditors		-	1
Income tax payable		127	118
Due to other Spark New Zealand Group companies	8	8,504	8,069
Short-term derivative liabilities	6	3	6
Debt due within one year	9	113	225
Accrued interest		6	5
Total current liabilities		8,753	8,426
Non-current liabilities:			
Long-term derivative liabilities	6	26	22
Deferred tax liabilities	11	-	-
Long-term debt	10	577	751
Total non-current liabilities		603	773
Total liabilities		9,356	9,199
Equity:			
Share capital		883	883
Reserves		-	(2)
Retained earnings		780	682
Total equity		1,663	1,563
Total liabilities and equity		11,019	10,762

On behalf of the Board



John van Woerkom
DIRECTOR

Authorised for issue on 27 August 2014



Mark Laing
DIRECTOR

The accompanying notes form part of and are to be read in conjunction with these financial statements.

SPARK FINANCE LIMITED
Statement of Cash flow

For the years ended 30 June 2014 and 2013

Year ended 30 June	Note	2014 \$m	2013 \$m
Cash flows from operating activities			
Interest income		820	884
Interest paid on debt		(366)	(463)
Net cash flows from operating activities	19	454	421
Cash flows from investing activities			
Net advances to other Spark New Zealand Group companies		(15)	(418)
Receipts from settlement of forward exchange contracts		2	-
Payments on settlement of forward exchange contracts		(2)	-
Net cash flow applied to investing activities		(15)	(418)
Cash flows from financing activities			
Proceeds from long-term debt		440	650
Repayment of long-term debt		(643)	(712)
Proceeds from short-term debt		697	509
Repayment of short-term debt		(782)	(485)
Net cash flow applied to financing activities		(288)	(38)
Net cash flow		151	(35)
Foreign exchange movements		1	(1)
Net cash at beginning of period		(2)	34
Net cash position at end of period		150	(2)

The accompanying notes form part of and are to be read in conjunction with these financial statements.

Note 1 Statement of accounting policies*(a) Constitution, ownership and activities*

Spark Finance Limited (formerly TCNZ Finance Limited) is a profit-oriented company registered in New Zealand under the Companies Act 1993 and is an issuer for the purposes of the Financial Reporting Act 1993. These financial statements have been prepared in accordance with the Financial Reporting Act 1993, the Companies Act 1993, the Securities Act 1978 and the Securities Regulations 2009. In these accounts the term 'fellow subsidiaries' is used to describe other subsidiaries of Spark New Zealand. The Company changed its name to Spark Finance Limited from TCNZ Finance Limited on 8 August 2014.

From 1 April 2014, the Financial Reporting Act 2013 came into force, replacing the Financial Reporting Act 1993, for all for-profit entities with reporting periods beginning on or after 1 April 2014. This will be effective for the Company's financial year ending 30 June 2015. The change in legislation is not expected to have a material impact on the Company's obligation to prepare general purpose financial statements.

These financial statements are expressed in New Zealand dollars, which is Spark Finance's functional currency. References in these financial statements to '\$' and 'NZ\$' are to New Zealand dollars, references to 'US\$' and 'USD' are to US dollars, references to 'A\$' and 'AUD' are to Australian dollars, references to 'EUR' are to Euros, and references to 'GBP' are to Pounds Sterling. All financial information presented in New Zealand dollars, US Dollars, Australian dollars, Euros and Pounds Sterling has been rounded to the nearest million, unless otherwise stated.

(b) Basis of preparation

These financial statements have been prepared in accordance with Generally Accepted Accounting Practise 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 the accompanying notes.

(c) Specific accounting policies

The below accounting policies have been applied consistently to all periods presented in these financial statements.

Finance income and expense

Interest income and expense is recognised using the effective interest rate method.

Cash

Cash is considered to be cash on hand, in banks and short-term investments or deposits with an original maturity date of less than three months. Bank overdrafts that are repayable on demand and form an integral part of Spark Finance's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement. Cash and cash equivalents are recorded initially at fair value and subsequently measured at amortised cost using the effective interest rate method. In addition, cash flows from certain items are disclosed net, due to the short-term maturities and volume of transactions involved or where right of set-off is available.

Investments

Investments are classified as available for sale financial assets and are initially recognised at fair value plus transaction costs. Subsequent to initial recognition, investments in fellow subsidiaries classified as available for sale are held at cost and tested for impairment annually (see note 7).

Debt

Debt is recognised initially at fair value less attributable transactions costs. Subsequent to initial recognition, debt is stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest rate method, unless the debt is in a designated fair value relationship, in which case it is carried at fair value.

Taxation

The taxation expense charged to earnings includes both current and deferred tax. Current tax is calculated on the basis of the tax laws enacted or substantively enacted at year end. Deferred taxation is recognised on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Future tax benefits are recognised where realisation of the asset is probable. Current tax and deferred tax are recognised in the income statement except when the tax relates to items charged or credited directly to other comprehensive income or equity, in which case the tax is also recognised in other comprehensive income or equity.

Impairment of non-derivative financial assets

The carrying amount of Spark Finance's non-derivative financial assets is reviewed at year end to determine whether there is any objective evidence of impairment. Objective evidence that financial assets are impaired includes default by a debtor or insolvency of a debtor without a letter of support from its parent company; restructuring of an amount due to the Company on terms that the Company would not consider otherwise; adverse changes in the payment status of borrowers or issuers; the disappearance of an active market for a security; or observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Derivative financial instruments

Spark Finance uses derivative financial instruments to reduce the Spark New Zealand Group's exposure to fluctuations in foreign currency exchange rates and interest rates. Cash flow hedges are designated as hedges of highly probable forecast transactions. Derivatives are initially recognised at fair value. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below. Gains and losses on fair value hedges are included in the income statement, together with any changes in the fair value of the hedged asset or liability. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are initially recognised in other comprehensive income and held in the hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified in the income statement in the periods when the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the cash flow hedge reserve at that time remains in the hedge reserve until the underlying physical exposure occurs. For an instrument to qualify as a hedge, at the inception of the derivative transaction the relationship between hedging instruments and hedged items must be documented, as must the Company's risk management objective and strategy for undertaking various hedge transactions. On an ongoing basis the Company must document whether the hedges are highly effective in offsetting changes in fair values of cash flows or hedged items. The movement in the fair value of derivative financial instruments that do not qualify, or no longer qualify, as hedges is recognised in the income statement. The foreign exchange gains and losses on the principal value of cross-currency swaps are reflected in the income statement using the spot rate, which offsets the foreign exchange gains and losses recorded on the underlying hedged transaction. Cash flows from derivatives are recognised in the statement of cash flow in the same category as that of the hedged item.

Foreign currencies

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables at balance date are translated at exchange rates current at balance date. Unrealised and realised exchange gains and losses are brought to account in determining the net earnings for the year.

(d) 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.

Provisions and contingent liabilities

Spark Finance provides for anticipated costs where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome. Where the outflow is not probable, then a contingent liability exists.

(e) Changes in accounting policies

The following new accounting policies were adopted during the year ended 30 June 2014.

External Reporting Board Standard A1 'Accounting Standards Framework (For-profit Entities Update)' ('XRB A1') establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Company is a Tier 1 entity. There was no impact on the current or prior year for the Company adopting XRB A1.

NZ IFRS 13 'Fair Value Measurement' ('NZ IFRS 13') explains how to measure fair value and aims to enhance fair value disclosures. Adoption of NZ IFRS 13 has resulted in a change to the valuation methodology of Spark Finance's financial instruments. In accordance with the transitional provisions of NZ IFRS 13, Spark Finance has applied the new fair value measurement from 1 July 2013 and is not required to provide any comparative information for new disclosures. The impact for Spark Finance adopting NZ IFRS 13 was immaterial.

(f) New standards not yet adopted

There are no standards or amendments that have been issued but are not yet effective, that are expected to have a significant impact on the Company.

Note 2 Finance income and expense

Year ended 30 June	2014 \$m	2013 \$m
Finance income:		
Interest income on loans to other Spark New Zealand Group companies	818	882
Interest income from deposits	2	2
Total finance income	820	884
Finance expense:		
Finance expense on long-term debt ¹ :		
- Euro Medium Term Notes ('EMTN')	6	6
- TeleBonds	17	35
- Domestic Bonds	13	9
- Bank Debt	13	12
Revaluation of interest rate derivatives	1	-
Interest expense on loans from other Spark New Zealand Group companies	305	389
Other interest and finance expense	12	13
Total finance expense	367	464

¹ Includes \$2 million reclassified from the cash flow hedge reserve for the year ended 30 June 2014 (30 June 2013: \$2 million).

Note 3 Other income and expenses

Year ended 30 June	2014	2013
	\$m	\$m
Other income:		
Net realised foreign exchange gains	-	5
Revaluation of derivatives	2	1
Total other income	2	6
Other expenses:		
Net realised and unrealised foreign exchange losses	230	172
Other operating expenses	-	1
Total other expenses	230	173

Audit fees of \$21,383 for the period (30 June 2013: \$23,759) have been paid for and recorded by a fellow subsidiary company. No fees or other remuneration have been paid to the Directors by Spark Finance in respect of services provided by the Directors to Spark Finance. The Directors of Spark Finance receive remuneration from a fellow subsidiary company.

Note 4 Income tax

Year ended 30 June	2014	2013
	\$m	\$m
Current tax expense	127	119
Adjustments in respect of prior periods	-	1
Deferred tax credit	-	(1)
Adjustments in respect of prior periods	-	(2)
	127	117
<i>Reconciliation of income tax expense:</i>		
Net earnings before income tax	225	253
Tax at 28%	63	71
<i>Adjustments to taxation:</i>		
Non-taxable foreign exchange losses	64	47
Adjustment in respect of prior periods	-	(1)
Income tax expense	127	117

Note 5 Due from other Spark New Zealand Group companies

As at 30 June	2014 \$m	2013 \$m
Current assets:		
Advances to the parent company	1,288	124
Debentures issued by fellow subsidiary	2,094	-
Advances to fellow subsidiaries	1,693	873
	5,075	997
Non-current assets:		
Advances to the parent company	2,751	4,008
Debentures issued by fellow subsidiary	-	2,329
Advances to fellow subsidiaries	2,477	2,864
	5,228	9,201
Total due from other Spark New Zealand Group companies	10,303	10,198

Current amounts due from the parent company and fellow subsidiary companies have interest rates of between 3.30% and 10% (30 June 2013: between 3.25% and 10%). These amounts are repayable at the option of Spark Finance and the parent company and fellow subsidiary companies (as applicable). The term advances to the parent company and fellow subsidiary companies have interest rates between 4.19% and 10% (30 June 2013: 3.65% and 10%). 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 debentures pay interest according to either the profitability of the fellow subsidiary or the payment of dividends on certain classes of shares issued by the fellow subsidiary. The debentures are denominated in Australian dollars and are redeemable at the option of Spark Finance.

Note 6 Derivative assets and liabilities

As at 30 June	2014 Fair value \$m	2013 Fair value \$m
Short-term derivative assets:		
Forward exchange contracts – cash flow hedges	2	-
Forward exchange contracts – held for trading	1	6
	3	6
Long-term derivative assets:		
Cross-currency interest rate swaps – held for trading	17	15
Interest rate swaps – cash flow hedges	5	1
	22	16
Short-term derivative liabilities:		
Forward exchange contracts – cash flow hedges	(2)	-
Forward exchange contracts – held for trading	(1)	(6)
	(3)	(6)
Long-term derivative liabilities:		
Cross-currency interest rate swaps – cash flow hedges	(25)	(21)
Interest rate swaps – cash flow hedges	(1)	(1)
	(26)	(22)

As at 30 June 2014 and 30 June 2013 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.

Notional amounts of derivative financial instruments:

As at 30 June			2014	2013
	Currency	Maturities	\$m	\$m
Cross-currency interest rate swaps	NZD:GBP	2018-2020	110	110
Interest rate swaps	NZD	2015-2023	330	210
Forward exchange contracts	NZD:AUD	2014	21	40
	NZD:USD	2014-2016	119	195
	NZD:EUR	2014-2015	27	87
	Other	2014-2015	45	51
Currency options	NZD:EUR	2013	-	3
	NZD:USD	2013	-	9
	NZD:AUD	2013	-	1

Certain derivatives are in cash flow hedging relationships where those derivatives meet certain criteria and are deemed an effective hedge. The change in the fair value of these derivatives is recognised directly in the hedge reserve within other comprehensive income. The movement in the fair value of all other derivatives has been recognised in the income statement. All derivative financial assets and liabilities are expected to be held to maturity. As at 30 June 2014 the expected net contractual settlement, being the contractual amounts at current foreign exchange and interest rates, was a liability of \$11 million (30 June 2013: \$15 million) compared to a fair value liability of \$4 million (30 June 2013: \$6 million).

Note 7 Investments

As at 30 June	2014	2013
	\$m	\$m
Redeemable shares held in fellow subsidiary	540	540
	540	540

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 long-term investment is difficult to value as there is no active market price. As the Spark New Zealand Group's telecommunications network is highly integrated, it is difficult to separately identify and measure the cash flows of the investment in the fellow subsidiary company. The range of fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed and therefore the Company is precluded from measuring its investment at fair value. Given the lack of a reliable fair value, Spark Finance continues to hold its investment at cost.

Note 8 Due to other Spark New Zealand Group companies

As at 30 June	2014	2013
	\$m	\$m
Due to the parent company	410	386
Due to fellow subsidiary companies	8,094	7,683
	8,504	8,069

Current amounts due to the parent company and fellow subsidiary companies have interest rates of between 3% and 6% (30 June 2013: between 2.3% and 8.1%). The amounts due to the parent company and the balance due to fellow subsidiary companies are repayable at book value at the option of either the parent company, fellow subsidiary companies or Spark Finance (as applicable). Amounts due to Spark New Zealand Group companies are expected to be held to maturity.

Note 9 Debt due within one year

As at 30 June	2014 \$m	2013 \$m
Long-term debt maturing within one year (see note 10)	73	103
Promissory notes	40	95
Short-term borrowings	-	27
	113	225

At 30 June 2014 the promissory notes had a weighted average interest rate of 3.9% (30 June 2013: 3.0%). Notes are issued under Spark Finance's \$500 million Note Facility. At 30 June 2014 Spark Finance had no short-term borrowings (30 June 2013: short-term borrowings had a weighted average interest rate of 2.8%). Spark Finance's US\$1 billion European Commercial Paper programme is still maintained. However, at 30 June 2014 no commercial paper was on issue (30 June 2013: nil).

Note 10 Long-term debt*Long-term debt*

The fair value of long-term debt (calculated based on the present value of future principal and interest cash flows, discounted at market interest rates at balance date) was \$663 million compared to a carrying value of \$651 million (30 June 2013: fair value of \$891 million compared to a carrying value of \$855 million). In addition to the above carrying value of long-term debt, accrued interest payable of \$6 million (30 June 2013: \$5 million) is recorded in the statement of financial position. Based on currently available information, Spark Finance anticipates long-term debt will remain outstanding until maturity and, accordingly, settlement at the reported fair value of these financial instruments is unlikely.

As at 30 June	2014 \$m	2013 \$m
TeleBonds	223	226
Euro Medium Term Notes	78	79
Domestic Notes	250	250
Bank funding	100	300
	651	855
Less unamortised discount	(1)	(1)
	650	854
Less long-term debt maturing within one year (see note 9)	(73)	(103)
	577	751

None of the Company's debt is secured; it all 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 in relation to Spark Finance's debt in the years ended 30 June 2014 and 30 June 2013.

TeleBonds

TeleBonds are issued under a trust deed between Spark New Zealand and The New Zealand Guardian Trust Company Limited dated 25 October 1988 (as amended and restated) ('NZGT Deed') pursuant to which Spark New Zealand, Spark Finance and certain of Spark Finance's fellow subsidiaries (the 'Guaranteeing Group') have given a negative pledge that while any of the stock issued under the NZGT Deed remains outstanding they will not, subject to certain exceptions, create or permit to exist any charge or lien over any of their respective assets. Each member of the Guaranteeing Group has guaranteed the payment of the TeleBond debt, including interest. TeleBonds are denominated in New Zealand dollars and have interest rates ranging from 7.0% to 8.7% (30 June 2013: 7.0% to 8.7%) and maturity dates between April 2015 and April 2016. During the year ended 30 June 2014 NZ\$3 million of TeleBonds matured and were repaid (30 June 2013: NZ\$312 million).

Euro Medium Term Notes

At 30 June 2014 the following bonds are outstanding:

Interest Rate¹	Due	Face value \$m	Currency	Hedged currency rate	30 June 2014 \$m	30 June 2013 \$m
5.6%	14 May 2018	22m	GBP	0.36	44	44
5.8%	6 April 2020	18m	GBP	0.39	34	35
					78	79

¹ Before hedging instruments

Domestic Notes

As at 30 June 2014, the Company had NZ\$250 million of Notes issued in New Zealand under the terms of the above NZGT Deed, maturing in October 2019. The Notes are unsecured and pay a coupon of 5.25%.

Bank funding

The Company has a NZ\$100 million unsecured variable bank facility with The Bank of Tokyo-Mitsubishi UFJ, Ltd maturing in March 2018. The facility was fully drawn at 30 June 2014 and 30 June 2013.

The Company also has a NZ\$300 million unsecured variable bank facility with Westpac New Zealand Limited (30 June 2013: NZ\$400 million), maturing in June 2015. As at 30 June 2014 the facility was undrawn (30 June 2013: NZ\$200 million).

Note 11 Deferred tax

As at 30 June	2014 \$m	2013 \$m
Balance at beginning of the year	-	(2)
<i>Amounts recognised in profit and loss:</i>		
Relating to current period	-	1
Adjustments in respect of prior periods	-	2
<i>Amounts recognised in equity:</i>		
Relating to current period	-	(1)
Deferred tax asset/(liability)	-	-

Note 12 Equity

Contributed capital

As at 30 June 2014 contributed capital consisted of 882,872,600 issued and fully paid shares, of which 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 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.

Cash flow hedge reserve

The cash flow hedge reserve is used to record changes in fair value of derivatives that are designated as cash flow hedges. Amounts accumulated in equity are reclassified in the income statement in the periods when the hedged item will affect profit or loss.

Dividend

During the year ended 30 June 2014 Spark Finance paid no dividends to the parent company (30 June 2013: nil).

Note 13 Financial instruments and risk management

Spark Finance manages its treasury activities through Spark New Zealand's Board-approved Treasury policy. Spark Finance is exposed to foreign currency, interest rate, credit and liquidity risks. Each of these risks, the associated financial instruments and the management of those risks are detailed in this note.

Financial instruments

Spark Finance's financial instruments are classified under NZ IFRS as follows:

As at 30 June 2014	Held for trading \$m	Available for sale \$m	Loans and receivables \$m	Designated in hedging relationships \$m	Amortised cost \$m	Total carrying amount \$m
Assets						
Current assets						
Cash	-	-	-	-	150	150
Due from other Spark New Zealand Group companies	-	-	5,075	-	-	5,075
Short-term derivative assets	1	-	-	2	-	3
	1	-	5,075	2	150	5,228
Non-current assets						
Due from other Spark New Zealand Group companies	-	-	5,228	-	-	5,228
Long-term derivative assets	17	-	-	5	-	22
Investments	-	540	-	-	-	540
	17	540	5,228	5	-	5,790
Liabilities						
Current liabilities						
Due to other Spark New Zealand Group companies	-	-	-	-	(8,504)	(8,504)
Short-term derivative liabilities	(1)	-	-	(2)	-	(3)
Long-term debt due within one year	-	-	-	-	(113)	(113)
	(1)	-	-	(2)	(8,617)	(8,620)
Non-current liabilities						
Long-term derivative liabilities	-	-	-	(26)	-	(26)
Long-term debt	-	-	-	-	(577)	(577)
	-	-	-	(26)	(577)	(603)

As at 30 June 2013	Held for trading	Available for sale	Loans and receivables	Designated in hedging relationships	Amortised cost	Total carrying amount
	\$m	\$m	\$m	\$m	\$m	\$m
Assets						
Current assets						
Due from other Spark New Zealand Group companies	-	-	997	-	-	997
Short-term derivative assets	6	-	-	-	-	6
	6	-	997	-	-	1,003
Non-current assets						
Due from other Spark New Zealand Group companies	-	-	9,201	-	-	9,201
Long-term derivative assets	15	-	-	1	-	16
Investments	-	540	-	-	-	540
	15	540	9,201	1	-	9,757
Liabilities						
Current liabilities						
Bank overdraft	-	-	-	-	(2)	(2)
Due to other Spark New Zealand Group companies	-	-	-	-	(8,069)	(8,069)
Short-term derivative liabilities	(6)	-	-	-	-	(6)
Long-term debt due within one year	-	-	-	-	(225)	(225)
	(6)	-	-	-	(8,296)	(8,302)
Non-current liabilities						
Long-term derivative liabilities	-	-	-	(22)	-	(22)
Long-term debt	-	-	-	-	(751)	(751)
	-	-	-	(22)	(751)	(773)

Fair value of financial instruments

Under IFRS, financial instruments are either carried at cost; amortised cost, less any provision for impairment; or fair value. The only significant variances between amortised cost and fair value relate to long-term debt and long-term investments.

The table below categorises Spark Finance's financial assets and liabilities that are measured at fair value by the significance of the inputs used in making the measurements, as prescribed in NZ IFRS 7:

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
30 June 2014	\$m	\$m	\$m	\$m
Financial Assets				
Short-term derivative assets	-	3	-	3
Long-term derivative assets	-	22	-	22
	-	25	-	25
Financial Liabilities				
Short-term derivative liabilities	-	(3)	-	(3)
Long-term derivative liabilities	-	(26)	-	(26)
	-	(29)	-	(29)

	Level 1	Level 2	Level 3	Total
30 June 2013	\$m	\$m	\$m	\$m
Financial Assets				
Short-term derivative assets	-	6	-	6
Long-term derivative assets	-	16	-	16
	-	22	-	22
Financial Liabilities				
Short-term derivative liabilities	-	(6)	-	(6)
Long-term derivative liabilities	-	(22)	-	(22)
	-	(28)	-	(28)

There were no transfers between Level 1 and Level 2 in the period.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash, collateral funds, short-term investments, short-term debt and amounts due to/from other Spark New Zealand Group companies
The carrying amounts of these balances are approximately equivalent to their fair value because of the short term to maturity.

Cross-currency interest rate swaps, interest rate swaps, forward exchange contracts and currency options

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves. The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value. Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Other assumptions

NZD forward interest rates used to determine fair values range from 3.9% to 6.6%

Guarantees

Spark Finance has issued guarantees in relation to the lease payments of other Spark New Zealand Group companies totalling A\$2 million as at 30 June 2014 (30 June 2013: A\$10 million). In the event of the subsidiary defaulting on these lease payments, Spark Finance has guaranteed to the payment of these amounts. As at 30 June 2014 the likelihood of any payment being made under this guarantee is considered unlikely. Spark Finance has also granted an indemnity in relation to a performance bank guarantee of NZ\$22 million for a fellow subsidiary company (30 June 2013: NZ\$17 million). As at 30 June 2014 it is considered unlikely that this indemnity will be called upon.

Risk management

Spark Finance is exposed to market risk due to foreign currency and interest rates, credit risk and liquidity risk.

Market risk

Spark Finance is exposed to market risk primarily from changes in foreign currency exchange rates and interest rates. Spark Finance employs risk management strategies, including the use of derivatives, such as interest rate swaps, forward exchange contracts, foreign currency options and cross-currency interest rate swaps to manage these exposures. 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. Spark Finance does not hold or issue derivative financial instruments for trading purposes. All contracts have been entered into with major creditworthy financial institutions. The risk associated with these transactions is the risk that the financial

instrument's fair value or cash flows 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 counterparts. Spark Finance's financial instruments do not have significant concentration of risk with any single party.

i) Currency risk

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

Spark Finance enters into forward exchange contracts and foreign currency options 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 and foreign currency options 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 and net investments in foreign operations held by the Spark New Zealand Group. These foreign currency options and forward exchange contracts are not designated as hedging instruments and are therefore classified as held for trading.

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

As at 30 June 2014	AUD NZ\$m	USD NZ\$m	GBP NZ\$m	Total NZ\$m
Exposures				
Long-term debt	-	-	(78)	(78)
Due from other Spark New Zealand Group companies	2,115	-	-	2,115
Due to other Spark New Zealand Group companies	-	(40)	-	(40)
Total exposure from non-derivative financial instruments	2,115	(40)	(78)	1,997
Hedging instruments				
Foreign exchange contracts	(21)	40	-	19
NZD cross-currency interest rate swaps	-	-	34	34
Total exposure from hedging instruments	(21)	40	34	53

As at 30 June 2013	AUD NZ\$m	USD NZ\$m	GBP NZ\$m	Total NZ\$m
Exposures				
Long-term debt	-	-	(78)	(78)
Due from other Spark New Zealand Group companies	2,346	-	-	2,346
Due to other Spark New Zealand Group companies	-	(47)	-	(47)
Total exposure from non-derivative financial instruments	2,346	(47)	(78)	2,221
Hedging instruments				
Foreign exchange contracts	(14)	27	-	13
NZD cross-currency interest rate swaps	-	-	35	35
Total exposure from hedging instruments	(14)	27	35	48

Certain Australian dollar-denominated assets of the Spark New Zealand Group were hedged by Spark Finance. As at 30 June 2014 a movement of 10% in the New Zealand dollar would impact Spark Finance's income statement and statement of changes in equity, as detailed in the table below:

As at 30 June	2014		2013	
	-10%	+10%	-10%	+10%
Impact on:	\$m	\$m	\$m	\$m
Net earnings before income tax	228	(187)	253	(207)
Equity (before income tax)	2	(2)	2	(2)

This analysis assumes a movement in the New Zealand dollar across all currencies and only includes the effect of foreign exchange movements on financial instruments. All other variables remain constant.

The effects of foreign exchange movements on certain financial instruments before tax were as follows:

Year ended 30 June	2014		2013	
	Recognised in the income statement	Recognised in equity	Recognised in the income statement	Recognised in equity
	\$m	\$m	\$m	\$m
Foreign exchange was recognised on the following financial instruments gain/(loss):				
Cash	-	-	(3)	-
Forward exchange contracts	(5)	-	7	-
Due from other Spark New Zealand Group companies	(229)	-	(167)	-
Due to other Spark New Zealand Group companies	3	-	(5)	-
Long-term debt	1	-	1	-
	(230)	-	(167)	-

ii) *Interest rate risk*

Spark Finance employs the use of derivative financial instruments for the purpose of reducing its exposure to fluctuations in interest rates. Spark Finance has used cross-currency interest rate swaps with a contract value of \$110 million (30 June 2013: \$110 million) to hedge long-term debt denominated in Pounds Sterling into New Zealand dollar exposures. New Zealand dollar interest rate swaps are used to convert certain floating rate positions into fixed rate positions. As a consequence, Spark Finance's interest rate positions are limited to New Zealand yield curves. Spark Finance's objectives of interest rate risk management are to minimise the cost of net borrowings and to minimise the impact of interest rate movements on Spark Finance's interest expense and net earnings, while acting within policies approved by the Board of the parent company.

As at 30 June 2014 a movement of 100 basis points would impact Spark Finance's income statement and statement of changes in equity (after hedging) as detailed in the table below:

As at 30 June	2014		2013	
	-100 bp	+100 bp	-100 bp	+100 bp
Impact on:	\$m	\$m	\$m	\$m
Net earnings before income tax	(2)	2	(3)	3
Equity (before income tax)	(8)	8	(5)	5

This analysis assumes all other variables remain constant.

Credit risk

In the normal course of its business, Spark Finance incurs credit risk from financial instruments, including cash, short-term investments, advances to associate companies and derivative financial instruments. Spark Finance has a credit policy that is used to manage this exposure to credit risk. As part of this policy, limits on exposures with significant counterparties have been set and approved by the Board of Directors of Spark New Zealand and are monitored by management on a regular basis. Spark Finance's financial instruments do not have significant concentration of risk with any single party. Spark Finance has certain derivative and debt agreements that are subject to bilateral credit support agreements that require Spark Finance or the counterparty to post collateral to support the value of certain derivatives. As at 30 June 2014 no collateral was posted (30 June 2013: nil). Spark Finance places its cash,

short-term investments and derivative financial instruments with high credit quality financial institutions and sovereign bodies. These limits are monitored daily. The Company has exposure to credit risk from balances owed by associate companies. The maximum exposure at 30 June 2014 is NZ\$10,303 million (30 June 2013: NZ\$10,198 million).

Liquidity risk

Liquidity risk represents Spark Finance's ability to meet its contractual obligations. 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 two short-term financing programmes in place: a US\$1 billion European commercial paper programme and a NZ\$500 million Note facility (see note 9). In addition to the short-term financing programmes, at 30 June 2014 Spark Finance had an undrawn committed standby facility of NZ\$300 million (30 June 2013: NZ\$400 million) with a number of banks; a committed three-year bank facility totalling NZ\$300 million, which was undrawn at 30 June 2014 (30 June 2013: NZ\$200 million) and a committed five-year bank facility totalling NZ\$100 million, which was fully drawn as at 30 June 2014. As at 30 June 2014 Spark Finance also had committed overdraft facilities of NZ\$15 million with New Zealand banks. There are no compensating balance requirements associated with these facilities. Spark Finance does not have a significant concentration of risk with any single party. 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 Treasury Policy of the parent company is to maintain unutilised committed facilities of at least 110% of the next 12 months' forecast peak net funding requirements. The Policy also requires that the maximum amount of long-term debt maturing in any 12 month period is not to exceed \$400 million. As at 30 June 2014 Spark New Zealand management considered that it was in compliance with its Treasury Policy as reported to Spark New Zealand's Board of Directors.

Spark Finance's maximum exposure to liquidity risk based on contractual cash flows relating to financial instruments is summarised below:

As at 30 June 2014	Carrying amount \$m	Contractual cash flows \$m	0-6 months \$m	6-12 months \$m	1-2 years \$m	2-5 years \$m	5+ years \$m
Non-derivative financial assets							
Cash	150	150	150	-	-	-	-
Due from other Spark New Zealand Group companies	10,303	10,303	10,303	-	-	-	-
Investments	540	540	540	-	-	-	-
	10,993	10,993	10,993	-	-	-	-
Derivative financial assets							
Interest rate swaps	5	5	-	-	1	4	-
Cross-currency interest rate swaps - (gross settled)	17	-	-	-	-	-	-
Inflows	-	78	1	2	3	72	-
Outflows	-	(52)	-	(2)	(2)	(48)	-
Forward exchange contracts - (gross settled)	3	-	-	-	-	-	-
Inflows	-	96	73	17	6	-	-
Outflows	-	(93)	(71)	(16)	(6)	-	-
	25	34	3	1	2	28	-
Non-derivative financial liabilities							
Due to other Spark New Zealand Group companies	(8,504)	(8,504)	(8,504)	-	-	-	-
Short-term debt	(40)	(40)	(40)	-	-	-	-
Long-term debt	(651)	(773)	(16)	(93)	(178)	(194)	(292)
	(9,195)	(9,317)	(8,560)	(93)	(178)	(194)	(292)
Derivative financial liabilities							
Interest rate swaps - (net settled)	(1)	(2)	-	-	-	(1)	(1)
Cross-currency interest rate swaps - (gross settled)	(25)	-	-	-	-	-	-
Inflows	-	100	-	4	5	55	36
Outflows	-	(140)	(3)	(3)	(6)	(80)	(48)
Forward exchange contracts - (gross settled)	(3)	-	-	-	-	-	-
Inflows	-	112	90	16	6	-	-
Outflows	-	(115)	(92)	(17)	(6)	-	-
	(29)	(45)	(5)	-	(1)	(26)	(13)
Total	1,794	1,665	2,431	(92)	(177)	(192)	(305)

As at 30 June 2013	Carrying amount \$m	Contractual cash flows \$m	0-6 months \$m	6-12 months \$m	1-2 years \$m	2-5 years \$m	5+ years \$m
Non-derivative financial assets							
Due from other Spark New Zealand							
Group companies	10,198	10,198	10,198	-	-	-	-
Investments	540	540	540	-	-	-	-
	10,738	10,738	10,738	-	-	-	-
Derivative financial assets							
Interest rate swaps	1	1	(1)	-	-	2	-
Cross-currency interest rate swaps							
- (gross settled)	15	-	-	-	-	-	-
Inflows	-	80	1	1	3	75	-
Outflows	-	(56)	-	(2)	(2)	(52)	-
Forward exchange contracts -							
(gross settled)	6	-	-	-	-	-	-
Inflows	-	199	159	40	-	-	-
Outflows	-	(194)	(155)	(39)	-	-	-
	22	30	4	-	1	25	-
Non-derivative financial liabilities							
Cash	(2)	(2)	(2)	-	-	-	-
Due to other Spark New Zealand							
Group companies	(8,069)	(8,069)	(8,069)	-	-	-	-
Short-term debt	(122)	(122)	(122)	-	-	-	-
Long-term debt	(855)	(1,014)	(20)	(120)	(208)	(357)	(309)
	(9,048)	(9,207)	(8,213)	(120)	(208)	(357)	(309)
Derivative financial liabilities							
Interest rate swaps - (net settled)	(1)	(1)	(1)	(1)	(1)	1	1
Cross-currency interest rate swaps							
- (gross settled)	(21)	-	-	-	-	-	-
Inflows	-	105	-	5	4	57	39
Outflows	-	(143)	(2)	(2)	(5)	(82)	(52)
Forward exchange contracts -							
(gross settled)	(6)	-	-	-	-	-	-
Inflows	-	176	137	39	-	-	-
Outflows	-	(182)	(142)	(40)	-	-	-
	(28)	(45)	(8)	1	(2)	(24)	(12)
Total	1,684	1,516	2,521	(119)	(209)	(356)	(321)

Carrying amounts are as disclosed on the balance sheet 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 the entity could be required to repay contractually.

Equity price risk

Investments that subject Spark Finance to equity price risk include long-term investments in a fellow subsidiary company. Spark Finance's exposure to equity risk at 30 June 2014 was \$540 million (30 June 2013: \$540 million).

Hedging activities: derivative financial instruments

Each derivative that is designated as a hedge is classified as a hedge of a highly probable forecast transaction (a cash flow hedge). Spark Finance does not currently hold or issue derivative financial instruments for trading purposes, although under the classifications of IFRS derivative financial instruments are classified as 'held for trading' unless they are designated hedges. Currency options and certain cross-currency interest rate swaps held by Spark Finance are classified under IFRS as held for trading. All other derivative financial instruments classified as held for trading are designated hedges of exposures in other Spark New Zealand Group companies. See note 6 for the fair values of derivatives.

Cash flow hedges

Spark Finance uses cross-currency interest rate swaps and interest rate swaps to manage interest and foreign exchange risk on foreign denominated debt. These swaps are jointly designated as hedges of the forecast interest and principal cash flows of the debt. The changes in the fair values of interest rate derivatives accumulated in equity are expected to be reclassified to finance expense as interest payments occur over the remaining term of the derivatives.

At 30 June 2014, the fair value component of interest rate derivatives accumulated in equity, by maturity, is as follows:

	2014	2013
As at 30 June	NZ\$M	NZ\$M
3 to 4 years	7	-
4 to 5 years	-	6
Over 5 years	4	5
	11	11

Other amounts deferred in equity will be transferred to the income statement over the next 6 years (30 June 2013: 7 years)

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are initially recognised in equity. The gain or loss relating to any ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the underlying physical exposure occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to the income statement. During the period all hedged forecast transactions occurred as expected. There has been no material ineffectiveness on cash flow hedging relationships during the period (30 June 2013: nil).

Reconciliation of movements in the hedge reserve are as follows:

Year ended 30 June	2014			2013		
	Before tax	Tax (expense)/ credit	Net of tax	Before tax	Tax (expense)/ credit	Net of tax
	\$m	\$m	\$m	\$m	\$m	\$m
Balance at the beginning of the year			(2)			(6)
Gain/(loss) recognised in other comprehensive income	1	-	1	3	(1)	2
Amount reclassified from cash flow hedge reserve to finance expense	2	(1)	1	2	-	2
Balance at the end of the year			-			(2)

Note 14 Concentration of funding

As at 30 June	2014 \$m	2013 \$m
<i>Funding consists of:</i>		
Debt due within one year	113	225
Due to other Spark New Zealand Group companies	8,504	8,069
Long-term debt	577	751
Total funding	9,194	9,045
<i>Concentration of funding by economic sector:</i>		
Commercial and financial	690	976
Due to other Spark New Zealand Group companies	8,504	8,069
Total funding	9,194	9,045
<i>Concentration of funding by geographical areas:</i>		
Within New Zealand	7,930	7,823
Overseas:		
Bermuda	255	253
Europe	1,009	969
Total funding	9,194	9,045

Note 15 Concentration of credit exposures

In the normal course of its business Spark Finance incurs credit risk from financial instruments, including cash, advances to fellow subsidiary companies, trade receivables and derivative financial instruments.

Spark Finance has a credit policy that is used to manage this exposure to credit risk. As part of this policy, limits on exposures with counterparties have been set and approved by the Board of Spark New Zealand and are monitored on a regular basis.

As at 30 June	2014 \$m	2013 \$m
<i>Credit exposures consist of:</i>		
Cash	150	-
Due from other Spark New Zealand Group companies	8,209	7,869
Debentures issued by fellow subsidiary	2,094	2,329
Derivative financial instruments	25	22
Total credit exposure	10,478	10,220
<i>Credit exposures by economic sector:</i>		
Commercial and financial	175	22
Due from other Spark New Zealand Group companies	10,303	10,198
Total credit exposure	10,478	10,220
<i>Credit exposures by geographical areas:</i>		
New Zealand	8,363	7,860
Australia	2,115	2,346
Other	-	14
Total credit exposure	10,478	10,220

Spark Finance has no financial assets that are overdue and none that are impaired. Spark Finance has certain derivative transactions and debt agreements that are subject to bilateral credit support agreements that require Spark Finance or the counterparty to post collateral to support mark-to-market valuation differences. As at 30 June 2014 no collateral was posted (30 June 2013: nil). In the event of a downgrade of Spark New Zealand's credit rating to either Baa1 (Moody's Investors Services) or BBB+ (Standard & Poor's) Spark Finance would be required to post US\$12 million of additional collateral (based on rates at 30 June 2014). Collateral calls can be made by either party if the fair value of the agreement changes due to market conditions.

Note 16 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:

As at 30 June	2014 \$m	2013 \$m
Cross-currency interest rate swaps	64	64
Forward exchange contracts	75	146

Note 17 Fellow subsidiary companies

At 30 June 2014 the significant fellow subsidiaries of Spark Finance were as follows:

	COUNTRY	OWNERSHIP	PRINCIPAL ACTIVITY
Blaxton Properties Limited	New Zealand	100%	NZ Property investment
Gen-i Australia Pty Limited	Australia	100%	Provides outsourced telecommunications services
Revera Limited	New Zealand	100%	IT infrastructure and data centre provider
Spark New Zealand Trading Limited	New Zealand	100%	Provides local, national and international telephone and data services
Spark Retail Holdings Limited	New Zealand	100%	Retailer of telecommunications products and services
TCNZ (Bermuda) Limited	Bermuda	100%	A holding company
TCNZ Australia Investments Pty Limited	Australia	100%	A holding company
Teleco Insurance Limited	Bermuda	100%	A Group insurance company
Telecom Cook Islands Limited	Cook Islands	60%	Provides telecommunications services in the Cook Islands
Telecom Leasing Limited	New Zealand	100%	Procures and leases assets
Telecom Mobile Limited	New Zealand	100%	Provides mobile telecommunications services
Telecom New Zealand International Australia Pty Limited	Australia	100%	Provides international wholesale telecommunications services
Telecom New Zealand UK Limited	United Kingdom	100%	Provides international wholesale telecommunications services
Telecom New Zealand USA Limited	United States	100%	Provides international wholesale telecommunications services
Telecom Rentals Limited	New Zealand	100%	Leases telecommunications equipment to third parties
Telecom Southern Cross Limited	New Zealand	100%	A holding company

During the year the Spark New Zealand Group disposed of its AAPT business, including AAPT Limited and PowerTel Limited. On 30 June 2014 Xtra Limited and Telecom IP Limited were amalgamated into Telecom Mobile Limited. Telecom Mobile Limited was amalgamated into Spark New Zealand Trading Limited on 31 July 2014.

Note 18 Imputation credit account

Dividends paid by New Zealand resident companies may include imputation credits representing the taxation already paid by the Company on the profits distributed. New Zealand resident shareholders may claim a tax credit equal to the value of the imputation credit attached to dividends. Overseas shareholders, in general, are not entitled to claim the benefit of any imputation credit. Overseas shareholders may benefit from supplementary dividends. Spark Finance has elected to be a member of the Spark New Zealand Imputation Group. As at 30 June 2014, the Spark New Zealand Imputation Group imputation credit account had a closing credit balance of \$46 million (30 June 2013: \$3 million debit).

Note 19 Reconciliation of net earnings to net cash flows from operating activities

Year ended 30 June	2014	2013
	\$m	\$m
Net earnings	98	136
<i>Adjustments to reconcile net earnings to net cash flows from operating activities</i>		
Amortisation of discount	2	2
Foreign exchange loss	230	169
Revaluation of derivatives	(2)	(2)
Other	-	-
<i>Changes in assets and liabilities net of effects of non-cash and investing and financing activities</i>		
Increase in interest payable	-	(2)
Increase in current taxation	127	117
Decrease in accounts payable	(1)	1
Net cash flows from operating activities	454	421

Note 20 Commitments and contingencies

There are no commitments or contingencies other than those outlined in the above notes (30 June 2013: nil).

Note 21 Significant events after balance date

The Company changed its name to Spark Finance Limited from TCNZ Finance Limited on 8 August 2014 (30 June 2013: nil).

Registered office

The registered office of Spark Finance is:

Level 2
Spark City
167 Victoria Street West
Auckland 1010
New Zealand

Inquiries

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

Computershare Investor Services
Private Bag 92119
Auckland 1142
Ph: 09 488 8777
Fax: 09 488 8788
NZ Toll Free: 0800 737 100
Email: enquiry@computershare.co.nz
Website: www.computershare.com

Inquiries about the operating and financial performance of Spark Finance or the Spark New Zealand Group can be emailed to investor-info@sparknz.co.nz or addressed to:

General Manager Corporate Finance
Spark Finance Limited
Private Bag 92028
Auckland 1142
New Zealand

Visit the Spark New Zealand website at www.sparknz.co.nz



Independent auditor's report

To the shareholder of Spark Finance Limited

Report on the financial statements

We have audited the accompanying financial statements of Spark Finance Limited ("the company") (formerly known as "TCNZ Finance Limited") on pages 4 to 27. The financial statements comprise the statement of financial position as at 30 June 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, 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.

Auditor's responsibility

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

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

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

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

Opinion

In our opinion the financial statements on pages 4 to 27:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company as at 30 June 2014 and of its financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Spark Finance Limited as far as appears from our examination of those records.

Luxembourg Regulatory Statement

In accordance with the Fourth Council Directive of the European Communities. Section 11, Article 51, we confirm that the annual report is consistent with the annual accounts for the financial year.

27 August 2014
Wellington