



Spark Finance Limited

# Annual Report

For the year ended 30 June 2016

# Directors' report

For the year ended 30 June 2016

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Spark Finance Limited ('Spark Finance' or 'the Company') is a wholly-owned subsidiary of Spark New Zealand Limited ('Spark New Zealand' and together with its subsidiaries, the 'Spark New Zealand Group'). The Company was incorporated in 1991 and 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 currency, interest rate, credit and liquidity risks. A summary of these risks and Spark Finance's risk management objectives and policies are set out in note 11 to the following financial statements. The Directors of Spark Finance do not believe there is any significant financial risk to Spark Finance as financial assets are matched by financial liabilities with similar characteristics. 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 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 2016 of \$217 million compared to \$396 million for the year ended 30 June 2015.

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 2016 was \$1 million (30 June 2015: \$95 million gain). During the year ended 30 June 2015, AUD\$1.9 billion of debentures were repaid, therefore reducing the Company's exposure to foreign exchange rate volatility.

The net assets of Spark Finance as at 30 June 2016 were \$1,819 million compared to \$2,051 million as at 30 June 2015. The share capital of Spark Finance is \$883 million (30 June 2015: \$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 2016 (30 June 2015: nil).

During the year ended 30 June 2016 Spark Finance paid a dividend of \$430 million to Spark New Zealand Limited via an intercompany advance through a current account (30 June 2015: 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 2016 can be found at [investors.sparknz.co.nz](http://investors.sparknz.co.nz).

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

On behalf of the Board



Jolie Hodson  
DIRECTOR



Matthew Sheppard  
DIRECTOR

25 August 2016

## Directors' report

For the year ended 30 June 2016

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

We, Jolie Hodson and Matthew Sheppard, both directors of Spark Finance Limited (herein after the 'Issuer') hereby declare that, to the best of our knowledge, the financial statements for the year ended 30 June 2016, 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.



Jolie Hodson  
DIRECTOR



Matthew Sheppard  
DIRECTOR

25 August 2016

## Other information

For the year ended 30 June 2016

### Directors

The Directors of Spark Finance as at 30 June 2016 were:

Jolie Hodson

Matthew Sheppard

Melissa Anastasiou

Stefan Knight (appointed as a Director of the Company on 2 September 2015)

Mark Laing resigned as a Director of the Company on 2 September 2015

Stefan Knight resigned as a Director of the Company on 18 July 2016

Dean Werder was appointed as a Director of the Company on 18 July 2016

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

	As at 30 June 2016		As at 30 June 2015	
	Male	Female	Male	Female
Number of Directors	2	2	2	2
Percentage of Directors	50%	50%	50%	50%
Number of Officers/Senior Managers	1	0	1	0
Percentage of Officers/Senior Managers	100%	0%	100%	0%

The Directors of Spark Finance are all employees of the Spark New Zealand Group and, accordingly, are not independent directors. As at 30 June 2016, no Spark Finance Director, officer or senior manager<sup>1</sup> held any Spark Finance securities and no Spark Finance Director, officer or senior manager acquired or disposed of any Spark Finance securities during the financial year ended 30 June 2016.

### Corporate governance

The Board of Spark New Zealand is committed to ensuring that the Spark New Zealand Group maintains a high standard of corporate governance and adheres to high ethical standards. Spark Finance operates within the corporate governance policies, practices and processes of the Spark New Zealand Group. Full descriptions of these policies, practices and processes are referred to in the Spark New Zealand annual report (available at [investors.sparknz.co.nz](http://investors.sparknz.co.nz)), with reference to the Spark 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](http://www.sparknz.co.nz/about/governance).

### Interests

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

### Credit rating

Spark New Zealand (which guarantees Spark Finance's debt) has credit ratings from Standard & Poor's on its indebtedness. Details of ratings as at 30 June 2016 are as follows:

Long-term senior debt: A-

Short-term debt: A-2

Outlook: Stable

### Spread of security holders

As at 30 June 2016, Spark Finance had no 'quoted voting products' for the purposes of the Financial Markets Conduct Act 2013. The spread of holders of the quoted Spark Finance Domestic Note (with NZX ticker SPF560) as at 31 July 2016 was as follows:

Range	Number of holders	% of holders	Number of bonds	% of bonds
1-1,000	-	-	-	-
1,001-5,000	24	5.06	120,000	0.12
5,001-10,000	97	20.46	934,000	0.93
10,001-50,000	273	57.59	7,163,000	7.16
50,001-100,000	38	8.02	3,132,000	3.13
100,001 and over	42	8.86	88,651,000	88.65
Total	474	100.00	100,000,000	100.00

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

## **Other information**

*For the year ended 30 June 2016*

### **Other statutory information**

As at 30 June 2016 Spark Finance had no employees (30 June 2015: nil). Spark Finance made no charitable donations during the year ended 30 June 2016. Net tangible assets per security as at 30 June 2016 were \$2.06 (30 June 2015: \$2.32). Net earnings per security for the year ended 30 June 2016 were \$0.246 (30 June 2015: \$0.448).

**SPARK FINANCE LIMITED**  
**Income Statement**

*For the years ended 30 June 2016 and 2015*

Year ended 30 June	Notes	2016 \$m	2015 \$m
Finance income	2	661	843
Finance expense	2	(361)	(425)
<b>Net finance income</b>		<b>300</b>	<b>418</b>
Other income	3	2	95
Other expenses	3	(1)	(1)
<b>Net earnings before income tax</b>		<b>301</b>	<b>512</b>
Income tax expense	4	(84)	(116)
<b>Net earnings for the year</b>		<b>217</b>	<b>396</b>

**Statement of Comprehensive Income**

*For the years ended 30 June 2016 and 2015*

Year ended 30 June	Notes	2016 \$m	2015 \$m
Net earnings for the year		217	396
Other comprehensive loss <sup>1</sup>			
Items that may be reclassified into profit or loss:			
Cash flow hedges	6	(19)	(8)
Other comprehensive loss for the year		(19)	(8)
<b>Total comprehensive income for the year</b>		<b>198</b>	<b>388</b>

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

<sup>1</sup> Other comprehensive loss components are shown net of tax, with the differences between gross and net detailed in note 6.

**Statement of Changes in Equity***For the years ended 30 June 2016 and 2015*

	Contributed capital	Retained earnings	Hedge reserve	Total equity
	\$m	\$m	\$m	\$m
<b>Balance as at 1 July 2015</b>	<b>883</b>	<b>1,176</b>	<b>(8)</b>	<b>2,051</b>
Net earnings for the year	-	217	-	217
Other comprehensive loss for the year	-	-	(19)	(19)
Total comprehensive income/(loss) for the year	-	217	(19)	198
Dividend paid	-	(430)	-	(430)
<b>Balance as at 30 June 2016</b>	<b>883</b>	<b>963</b>	<b>(27)</b>	<b>1,819</b>

	Contributed capital	Retained earnings	Hedge reserve	Total equity
	\$m	\$m	\$m	\$m
<b>Balance as at 1 July 2014</b>	<b>883</b>	<b>780</b>	<b>-</b>	<b>1,663</b>
Net earnings for the year	-	396	-	396
Other comprehensive income for the year	-	-	(8)	(8)
Total comprehensive income/(loss) for the year	-	396	(8)	388
<b>Balance as at 30 June 2015</b>	<b>883</b>	<b>1,176</b>	<b>(8)</b>	<b>2,051</b>

*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 2016 and 2015

As at 30 June	Notes	2016 \$m	2015 \$m
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash		-	44
Prepayments		-	1
Due from other Spark New Zealand Group companies	5	4,387	4,607
Short-term derivative assets	6	5	8
<b>Total current assets</b>		<b>4,392</b>	<b>4,660</b>
<b>Non-current assets:</b>			
Due from other Spark New Zealand Group companies	5	2,872	4,981
Deferred tax assets	4	10	4
Long-term derivative assets	6	31	10
Investment in fellow subsidiary	7	540	540
<b>Total non-current assets</b>		<b>3,453</b>	<b>5,535</b>
<b>Total assets</b>		<b>7,845</b>	<b>10,195</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Bank overdraft		5	-
Income tax payable		84	118
Due to other Spark New Zealand Group companies	8	4,984	7,298
Short-term derivative liabilities	6	5	8
Debt due within one year	9	190	150
Accrued interest		4	6
<b>Total current liabilities</b>		<b>5,272</b>	<b>7,580</b>
<b>Non-current liabilities:</b>			
Long-term derivative liabilities	6	69	22
Long-term debt	9	685	542
<b>Total non-current liabilities</b>		<b>754</b>	<b>564</b>
<b>Total liabilities</b>		<b>6,026</b>	<b>8,144</b>
<b>Equity:</b>			
Share capital		883	883
Hedge reserve		(27)	(8)
Retained earnings		963	1,176
<b>Total equity</b>		<b>1,819</b>	<b>2,051</b>
<b>Total liabilities and equity</b>		<b>7,845</b>	<b>10,195</b>

On behalf of the Board


**Jolie Hodson**

DIRECTOR

Authorised for issue on 25 August 2016


**Matthew Sheppard**

DIRECTOR

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



SPARK FINANCE LIMITED  
**Statement of Cash Flows**

For the years ended 30 June 2016 and 2015

Year ended 30 June	2016 \$m	2015 \$m
<b>Cash flows from operating activities</b>		
Interest receipts	661	843
Interest payments	(358)	(417)
Net cash flows from operating activities	303	426
<b>Cash flows from investing activities</b>		
Net advances to other Spark New Zealand Group companies	(541)	(516)
Net cash flows from investing activities	(541)	(516)
<b>Cash flows from financing activities</b>		
Proceeds from long-term debt	730	500
Repayment of long-term debt	(640)	(473)
Proceeds from short-term debt	548	565
Repayment of short-term debt	(449)	(608)
Net cash flows from financing activities	189	(16)
<b>Net cash flow</b>	<b>(49)</b>	<b>(106)</b>
Opening cash position	44	150
<b>Closing cash position</b>	<b>(5)</b>	<b>44</b>

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

Year ended 30 June	2016 \$m	2015 \$m
Net earnings	217	396
<i>Adjustments to reconcile net earnings to net cash flows from operating activities</i>		
Amortisation of discount	1	4
Foreign exchange loss/(gain)	1	(95)
Revaluation of long-term debt in fair value hedge	9	-
Revaluation of derivatives	(2)	1
Other	(5)	4
<i>Changes in assets and liabilities net of effects of non-cash and investing and financing activities</i>		
Increase in current taxation	84	116
Decrease in accrued interest	(2)	-
<b>Net cash flows from operating activities</b>	<b>303</b>	<b>426</b>

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 is a profit-oriented company registered in New Zealand under the Companies Act 1993 and is a 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.

These financial statements are expressed in New Zealand dollars, which is Spark Finance's functional currency. All financial information presented 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 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 the accompanying notes.

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.

### *(c) 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.

### *(d) New and amended standards adopted*

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

### *(e) New standards not yet adopted*

NZ IFRS 9 *Financial Instruments* (2014), representing the final version of the standard, replaces earlier versions of NZ IFRS 9 and completes the replacement of NZ IAS 39 *Financial Instruments: Recognition and Measurement*. The standard includes a revised model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The standard will be effective for Spark Finance from the year ending 30 June 2019. Spark Finance is currently assessing the impact of the final version of NZ IFRS 9 and the period from which it will be adopted.

**Note 2 Finance income and expense**

<b>Year ended 30 June</b>	<b>2016 \$m</b>	<b>2015 \$m</b>
Finance income:		
Interest income on loans to other Spark New Zealand Group companies	659	841
Interest income from cash	2	2
<b>Total finance income</b>	<b>661</b>	<b>843</b>
Finance expense:		
Finance expense on long-term debt <sup>1</sup> :		
- Euro Medium Term Notes ('EMTN')	6	6
- TeleBonds	8	17
- Domestic notes	20	14
- Bank funding	6	6
Interest expense on loans from other Spark New Zealand Group companies	314	369
Other interest and finance expense	7	13
<b>Total finance expense</b>	<b>361</b>	<b>425</b>

<sup>1</sup> Includes \$4 million reclassified from the cash flow hedge reserve for the year ended 30 June 2016 (30 June 2015: \$5 million).

**Note 3 Other income and expenses**

<b>Year ended 30 June</b>	<b>2016 \$m</b>	<b>2015 \$m</b>
Other income:		
Net realised and unrealised foreign exchange gains	-	95
Revaluation of derivatives	2	-
<b>Total other income</b>	<b>2</b>	<b>95</b>
Other expenses:		
Net realised and unrealised foreign exchange losses	1	-
Revaluation of derivatives	-	1
<b>Total other expenses</b>	<b>1</b>	<b>1</b>

Audit fees of \$21,000 for the year (30 June 2015: \$21,000) 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 (30 June 2015: nil). The Directors of Spark Finance receive remuneration (but no Directors' fees) from a fellow subsidiary company.

**Note 4 Taxation***Income tax expense*

<b>Year ended 30 June</b>	<b>2016 \$m</b>	<b>2015 \$m</b>
Current tax expense	84	116
<i>Reconciliation of income tax expense:</i>		
Net earnings before income tax	301	512
Tax at 28%	84	143
<i>Adjustments to taxation:</i>		
Non-taxable foreign exchange losses	-	(27)
<b>Income tax expense</b>	<b>84</b>	<b>116</b>

#### Note 4 Taxation (continued)

##### Deferred tax assets and liabilities

Deferred tax assets and liabilities are offset in the statement of financial position and presented as a net deferred tax asset.

As at 30 June	2016 \$m	2015 \$m
Balance at beginning of the year	4	-
<i>Amounts recognised in earnings:</i>		
Relating to current period	(2)	-
<i>Amounts recognised in equity:</i>		
Relating to current period	8	4
<b>Balance at end of the year</b>	<b>10</b>	<b>4</b>

Spark Finance has elected to be a member of the Spark New Zealand Imputation Group. As at 30 June 2016, the Spark New Zealand Imputation Group has a negative imputation credit account balance of \$6 million (30 June 2015: \$30 million positive balance). The imputation credit account balance had a positive balance as at 31 March 2016.

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

As at 30 June	2016 \$m	2015 \$m
Current assets:		
Advances to Spark New Zealand Limited	3,871	4,116
Advances to fellow subsidiaries	516	491
	<b>4,387</b>	<b>4,607</b>
Non-current assets:		
Advances to Spark New Zealand Limited	899	2,552
Advances to fellow subsidiaries	1,973	2,429
	<b>2,872</b>	<b>4,981</b>
<b>Total due from other Spark New Zealand Group companies</b>	<b>7,259</b>	<b>9,588</b>

Current amounts due from Spark New Zealand Limited and fellow subsidiary companies have interest rates of between 2.8% and 8.0% (30 June 2015: between 2.7% and 10.0%). These amounts are repayable at the option of Spark Finance and Spark New Zealand Limited and fellow subsidiary companies (as applicable). Other term advances to Spark New Zealand Limited and fellow subsidiary companies have interest rates between 5.6% and 8.0% (30 June 2015: 4.6% and 10.0%). These advances can be redeemed at book value at the option of either party. For the purposes of classification between current and non-current assets in the statement of financial position these items have been allocated based upon expected realisation. An item is classified as current when it is expected to be realised within twelve months after the reporting period.

#### Note 6 Derivative assets and liabilities

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

## Note 6 Derivative assets and liabilities (continued)

The fair values of derivatives are as follows:

As at 30 June	2016		2015	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
	\$m	\$m	\$m	\$m
Forward exchange contracts – cash flow hedges	5	(5)	8	(8)
Interest rate swaps – cash flow hedges	-	(33)	-	(14)
Interest rate swaps – fair value hedges	8	-	-	-
Interest rate swaps – held for trading	4	(9)	1	-
Cross-currency interest rate swaps – cash flow hedges	-	(27)	-	(8)
Cross-currency interest rate swaps – held for trading	19	-	9	-
	36	(74)	18	(30)
Short-term derivatives	5	(5)	8	(8)
Long-term derivatives	31	(69)	10	(22)

As at 30 June 2016 and 30 June 2015 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.

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

### 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.

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 2015: nil).

Reconciliation of movements in the hedge reserve are as follows:

Year ended 30 June	2016			2015		
	Before tax	Tax credit/ expense	Net of tax	Before tax	Tax credit /expense	Net of tax
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Balance at the beginning of the year</b>			(8)			-
Gain/(loss) recognised in other comprehensive income	(31)	9	(22)	(17)	5	(12)
Amount reclassified to finance expense	4	(1)	3	5	(1)	4
<b>Total comprehensive movements to other income/(loss)</b>	<b>(27)</b>	<b>8</b>	<b>(19)</b>	<b>(12)</b>	<b>4</b>	<b>(8)</b>
<b>Balance at the end of the year</b>			<b>(27)</b>			<b>(8)</b>

### Fair value hedges

As at 30 June 2016 Spark Finance had interest rate swaps designated as fair value hedges. The gain or loss from remeasuring both the hedging instrument and the hedged items at fair value is recognised in the income statement.

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

During the year ended 30 June 2016 Spark Finance recognised a \$9 million gain on fair value hedges and a \$9 million loss on hedged exposures (30 June 2015: an immaterial gain on fair value hedges and an immaterial loss on hedge exposures) and there has been no material ineffectiveness on fair value hedging relationships.

**Note 7 Investment in fellow subsidiary**

<b>As at 30 June</b>	<b>2016</b>	<b>2015</b>
	<b>\$m</b>	<b>\$m</b>
Redeemable shares held in fellow subsidiary	540	540
	<b>540</b>	<b>540</b>

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

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

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

<b>As at 30 June</b>	<b>2016</b>	<b>2015</b>
	<b>\$m</b>	<b>\$m</b>
Due to fellow subsidiary companies	4,984	7,298
	<b>4,984</b>	<b>7,298</b>

Current amounts due to fellow subsidiary companies have interest rates of between 0% and 6% (30 June 2015: between 0% and 6%) and are repayable at book value at the option of either the fellow subsidiary company or Spark Finance (as applicable).

**Note 9 Debt**

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

**Note 9 Debt (continued)**

Face value	Facility	Coupon rate	Maturity	2016 \$m	2015 \$m
Short-term debt					
Commercial Paper		Variable	28/07/2016	50	-
Commercial Paper		Variable	21/10/2016	50	-
				100	-
Bank funding					
Bank of Tokyo-Mitsubishi UFJ	100 million NZD	Variable	13/03/2018	100	100
Westpac New Zealand Limited	100 million NZD	Variable	30/11/2016	90	-
Bank of New Zealand	100 million NZD	Variable	31/10/2018	50	-
				240	100
Domestic notes					
250 million NZD		5.25%	25/10/2019	250	250
100 million NZD		4.50%	25/03/2022	103	100
100 million NZD		4.51%	10/03/2023	106	-
				459	350
Euro Medium Term Notes					
22 million GBP		5.63%	14/05/2018	42	51
18 million GBP		5.75%	06/04/2020	34	41
				76	92
TeleBonds					
150 million NZD		7.00%	31/03/2016	-	150
				<b>875</b>	<b>692</b>
Debt due within one year				190	150
Long-term debt				685	542

None of Spark Finance's debt is secured and all debt ranks equally with other liabilities. There are no financial covenants over the 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 2016 and 30 June 2015.

As at 30 June 2016, 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 \$804 million compared to a carrying value of \$775 million (30 June 2015: fair value of \$724 million compared to a carrying value of \$692 million).

**Note 10 Equity and dividends***Contributed capital*

As at 30 June 2016 contributed capital consisted of 882,872,600 (30 June 2015: 882,872,600) issued and fully paid shares, of which 342,872,600 (30 June 2015: 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 2015: 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*

During the year ended 30 June 2016 Spark Finance paid a dividend of \$430 million to Spark New Zealand Limited (30 June 2015: nil).

**Note 11 Financial instruments and risk management**

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

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

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

### i) Currency 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. 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 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.

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

	AUD NZ\$m	USD NZ\$m	GBP NZ\$m	Total NZ\$m
<b>As at 30 June 2016</b>				
<b>Exposures</b>				
Long-term debt	-	-	(76)	(76)
Due from other Spark New Zealand Group companies	23	-	-	23
<b>Total exposure from non-derivative financial instruments</b>	<b>23</b>	<b>-</b>	<b>(76)</b>	<b>(53)</b>
<b>Hedging instruments</b>				
Foreign exchange contracts	(23)	(4)	-	(27)
NZD cross-currency interest rate swaps	-	-	76	76
<b>Total exposure from hedging instruments</b>	<b>(23)</b>	<b>(4)</b>	<b>76</b>	<b>49</b>
<b>As at 30 June 2015</b>				
<b>Exposures</b>				
Long-term debt	-	-	(92)	(92)
Due from other Spark New Zealand Group companies	20	-	-	20
Due to other Spark New Zealand Group companies	-	(9)	-	(9)
<b>Total exposure from non-derivative financial instruments</b>	<b>20</b>	<b>(9)</b>	<b>(92)</b>	<b>(81)</b>
<b>Hedging instruments</b>				
Foreign exchange contracts	(20)	(3)	-	(23)
NZD cross-currency interest rate swaps	-	-	92	92
<b>Total exposure from hedging instruments</b>	<b>(20)</b>	<b>(3)</b>	<b>92</b>	<b>69</b>

As at 30 June 2016 a movement of 10% in the New Zealand dollar would impact Spark Finance's income statement and statement of changes in equity by an immaterial amount (30 June 2015: \$1 million).



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

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

Year ended 30 June	2016		2015	
	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):				
Forward exchange contracts	2	-	5	-
Due from other Spark New Zealand Group companies	-	-	97	-
Due to other Spark New Zealand Group companies	(3)	-	(7)	-
	(1)	-	95	-

### ii) Interest rate risk

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

Spark Finance employs the use of derivative financial instruments for the purpose of reducing its exposure to fluctuations in interest rates. The Company's objective in relation to interest rate risk management is to minimise the cost of net borrowings and to minimise the impact of interest rate movements on the Company's interest expense and net earnings within policies approved by the Board of Spark New Zealand Limited.

The Company uses cross-currency interest rate swaps to convert foreign currency borrowings into floating-rate New Zealand dollar positions. Interest rate swaps are used to convert certain floating-rate positions into fixed-rate positions and vice versa. As a consequence, the Company's interest rate positions are limited to New Zealand yield curves.

As at 30 June 2016 a movement of 100 basis points would impact Spark Finance's income statement and statement of changes in equity (after hedging) by less than \$23 million (30 June 2015: \$15 million).

### iii) Credit risk

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

Spark Finance manages its exposure using a credit policy which includes limits on exposures with significant counterparties that have been set and approved by the Board of Spark New Zealand Limited and are monitored on a regular basis. The Company places its cash and derivative financial instruments with high credit quality financial institutions. The Company's financial instruments do not have significant concentration of risk with any single party.

Spark Finance has no financial assets that are overdue and none that are impaired. Spark Finance has certain derivative and debt agreements that are subject to bilateral credit support agreements that require the Company or the counterparty to post collateral funds to support the value of certain derivatives. As at 30 June 2016 no collateral was posted (30 June 2015: nil). In the event of a downgrade of the Spark New Zealand's credit rating to BBB+ (Standard & Poor's) USD\$9.0 million would be required to be posted (30 June 2015: nil).

The Company has exposure to credit risk from balances owed by Spark New Zealand Group companies. The maximum exposure at 30 June 2016 is \$7,259 million (30 June 2015: \$9,588 million).

### iv) Liquidity risk

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

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

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

- A \$500 million Note Facility with \$100 million drawn as at 30 June 2016 (30 June 2015: undrawn);
- An uncommitted US\$1 billion European Commercial Paper Programme;
- An undrawn committed standby facility of \$200 million (30 June 2015: \$200 million) with a number of creditworthy banks;
- Committed bank facilities of \$300 million (30 June 2015: \$100m million) with \$240 million drawn as at 30 June 2016 (30 June 2015: \$100 million drawn); and
- Committed bank overdraft facilities of \$15 million with New Zealand banks (30 June 2015: \$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 Policy provides for maintaining unutilised committed facilities of at least 110% of the next 12 months' forecast peak net funding requirements. The policy also requires that the maximum amount of long-term debt maturing in any 12 month period is not to exceed \$400 million. As at 30 June 2016 Spark New Zealand management considered that it was in compliance with its Policy as reported to Spark New Zealand Limited's Board of Directors.

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

	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	5+ years
As at 30 June 2016	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Non-derivative financial liabilities</b>							
Bank overdraft	(5)	(5)	(5)	-	-	-	-
Due to other Spark New Zealand Group companies	(4,984)	(4,984)	(4,984)	-	-	-	-
Short and Long-term debt	(875)	(982)	(202)	(15)	(169)	(384)	(212)
	<b>(5,864)</b>	<b>(5,971)</b>	<b>(5,191)</b>	<b>(15)</b>	<b>(169)</b>	<b>(384)</b>	<b>(212)</b>
<b>Derivative financial liabilities</b>							
Interest rate swaps - (net settled)	(42)	(48)	(2)	(3)	(6)	(19)	(18)
Cross-currency interest rate swaps - (gross settled)							
Inflows		88	-	4	47	37	-
Outflows	(27)	(121)	(2)	(2)	(68)	(49)	-
Forward exchange contracts - (gross settled)							
Inflows		134	130	4	-	-	-
Outflows	(5)	(140)	(136)	(4)	-	-	-
	<b>(74)</b>	<b>(87)</b>	<b>(10)</b>	<b>(1)</b>	<b>(27)</b>	<b>(31)</b>	<b>(18)</b>
	<b>(5,938)</b>	<b>(6,058)</b>	<b>(5,201)</b>	<b>(16)</b>	<b>(196)</b>	<b>(415)</b>	<b>(230)</b>
<b>As at 30 June 2015</b>							
	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-2 years	2-5 years	5+ years
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Non-derivative financial liabilities</b>							
Due to other Spark New Zealand Group companies	(7,298)	(7,298)	(7,298)	-	-	-	-
Short and Long-term debt	(692)	(815)	(15)	(169)	(23)	(499)	(109)
	<b>(7,990)</b>	<b>(8,113)</b>	<b>(7,313)</b>	<b>(169)</b>	<b>(23)</b>	<b>(499)</b>	<b>(109)</b>
<b>Derivative financial liabilities</b>							
Interest rate swaps - (net settled)	(14)	(17)	(1)	(1)	(3)	(6)	(6)
Cross-currency interest rate swaps - (gross settled)							
Inflows		60	-	3	3	54	-
Outflows	(8)	(72)	(1)	(1)	(3)	(67)	-
Forward exchange contracts - (gross settled)							
Inflows		189	160	28	1	-	-
Outflows	(8)	(196)	(166)	(29)	(1)	-	-
	<b>(30)</b>	<b>(36)</b>	<b>(8)</b>	<b>-</b>	<b>(3)</b>	<b>(19)</b>	<b>(6)</b>
	<b>(8,020)</b>	<b>(8,149)</b>	<b>(7,321)</b>	<b>(169)</b>	<b>(26)</b>	<b>(518)</b>	<b>(115)</b>

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

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

##### Guarantees

Spark Finance has issued guarantees in relation to the lease payments of other Spark New Zealand Group companies totalling AUD\$1 million as at 30 June 2016 (30 June 2015: AUD\$1 million). As at 30 June 2016 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 \$25 million for a fellow subsidiary company (30 June 2015: \$25 million). As at 30 June 2016 it is considered unlikely that this indemnity will be called upon.

#### Note 12 Related party transactions

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

The notional principal or contract amounts outstanding are as follows:

As at 30 June	2016 \$m	2015 \$m
Cross-currency interest rate swaps	64	64
Forward exchange contracts	112	154

#### Note 13 Fellow subsidiary companies

At 30 June 2016 the significant fellow subsidiaries of Spark Finance were as follows:

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

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

#### Note 14 Commitments and contingencies

There are no commitments or contingencies other than those outlined in the above notes (30 June 2015: nil).

#### Note 15 Subsequent events after balance date

On 25 August 2016 the Directors approved a dividend of 52.1 cents per share or \$460 million to Spark New Zealand Limited.

*Registered office*

The registered office of Spark Finance is:

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

*Inquiries*

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

**New Zealand registry**

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Level 11 Deloitte Centre  
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*For more information*

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



## Independent auditor's report

### To the shareholder of Spark Finance Limited

We have audited the accompanying financial statements of Spark Finance Limited ("the company") on pages 5 to 18. The financial statements comprise the statement of financial position as at 30 June 2016, the income statement and 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.

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

#### *Directors' responsibility 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 generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of 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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 5 to 18 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of Spark Finance Limited as at 30 June 2016 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

***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.

*KPMG*

25 August 2016  
Auckland