



Spark Finance Limited

# Annual Report

For the year ended 30 June 2017

# Directors' report

For the year ended 30 June 2017

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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 2017 of \$158 million compared to \$217 million for the year ended 30 June 2016. 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 2017 was nil (30 June 2016: \$1 million loss).

Due to the strategic direction of Spark New Zealand Group and scaling back of its Australian operations, it was unlikely that an Australian subsidiary would have been able to adequately service its intercompany loan balance with Spark Finance. As a result, during the year ended 30 June 2017, the subsidiary was offered immediate relief, by way of full and final forgiveness of the outstanding \$21 million loan balance.

The net assets of Spark Finance as at 30 June 2017 were \$1,527 million compared to \$1,819 million as at 30 June 2016. The share capital of Spark Finance is \$883 million (30 June 2016: \$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 2017 (30 June 2016: nil).

During the year ended 30 June 2017 Spark Finance paid a dividend of \$460 million to Spark New Zealand Limited via an intercompany advance through a current account (30 June 2016: \$430 million).

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

Spark Finance solely lends to other companies within the Spark New Zealand Group and, accordingly, its financial performance should be considered in conjunction with the financial performance of the Spark New Zealand Group. A copy of the Spark New Zealand Group's results for the year ended 30 June 2017 can be found at [investors.sparknz.co.nz](http://investors.sparknz.co.nz).

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

On behalf of the Board



David Chalmers  
DIRECTOR



Matthew Sheppard  
DIRECTOR

23 August 2017

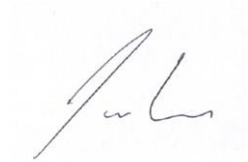
## Directors' report

For the year ended 30 June 2017

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

We, David Chalmers and Matthew Sheppard, both directors of Spark Finance Limited (herein after the 'Issuer') hereby declare that, to the best of our knowledge, the financial statements for the year ended 30 June 2017, 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.



David Chalmers  
DIRECTOR



Matthew Sheppard  
DIRECTOR

23 August 2017

## Other information

For the year ended 30 June 2017

### Directors

The Directors of Spark Finance as at 30 June 2017 were:

Melissa Anastasiou  
David Chalmers  
Matthew Sheppard  
Dean Werder

David Chalmers was appointed as a Director of the Company on 17 October 2016. Mr Chalmers disclosed, pursuant to section 140 of the Companies Act 1993, an interest as a trustee of the Time and Tide Watches Unit during FY17.

Jolie Hodson resigned as a Director of the Company on 17 October 2016.

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 2017		As at 30 June 2016	
	Male	Female	Male	Female
Number of Directors	3	1	2	2
Percentage of Directors	75%	25%	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 2017, 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 2017.

### 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 Environment, Social and Governance Report 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 2017 are as follows:

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

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<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 2017

### Spread of security holders

As at 30 June 2017, Spark Finance had no 'quoted voting products' for the purposes of the Financial Markets Conduct Act 2013. The spread of holders of quoted Spark Finance Domestic Notes as at 31 July 2017 was as follows:

NZX ticker code: SPF560

Range	Number of holders	% of holders	Number of bonds	% of bonds
1-1,000	-	-	-	-
1,001-5,000	24	4.69	120,000	0.12
5,001-10,000	103	20.12	977,000	0.98
10,001-50,000	294	57.42	7,708,000	7.71
50,001-100,000	48	9.38	3,815,000	3.82
100,001 and over	43	8.40	87,380,000	87.38
Total	512	100.00	100,000,000	100.00

NZX ticker code: SPF570

Range	Number of holders	% of holders	Number of bonds	% of bonds
1-1,000	-	-	-	-
1,001-5,000	5	3.52	25,000	0.02
5,001-10,000	34	23.94	326,000	0.26
10,001-50,000	81	57.04	2,175,000	1.74
50,001-100,000	12	8.45	930,000	0.74
100,001 and over	10	7.04	121,544,000	97.24
Total	142	100.00	125,000,000	100.00

During the year ended 30 June 2017, NZX granted Spark Finance a waiver from the spread requirements of Listing Rule 5.2.3 in respect of its \$125,000,000 fixed rate bonds issued on 7 September 2016 (NZX ticker code: SPF570) for the period to 28 February 2017.

### Other statutory information

As at 30 June 2017 Spark Finance had no employees (30 June 2016: nil). Spark Finance made no charitable donations during the year ended 30 June 2017. Net tangible assets per security as at 30 June 2017 were \$1.73 (30 June 2016: \$2.06). Net earnings per security for the year ended 30 June 2017 were \$0.179 (30 June 2016: \$0.246).

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

For the years ended 30 June 2017 and 2016

Year ended 30 June	Notes	2017 \$m	2016 \$m
Finance income	2	560	661
Finance expense	2	(314)	(361)
<b>Net finance income</b>		<b>246</b>	<b>300</b>
Other income	3	2	2
Other expenses	3	(21)	(1)
<b>Net earnings before income tax</b>		<b>227</b>	<b>301</b>
Income tax expense	4	(69)	(84)
<b>Net earnings for the year</b>		<b>158</b>	<b>217</b>

**Statement of Comprehensive Income**

For the years ended 30 June 2017 and 2016

Year ended 30 June	Notes	2017 \$m	2016 \$m
Net earnings for the year		158	217
Other comprehensive income/(loss) <sup>1</sup>			
Items that may be reclassified into profit or loss:			
Cash flow hedges	6	10	(19)
Other comprehensive income/(loss) for the year		10	(19)
<b>Total comprehensive income for the year</b>		<b>168</b>	<b>198</b>

The accompanying notes form 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 2017 and 2016*

	Contributed capital	Retained earnings	Hedge reserve	Total equity
	\$m	\$m	\$m	\$m
<b>Balance as at 1 July 2016</b>	<b>883</b>	<b>963</b>	<b>(27)</b>	<b>1,819</b>
Net earnings for the year	-	158	-	158
Other comprehensive income for the year	-	-	10	10
Total comprehensive income for the year	-	158	10	168
Dividend paid	-	(460)	-	(460)
<b>Balance as at 30 June 2017</b>	<b>883</b>	<b>661</b>	<b>(17)</b>	<b>1,527</b>

	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>

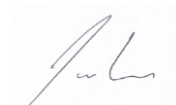
*The accompanying notes form part of and are to be read in conjunction with these financial statements.*

**Statement of Financial Position**

As at 30 June 2017 and 2016

As at 30 June	Notes	2017 \$m	2016 \$m
<b>ASSETS</b>			
<b>Current assets:</b>			
Due from other Spark New Zealand Group companies	5	2,280	4,387
Short-term derivative assets	6	28	5
<b>Total current assets</b>		<b>2,308</b>	<b>4,392</b>
<b>Non-current assets:</b>			
Due from other Spark New Zealand Group companies	5	4,446	2,872
Deferred tax assets	4	6	10
Long-term derivative assets	6	8	31
Investment in fellow subsidiary	7	540	540
<b>Total non-current assets</b>		<b>5,000</b>	<b>3,453</b>
<b>Total assets</b>		<b>7,308</b>	<b>7,845</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Bank overdraft		2	5
Income tax payable		69	84
Due to other Spark New Zealand Group companies	8	4,644	4,984
Short-term derivative liabilities	6	30	5
Debt due within one year	9	295	190
Accrued interest		4	4
<b>Total current liabilities</b>		<b>5,044</b>	<b>5,272</b>
<b>Non-current liabilities:</b>			
Long-term derivative liabilities	6	45	69
Long-term debt	9	692	685
<b>Total non-current liabilities</b>		<b>737</b>	<b>754</b>
<b>Total liabilities</b>		<b>5,781</b>	<b>6,026</b>
<b>Equity:</b>			
Share capital		883	883
Hedge reserve		(17)	(27)
Retained earnings		661	963
<b>Total equity</b>		<b>1,527</b>	<b>1,819</b>
<b>Total liabilities and equity</b>		<b>7,308</b>	<b>7,845</b>

On behalf of the Board of Spark Finance Limited



**David Chalmers**  
DIRECTOR



**Matthew Sheppard**  
DIRECTOR

Authorised for issue on 23 August 2017

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 2017 and 2016

Year ended 30 June	2017 \$m	2016 \$m
<b>Cash flows from operating activities</b>		
Interest receipts	561	661
Interest payments	(309)	(358)
Net cash flows from operating activities	252	303
<b>Cash flows from investing activities</b>		
Net advances to other Spark New Zealand Group companies	(377)	(541)
Net cash flows from investing activities	(377)	(541)
<b>Cash flows from financing activities</b>		
Proceeds from long-term debt	900	730
Repayment of long-term debt	(825)	(640)
Proceeds from short-term debt	699	548
Repayment of short-term debt	(646)	(449)
Net cash flows from financing activities	128	189
<b>Net cash flow</b>	<b>3</b>	<b>(49)</b>
Opening cash position	(5)	44
<b>Closing cash position</b>	<b>(2)</b>	<b>(5)</b>

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

Year ended 30 June	2017 \$m	2016 \$m
Net earnings	158	217
<i>Adjustments to reconcile net earnings to net cash flows from operating activities</i>		
Amortisation of discount	4	2
Foreign exchange loss/(gain)	-	1
Revaluation of long-term debt in fair value hedge	(14)	9
Revaluation of derivatives in a fair value hedge	14	(8)
Revaluation of other derivatives	(2)	(2)
Fellow subsidiary debt forgiveness	21	-
Other	2	2
<i>Changes in assets and liabilities net of effects of non-cash and investing and financing activities</i>		
Current taxation	69	84
Decrease in accrued interest	-	(2)
<b>Net cash flows from operating activities</b>	<b>252</b>	<b>303</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)**

NZ IFRS 9 *Financial Instruments* (2014) (NZ IFRS 9), 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*. NZ IFRS 9 would be required to be adopted by Spark Finance from the year ending 30 June 2019, however, we have elected to early adopt the remainder of NZ IFRS 9 in the year ending 30 June 2018.

The new standard includes three areas of change:

1. Classification and measurement of financial instruments; and
2. Substantially reformed approach to hedge accounting.

#### *1. Classification of financial instruments*

Spark Finance early adopted Part 1 of NZ IFRS 9 (2009) *Financial Instruments* from the year ended 30 June 2010 and the adoption of the final NZ IFRS 9 standard will not require any changes to Spark Finance's current classification and measurement of its financial assets. The classification and measurement of financial liabilities under NZ IFRS 9 remains the same as in NZ IAS 39, except where we have chosen to measure a financial liability at fair value through profit or loss. For Spark Finance, this will include derivative financial liabilities and movements in fair value related to changes in own credit risk will be required to be presented separately in other comprehensive income. This is not expected to be material.

**Note 1 Statement of accounting policies (continued)****2. Hedge accounting**

NZ IFRS 9 will require hedge accounting relationships to align with Spark Finance's risk management objectives and strategy and includes a more qualitative and forward-looking approach to assessing hedge effectiveness. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component (other than foreign currency risk) of a non-financial item, will be likely to qualify for hedge accounting.

Spark Finance's preliminary assessment indicated that the types of transactions included in hedge accounting relationships that Spark Finance currently designates will be expanded based on the concept of aggregated exposures in NZ IFRS 9, which will allow more transactions to be designated in new hedge relationships.

**Note 2 Finance income and expense**

Year ended 30 June	2017 \$m	2016 \$m
Finance income:		
Interest income on loans to other Spark New Zealand Group companies	559	659
Interest income from cash	1	2
<b>Total finance income</b>	<b>560</b>	<b>661</b>
Finance expense:		
Finance expense on long-term debt <sup>1</sup> :		
- Euro Medium Term Notes ('EMTN')	6	6
- TeleBonds	-	8
- Domestic notes	23	20
- Bank funding	7	6
Interest expense on loans from other Spark New Zealand Group companies	268	314
Other interest and finance expense	10	7
<b>Total finance expense</b>	<b>314</b>	<b>361</b>

<sup>1</sup> Includes \$4 million reclassified from the cash flow hedge reserve for the year ended 30 June 2017 (30 June 2016: \$4 million).

**Note 3 Other income and expenses**

Year ended 30 June	2017 \$m	2016 \$m
Other income:		
Revaluation of derivatives	2	2
<b>Total other income</b>	<b>2</b>	<b>2</b>
Other expenses:		
Net realised and unrealised foreign exchange losses	-	1
Fellow subsidiary debt forgiveness	21	-
<b>Total other expenses</b>	<b>21</b>	<b>1</b>

Audit fees of \$21,000 for the year (30 June 2016: \$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 2016: nil). The Directors of Spark Finance receive remuneration (but no Directors' fees) from a fellow subsidiary company.

#### Note 4 Taxation

##### Income tax expense

Year ended 30 June	2017 \$m	2016 \$m
Current tax expense	69	84
<i>Reconciliation of income tax expense:</i>		
Net earnings before income tax	227	301
Tax at 28%	64	84
<i>Adjustments to taxation:</i>		
Fellow subsidiary debt forgiveness	5	-
<b>Income tax expense</b>	<b>69</b>	<b>84</b>

##### Deferred tax assets and liabilities

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

As at 30 June	2017 \$m	2016 \$m
Balance at beginning of the year	10	4
<i>Amounts recognised in earnings:</i>		
Relating to current period	(1)	(2)
<i>Amounts recognised in equity:</i>		
Relating to current period	(3)	8
<b>Balance at end of the year</b>	<b>6</b>	<b>10</b>

Spark Finance has elected to be a member of the Spark New Zealand Imputation Group. As at 30 June 2017, the Spark New Zealand Imputation Group has a debit (negative) imputation credit account balance of \$47 million (30 June 2016: \$6 million negative balance). The imputation credit account balance had a positive balance as at 31 March 2017.

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

As at 30 June	2017 \$m	2016 \$m
Current assets:		
Advances to Spark New Zealand Limited	2,109	3,871
Advances to fellow subsidiaries	171	516
	<b>2,280</b>	<b>4,387</b>
Non-current assets:		
Advances to Spark New Zealand Limited	2,530	899
Advances to fellow subsidiaries	1,916	1,973
	<b>4,446</b>	<b>2,872</b>
<b>Total due from other Spark New Zealand Group companies</b>	<b>6,726</b>	<b>7,259</b>

Current amounts due from Spark New Zealand Limited and fellow subsidiary companies have interest rates of between 2.3% and 8.0% (30 June 2016: between 2.8% and 8.0%). 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 9.0% (30 June 2016: 5.6% and 8.0%). These advances can be redeemed at book value at the option of either party. For the purposes of classification between current and non-current assets in the statement of financial position these items have been allocated based upon expected realisation. An item is classified as current when it is expected to be realised within twelve months after the reporting period.

## Note 6 Derivative assets and liabilities

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.

The fair values of derivatives are as follows:

As at 30 June	2017		2016	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
	\$m	\$m	\$m	\$m
Forward exchange contracts – cash flow hedges	5	(5)	5	(5)
Interest rate swaps – cash flow hedges	3	(22)	-	(33)
Interest rate swaps – fair value hedges	3	(9)	8	-
Interest rate swaps – held for trading	2	(5)	4	(9)
Cross-currency interest rate swaps – cash flow hedges	-	(34)	-	(27)
Cross-currency interest rate swaps – held for trading	23	-	19	-
	36	(75)	36	(74)
Short-term derivatives	28	(30)	5	(5)
Long-term derivatives	8	(45)	31	(69)

As at 30 June 2017 and 30 June 2016 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 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 2016: nil).

Reconciliation of movements in the hedge reserve are as follows:

Year ended 30 June	2017			2016		
	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>			(27)			(8)
Gain/(loss) recognised in other comprehensive income	10	(3)	7	(31)	9	(22)
Amount reclassified to finance expense	4	(1)	3	4	(1)	3
<b>Total comprehensive movements to other income/(loss)</b>	<b>14</b>	<b>(4)</b>	<b>10</b>	<b>(27)</b>	<b>8</b>	<b>(19)</b>
<b>Balance at the end of the year</b>			<b>(17)</b>			<b>(27)</b>

## Note 6 Derivative assets and liabilities (continued)

### Fair value hedges

As at 30 June 2017 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.

During the year ended 30 June 2017 the Group recognised a \$14 million loss on fair value hedges and a \$14 million gain on hedged exposures (30 June 2016: \$9 million gain on fair value hedges and a \$9 million loss on hedged exposures) and there has been no material ineffectiveness on fair value hedging relationships.

## Note 7 Investment in fellow subsidiary

As at 30 June	2017 \$m	2016 \$m
Redeemable shares held in fellow subsidiary	540	540
	<b>540</b>	<b>540</b>

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

The fair value of Spark Finance's investment is difficult to value as there is no active market price. The range of fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed and therefore Spark Finance is precluded from measuring its investment at fair value. Given the lack of 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	2017 \$m	2016 \$m
Due to fellow subsidiary companies	4,644	4,984
	<b>4,644</b>	<b>4,984</b>

Current amounts due to fellow subsidiary companies have interest rates of between 1.6% and 6% (30 June 2016: 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

As at 30 June				2017 \$m	2016 \$m
Face value	Facility	Coupon rate	Maturity		
Short-term debt					
Commercial Paper		Variable	<4 months	149	100
Short-term borrowings		Variable	<1 month	6	-
				<b>155</b>	<b>100</b>
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	90	50
				<b>190</b>	<b>240</b>
Domestic notes					
250 million NZD		5.25%	25/10/2019	250	250
100 million NZD		4.50%	25/03/2022	102	103
100 million NZD		4.51%	10/03/2023	102	106
125 million NZD		3.94%	07/09/2026	116	-
				<b>570</b>	<b>459</b>
Euro Medium Term Notes					
22 million GBP		5.63%	14/05/2018	40	42
18 million GBP		5.75%	06/04/2020	32	34
				<b>72</b>	<b>76</b>
				<b>987</b>	<b>875</b>
Debt due within one year				295	190
Long-term debt				692	685

## **Note 9 Debt (continued)**

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.

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 2017 and 30 June 2016.

As at 30 June 2017, 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 \$862 million compared to a carrying value of \$832 million (30 June 2016: fair value of \$804 million compared to a carrying value of \$775 million).

## **Note 10 Equity and dividends**

### *Contributed capital*

As at 30 June 2017 contributed capital consisted of 882,872,600 (30 June 2016: 882,872,600) issued and fully paid shares, of which 342,872,600 (30 June 2016: 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 2016: 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 2017 Spark Finance paid a dividend of \$460 million to Spark New Zealand Limited (30 June 2016: \$430 million).

## **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.

### *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.

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

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 2017</b>				
<b>Exposures</b>				
Long-term debt	-	-	(71)	(71)
Due from other Spark New Zealand Group companies	-	3	-	3
<b>Total exposure from non-derivative financial instruments</b>	<b>-</b>	<b>3</b>	<b>(71)</b>	<b>(68)</b>
<b>Hedging instruments</b>				
Foreign exchange contracts	-	(3)	-	(3)
NZD cross-currency interest rate swaps	-	-	71	71
<b>Total exposure from hedging instruments</b>	<b>-</b>	<b>(3)</b>	<b>71</b>	<b>68</b>
<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>

As at 30 June 2017 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 2016: immaterial).

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

Year ended 30 June	2017		2016	
	Recognised in the income statement \$m	Recognised in equity \$m	Recognised in the income statement \$m	Recognised in equity \$m
Foreign exchange was recognised on the following financial instruments gain/(loss):				
Forward exchange contracts	-	-	2	-
Due to other Spark New Zealand Group companies	-	-	(3)	-
	-	-	(1)	-

### 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.



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

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 2017 a movement of 100 basis points would impact Spark Finance's income statement and statement of changes in equity (after hedging) by less than \$33 million (30 June 2016: \$24 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 2017 no collateral was posted (30 June 2016: nil). In the event of a downgrade of the Spark New Zealand's credit rating to BBB+ (Standard & Poor's) USD\$15.1 million would be required to be posted (30 June 2016: US\$ 9.0 million).

The Company has exposure to credit risk from balances owed by Spark New Zealand Group companies. The maximum exposure at 30 June 2017 is \$6,726 million (30 June 2016: \$7,259 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.

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

- A \$500 million Note Facility with \$150 million drawn as at 30 June 2017 (30 June 2016: \$500 million facility, \$100 million drawn);
- An undrawn committed standby facility of \$200 million (30 June 2016: \$200 million) with a number of creditworthy banks;
- Committed bank facilities of \$325 million with \$190 million drawn as at 30 June 2017 (30 June 2016: \$300 million facility with \$240 million drawn); and
- Committed bank overdraft facilities of \$15 million with New Zealand banks (30 June 2016: \$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 \$300 million. As at 30 June 2017 Spark New Zealand management considered that it was in compliance with its Policy as reported to Spark New Zealand Limited's Board of Directors.

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

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

	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
<b>As at 30 June 2017</b>							
<b>Non-derivative financial liabilities</b>							
Bank overdraft	(2)	(2)	(2)	-	-	-	-
Due to other Spark New Zealand Group companies	(4,644)	(4,644)	(4,644)	-	-	-	-
Short and Long-term debt	(987)	(1,127)	(170)	(158)	(119)	(431)	(249)
	<b>(5,633)</b>	<b>(5,773)</b>	<b>(4,816)</b>	<b>(158)</b>	<b>(119)</b>	<b>(431)</b>	<b>(249)</b>
<b>Derivative financial liabilities</b>							
Interest rate swaps - (net settled)	(36)	(42)	(3)	(3)	(4)	(19)	(13)
Cross-currency interest rate swaps - (gross settled)							
Inflows		79	-	44	2	33	-
Outflows	(34)	(118)	(2)	(66)	(2)	(48)	-
Forward exchange contracts - (gross settled)							
Inflows		138	125	13	-	-	-
Outflows	(5)	(144)	(130)	(14)	-	-	-
	<b>(75)</b>	<b>(87)</b>	<b>(10)</b>	<b>(26)</b>	<b>(4)</b>	<b>(34)</b>	<b>(13)</b>
	<b>(5,708)</b>	<b>(5,860)</b>	<b>(4,826)</b>	<b>(184)</b>	<b>(123)</b>	<b>(465)</b>	<b>(262)</b>
<b>As at 30 June 2016</b>							
<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>

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 granted an indemnity in relation to a performance bank guarantee of \$27 million for a fellow subsidiary company (30 June 2016: \$25 million). As at 30 June 2017 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.

**Note 12 Related party transactions (continued)**

The notional principal or contract amounts outstanding are as follows:

<b>As at 30 June</b>	<b>2017</b>	<b>2016</b>
	<b>\$m</b>	<b>\$m</b>
Cross-currency interest rate swaps	64	64
Forward exchange contracts	143	112

**Note 13 Fellow subsidiary companies**

At 30 June 2017 the significant fellow subsidiaries of Spark Finance were as follows:

	COUNTRY	OWNERSHIP	PRINCIPAL ACTIVITY
Computer Concepts Limited	New Zealand	100%	IT infrastructure and business cloud services
Connect 8 Limited	New Zealand	100%	Fibre network construction
Gen-i Australia Pty Limited	Australia	100%	Provides outsourced telecommunications services
Lightbox New Zealand Limited	New Zealand	100%	Subscription video-on-demand service
Qrious Limited	New Zealand	100%	Big data analytics business
Revera Limited	New Zealand	100%	IT infrastructure and data centre provider
Spark Retail Holdings Limited	New Zealand	100%	Retailer of telecommunications products and services
Spark New Zealand Trading Limited	New Zealand	100%	Provides local, national and international telephone and data services
TCNZ (Bermuda) Limited	Bermuda	100%	A holding company
Teleco Insurance Limited	Bermuda	100%	A Group insurance company
Telecom New Zealand USA Limited	United States	100%	Provides international wholesale telecommunications services
Telecom Southern Cross Limited	New Zealand	100%	A holding company

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 2016: nil).

**Note 15 Subsequent events after balance date**

On 23 August 2017 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**

Link Market Services Limited  
Level 11 Deloitte Centre  
PO Box 91976  
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Ph +64 9 375 5998 (investor enquiries) or + 64 9 375 5999  
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*For more information*

For inquiries about Spark Finance or Spark New Zealand's operating and financial performance contact:

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Spark New Zealand Limited  
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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

## Report on the financial statements

### Opinion

In our opinion, the accompanying financial statements of Spark Finance Limited (the company) on pages 5 to 18:

- i. Present fairly in all material respects the company's financial position as at 30 June 2017 and its financial performance and cash flows for the year ended on that date; and
- ii. Comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

### We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2017;
- the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



### Basis for opinion

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

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

Our responsibilities under ISA (NZ) are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report.

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



### Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$36.5 million determined with reference to a benchmark of total assets. We chose the benchmark because, in our view, this is a key measure of the company's performance.





## Key Audit Matters

Key audit matters are those matters that, in our professional judgement require significant auditor attention because of the judgement involved. We consider there were no key audit matters arising in the current period.



## Other Information

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

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



## Use of this Audit Report

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



## Responsibilities of Directors for the financial statements

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

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



## Auditor's Responsibilities for the Audit of the financial statements

Our objective is:

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



Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists.

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

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

[https://www.xrb.govt.nz/Site/Auditing\\_Assurance\\_Standards/Current\\_Standards/Page2.aspx](https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page2.aspx)

This description forms part of our Auditor's Report.



## 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.

Malcolm Downes – Partner

For and on behalf of

KPMG  
Auckland

23 August 2017

