



Spark Finance Limited

# Half-year Report

For the six months ended 31 December 2014

## Directors' report

For the six months ended 31 December 2014

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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 and was incorporated in 1991. The Company changed its name to Spark Finance Limited from TCNZ Finance Limited on 8 August 2014.

Spark Finance raises debt funding in New Zealand and internationally. The majority of these funds are then advanced to other members of the Spark New Zealand Group to assist in funding their operations. Spark Finance enters into derivative financial instruments to manage the foreign exchange and interest rate risk associated with its borrowings, as well as to manage the foreign exchange risk associated with the operations of the Spark New Zealand Group.

Spark Finance recorded net earnings for the six months ended 31 December 2014 of \$126 million compared to a net loss of \$43 million for the six months ended 31 December 2013. Spark Finance's earnings can be volatile due to its 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 six months ended 31 December 2014 was \$56 million, compared to a net loss of \$203 million for the six months ended 31 December 2013.

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 can be found at [investors.sparknz.co.nz](http://investors.sparknz.co.nz).

On behalf of the Board



John van Woerkom  
DIRECTOR



Mark Laing  
DIRECTOR

25 February 2015

## Directors' report

For the six months ended 31 December 2014

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### 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 condensed financial statements for the period ended 31 December 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

25 February 2015

## Condensed Interim Income Statement

For the six months ended 31 December 2014

	Notes	Six months ended 31 December	
		2014 Unaudited \$m	2013 Unaudited \$m
Finance income	2	422	403
Finance expense	2	(169)	(181)
<b>Net finance income</b>		<b>253</b>	<b>222</b>
Other income and gains	3	-	1
Other expenses	3	(57)	(203)
<b>Net earnings before income tax</b>		<b>196</b>	<b>20</b>
Income tax expense		(70)	(63)
<b>Net earnings/(loss) for the period</b>		<b>126</b>	<b>(43)</b>

## Condensed Interim Statement of Comprehensive Income

For the six months ended 31 December 2014

	Six months ended 31 December	
	2014 Unaudited \$m	2013 Unaudited \$m
Net earnings/(loss) for the period	126	(43)
Other comprehensive income/(loss) <sup>1</sup> :		
Cash flow hedges	(10)	6
Income tax relating to components of other comprehensive income/(loss)	3	(1)
Other comprehensive (loss)/income for the period, net of tax	(7)	5
<b>Total comprehensive income/(loss) for the period</b>	<b>119</b>	<b>(38)</b>

<sup>1</sup> All of these items may be reclassified to profit or loss.

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

## Condensed Interim Statement of Changes in Equity

For the six months ended 31 December 2014

Unaudited	Contributed capital	Contributed capital	Retained earnings	Hedging reserve	Total equity
	Number (m)	\$m	\$m	\$m	\$m
<b>Balance as at 1 July 2014</b>	<b>883</b>	<b>883</b>	<b>780</b>	<b>-</b>	<b>1,663</b>
Net earnings for the period	-	-	126	-	126
Other comprehensive loss for the period	-	-	-	(7)	(7)
Total comprehensive income/(loss)	-	-	126	(7)	119
<b>Balance as at 31 December 2014</b>	<b>883</b>	<b>883</b>	<b>906</b>	<b>(7)</b>	<b>1,782</b>

Unaudited	Contributed capital	Contributed capital	Retained earnings	Hedging reserve	Total equity
	Number (m)	\$m	\$m	\$m	\$m
<b>Balance as at 1 July 2013</b>	<b>883</b>	<b>883</b>	<b>682</b>	<b>(2)</b>	<b>1,563</b>
Net loss for the period	-	-	(43)	-	(43)
Other comprehensive income for the period	-	-	-	5	5
Total comprehensive (loss)/income	-	-	(43)	5	(38)
<b>Balance as at 31 December 2013</b>	<b>883</b>	<b>883</b>	<b>639</b>	<b>3</b>	<b>1,525</b>

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

## Condensed Interim Statement of Financial Position

As at 31 December 2014

		31 December 2014 Unaudited \$m	30 June 2014 Audited \$m
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash		7	150
Prepayments		1	1
Due from other Spark New Zealand Group companies		5,458	5,075
Short-term derivative assets		4	3
<b>Total current assets</b>		<b>5,470</b>	<b>5,229</b>
<b>Non-current assets:</b>			
Due from other Spark New Zealand Group companies		5,033	5,228
Deferred tax asset		2	-
Long-term derivative assets		17	22
Investments		540	540
<b>Total non-current assets</b>		<b>5,592</b>	<b>5,790</b>
<b>Total assets</b>		<b>11,062</b>	<b>11,019</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Income tax payable		198	127
Due to other Spark New Zealand Group companies		8,141	8,504
Short-term derivative liabilities		5	3
Debt due within one year	4	320	113
Accrued interest		5	6
<b>Total current liabilities</b>		<b>8,669</b>	<b>8,753</b>
<b>Non-current liabilities:</b>			
Long-term derivative liabilities		31	26
Long-term debt	4	580	577
<b>Total non-current liabilities</b>		<b>611</b>	<b>603</b>
<b>Total liabilities</b>		<b>9,280</b>	<b>9,356</b>
<b>Equity:</b>			
Share capital		883	883
Reserves		(7)	-
Retained earnings		906	780
<b>Total equity</b>		<b>1,782</b>	<b>1,663</b>
<b>Total liabilities and equity</b>		<b>11,062</b>	<b>11,019</b>

On behalf of the Board of Spark Finance Limited



**John van Woerkom**

Director

Authorised for issue on 25 February 2015



**Mark Laing**

Director

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

## Condensed Interim Statement of Cash Flow

For the six months ended 31 December 2014

	Note	Six months ended 31 December	
		2014 Unaudited \$m	2013 Unaudited \$m
<b>Cash flows from operating activities</b>			
Interest income		422	403
Interest paid on debt		(167)	(179)
<b>Net cash flows from operating activities</b>	<b>5</b>	<b>255</b>	<b>224</b>
<b>Cash flows from investing activities</b>			
Net advances to other Spark New Zealand Group companies		(604)	(472)
Receipts from settlement of forward exchange contracts		-	2
Payments on settlement of forward exchange contracts		-	-
<b>Net cash flows applied to investing activities</b>		<b>(604)</b>	<b>(470)</b>
<b>Cash flows from financing activities</b>			
Proceeds from long-term debt		300	390
Repayment of long-term debt		(235)	(253)
Proceeds from short-term debt		460	565
Repayment of short-term debt		(319)	(466)
<b>Net cash flows from/(applied to) financing activities</b>		<b>206</b>	<b>236</b>
Net cash flow		(143)	(10)
Net cash at beginning of period		150	(2)
Foreign exchange movement		-	-
<b>Net cash position at end of period</b>		<b>7</b>	<b>(12)</b>

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

## **Note 1 Financial statements**

Spark Finance is a profit-oriented company registered in New Zealand under the Companies Act 1993. These financial statements have been prepared in accordance with the Financial Markets Conduct Act 2013. The principal activity of Spark Finance is that of a finance company for the Spark New Zealand Group. In these accounts the term 'fellow subsidiaries' is used to describe other subsidiaries of Spark New Zealand.

The condensed financial statements for the six months ended 31 December 2014 and 31 December 2013 are unaudited. The financial information for the year ended 30 June 2014 has been extracted from the audited financial statements of Spark Finance.

### *Basis of preparation*

These condensed financial statements of Spark Finance have been prepared in accordance with the New Zealand equivalent to International Accounting Standard ('NZ IAS') No. 34: 'Interim Financial Reporting', and Generally Accepted Accounting Practice in New Zealand ('NZ GAAP') issued by the External Reporting Board.

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 30 June 2014, a copy of which is available at [investors.sparknz.co.nz](http://investors.sparknz.co.nz). The preparation of the condensed interim financial statements also requires management to make judgements, estimates and assumptions. The Company has been consistent in applying the judgements, estimates and assumptions adopted in the annual financial statements for the year ended 30 June 2014. Critical accounting policies are the same as those set out in the annual financial statements for the year ended 30 June 2014.

The presentation currency of these condensed interim financial statements is New Zealand dollars, which is also the Company's functional currency. All financial information has been rounded to the nearest million, unless otherwise stated.

The principal risks and uncertainties for Spark Finance relate to ongoing interest rate and foreign exchange rate movements; credit risk relating to external counterparties and for amounts due from other Spark New Zealand Group companies; and equity risk for amounts invested.

All accounting policies have been applied on a consistent basis.



**Note 2 Finance income and expense**

	Six months ended 31 December	
	2014 Unaudited \$m	2013 Unaudited \$m
Finance income:		
Interest income on loans to other Spark New Zealand Group companies	421	403
Interest income from deposits	1	-
<b>Total finance income</b>	<b>422</b>	<b>403</b>
Finance expense:		
Finance expense on long-term debt:		
- European Medium Term Notes	3	3
- TeleBonds	9	9
- Domestic Notes	7	7
- Bank Funding	4	8
Interest expense on loans from other Spark New Zealand Group companies	141	149
Other interest and finance expense	5	5
<b>Total finance expense</b>	<b>169</b>	<b>181</b>

**Note 3 Other income and expenses**

	Six months ended 31 December	
	2014 Unaudited \$m	2013 Unaudited \$m
Other income:		
Revaluation of derivatives	-	1
<b>Total other income</b>	<b>-</b>	<b>1</b>
Other expenses:		
Net foreign exchange losses	56	203
Revaluation of derivatives	1	-
<b>Total other expenses</b>	<b>57</b>	<b>203</b>

Administration costs, including audit fees for the period of \$10,691 (31 December 2013: \$13,950, 30 June 2014: \$21,383) 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 or any related party in respect of services provided by the directors to Spark Finance.

**Note 4 Short-term and long-term debt**

Spark Finance continues to have short-term financing programmes in place: a NZ\$500 million Note Facility of which NZ\$140 million of notes have been issued at 31 December 2014 (30 June 2014: NZ\$40 million); and a US\$1 billion European Commercial Paper Programme, which is undrawn at 31 December 2014 (30 June 2014: same). In addition to these short-term financing programmes, Spark Finance has a committed stand-by facility of NZ\$300 million (30 June 2014: NZ\$300 million) which is undrawn at 31 December 2014, a NZ\$300 million revolving credit facility agreement with Westpac New Zealand Limited of which NZ\$65 million has been drawn down as at 31 December 2014 (30 June 2014: nil) and a NZ\$100 million revolving credit facility agreement with the Bank of Tokyo Mitsubishi, UFJ Limited of which NZ\$100 million has been drawn down as at 31 December 2014 (30 June 2014: NZ\$100 million).

	<b>31 December 2014 Unaudited \$m</b>	<b>30 June 2014 Audited \$m</b>
European Medium Term Notes	80	78
TeleBonds	223	223
Domestic Notes	250	250
Bank funding	165	100
Short-term debt	183	40
Unamortised discount	(1)	(1)
<b>Total Debt</b>	<b>900</b>	<b>690</b>
Debt due within one year	320	113
Debt due greater than one year	580	577
<b>Total Debt</b>	<b>900</b>	<b>690</b>

**Note 5 Reconciliation of net earnings to net cash flows from operating activities**

	<b>Six months ended 31 December</b>	
	<b>2014 Unaudited \$m</b>	<b>2013 Unaudited \$m</b>
Net earnings/(loss)	126	(43)
<i>Adjustments to reconcile net earnings to net cash flows from operating activities</i>		
Amortisation of discount	2	1
Foreign exchange loss	56	203
Revaluation of derivatives	1	(1)
<i>Changes in assets and liabilities net of effects of non-cash and investing and financing activities</i>		
Increase in interest payable	-	1
Increase in current tax payable	70	63
Decrease in accounts payable	-	-
<b>Net cash flows from operating activities</b>	<b>255</b>	<b>224</b>

**Note 6 Net tangible assets per security**

	<b>31 December 2014 Unaudited \$</b>	<b>30 June 2014 Audited \$</b>
Net tangible assets per security	2.02	1.88

## Note 7 Financial instruments

Spark Finance has carried out a fair assessment of its financial assets and liabilities for 31 December 2014 in accordance with NZ IFRS 13 Fair Value Measurement.

### *Fair value of financial instruments*

Under NZ IFRS financial instruments are either carried at cost or 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 Financial Instruments Disclosures:

- 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 (ie, as prices) or indirectly (ie, 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 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>31 December 2014</b>				
<b>Financial Assets</b>				
Short-term derivative assets	-	4	-	4
Long-term derivative assets	-	17	-	17
	-	<b>21</b>	-	<b>21</b>
<b>Financial Liabilities</b>				
Short-term derivative liabilities	-	(5)	-	(5)
Long-term derivative liabilities	-	(31)	-	(31)
	-	<b>(36)</b>	-	<b>(36)</b>

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

There were no transfers between categories in the period.

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

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

Fair values are estimated on the basis of the quoted market prices of these instruments. If a listed market price is unavailable, then fair value is estimated by using a valuation model involving discounted future cash flows of the derivative, using the applicable forward price curve (for the relevant interest rate or foreign exchange rate) and discount rate. The fair value is adjusted for the credit component within the instruments.

*Registered office*

The registered office of Spark Finance is:

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Auckland 1010  
New Zealand

*Inquiries*

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

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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](mailto:investor-info@sparknz.co.nz) or addressed to:

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