



Spark Finance Limited

# Half-year Report

For the six months ended 31 December 2016

## Directors' report

For the six months ended 31 December 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'). Spark Finance is the principal finance company for the Spark New Zealand Group and was incorporated in 1991.

Spark Finance raises debt funding in New Zealand and internationally. The majority of these funds are then advanced to other members of the Spark New Zealand Group 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 2016 of \$94 million compared to net earnings of \$119 million for the six months ended 31 December 2015. On 25 August 2016, Spark Finance paid a dividend of 52.1 cents per share or \$460 million to Spark New Zealand Limited.

During the six months ended 31 December 2016, NZX granted Spark Finance a waiver from the spread requirements of the Listing Rules (Rule 5.2.3) in respect of its \$125,000,000 fixed rate bonds issued on 7 September 2016 (NZX ticker code: SPF570) on the terms and conditions set out in the waiver. The effect of the waiver is that the bonds may not be widely held. Full details of the waiver can be found at <https://nzx.com/companies/SPF/announcements/288138>.

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



David Chalmers  
DIRECTOR



Matthew Sheppard  
DIRECTOR

23 February 2017

## Directors' report

For the six months ended 31 December 2016

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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 period ended 31 December 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.



David Chalmers  
DIRECTOR



Matthew Sheppard  
DIRECTOR

23 February 2017

## Interim Income Statement

For the six months ended 31 December 2016

Six months ended 31 December	Notes	2016 Unaudited \$m	2015 Unaudited \$m
Finance income	2	284	351
Finance expense	2	(153)	(187)
<b>Net finance income</b>		<b>131</b>	<b>164</b>
Other income	3	1	1
Other expenses	3	(1)	-
<b>Net earnings before income tax</b>		<b>131</b>	<b>165</b>
Income tax expense		(37)	(46)
<b>Net earnings for the period</b>		<b>94</b>	<b>119</b>

## Interim Statement of Comprehensive Income

For the six months ended 31 December 2016

Six months ended 31 December	2016 Unaudited \$m	2015 Unaudited \$m
Net earnings for the period	94	119
Other comprehensive income/(loss) that may be reclassified to profit or loss:		
Cash flow hedges	19	(4)
Income tax relating to components of other comprehensive income/(loss)	(5)	1
Other comprehensive income/(loss) for the period, net of tax	14	(3)
<b>Total comprehensive income for the period</b>	<b>108</b>	<b>116</b>

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

## Interim Statement of Changes in Equity

For the six months ended 31 December 2016

Six months ended 31 December 2016 Unaudited	Contributed capital \$m	Retained earnings \$m	Hedge reserve \$m	Total equity \$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 period	-	94	-	94
Other comprehensive income for the period	-	-	14	14
Total comprehensive income	-	94	14	108
Dividend paid	-	(460)	-	(460)
<b>Balance as at 31 December 2016</b>	<b>883</b>	<b>597</b>	<b>(13)</b>	<b>1,467</b>

Six months ended 31 December 2015 Unaudited	Contributed capital \$m	Retained earnings \$m	Hedge reserve \$m	Total equity \$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 period	-	119	-	119
Other comprehensive loss for the period	-	-	(3)	(3)
Total comprehensive income/(loss)	-	119	(3)	116
Dividend paid	-	(430)	-	(430)
<b>Balance as at 31 December 2015</b>	<b>883</b>	<b>865</b>	<b>(11)</b>	<b>1,737</b>

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

# Interim Statement of Financial Position

As at 31 December 2016

	Note	As at 31 December 2016 Unaudited \$m	As at 30 June 2016 Audited \$m
<b>Current assets</b>			
Cash		2	-
Due from other Spark New Zealand Group companies		2,054	4,387
Short-term derivative assets		3	5
<b>Total current assets</b>		<b>2,059</b>	<b>4,392</b>
<b>Non-current assets:</b>			
Due from other Spark New Zealand Group companies		4,495	2,872
Deferred tax asset		5	10
Long-term derivative assets		30	31
Investments in fellow Spark New Zealand Group companies		540	540
<b>Total non-current assets</b>		<b>5,070</b>	<b>3,453</b>
<b>Total assets</b>		<b>7,129</b>	<b>7,845</b>
<b>Current liabilities</b>			
Bank overdraft		-	5
Income tax payable		121	84
Due to other Spark New Zealand Group companies		4,460	4,984
Short-term derivative liabilities		3	5
Debt due within one year	4	199	190
Accrued interest		4	4
<b>Total current liabilities</b>		<b>4,787</b>	<b>5,272</b>
<b>Non-current liabilities</b>			
Long-term derivative liabilities		68	69
Long-term debt	4	807	685
<b>Total non-current liabilities</b>		<b>875</b>	<b>754</b>
<b>Total liabilities</b>		<b>5,662</b>	<b>6,026</b>
<b>Equity</b>			
Share capital		883	883
Reserves		(13)	(27)
Retained earnings		597	963
<b>Total equity</b>		<b>1,467</b>	<b>1,819</b>
<b>Total liabilities and equity</b>		<b>7,129</b>	<b>7,845</b>

On behalf of the Board of Spark Finance Limited



David Chalmers  
DIRECTOR

Authorised for issue on 23 February 2017



Matthew Sheppard  
DIRECTOR

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

## Interim Statement of Cash Flow

For the six months ended 31 December 2016

Six months ended 31 December	2016 Unaudited \$m	2015 Unaudited \$m
<b>Cash flows from operating activities</b>		
Interest receipts	284	351
Interest payments on debt	(152)	(184)
<b>Net cash flows from operating activities</b>	<b>132</b>	<b>167</b>
<b>Cash flows from investing activities</b>		
Net advances to other Spark New Zealand Group companies	(278)	(341)
<b>Net cash flows applied to investing activities</b>	<b>(278)</b>	<b>(341)</b>
<b>Cash flows from financing activities</b>		
Proceeds from long-term debt	595	400
Repayment of long-term debt	(540)	(300)
Proceeds from short-term debt	495	184
Repayment of short-term debt	(397)	(152)
<b>Net cash flows from financing activities</b>	<b>153</b>	<b>132</b>
Net cash flow	7	(42)
Net cash at beginning of period	(5)	44
<b>Net cash position at end of period</b>	<b>2</b>	<b>2</b>

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

Six months ended 31 December	2016 Unaudited \$m	2015 Unaudited \$m
Net earnings for the period	94	119
<i>Adjustments to reconcile net earnings to net cash flows from operating activities</i>		
Amortisation of discount	1	-
Foreign exchange loss	1	-
Revaluation of derivatives	(1)	(1)
Revaluation of long-term debt in fair value hedges	(18)	-
Mark-to-market on derivatives	18	3
<i>Changes in assets and liabilities net of effects of non-cash and investing and financing activities</i>		
Increase in current tax payable	37	46
<b>Net cash flows from operating activities</b>	<b>132</b>	<b>167</b>

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

## Notes to the interim financial statements

### Note 1 Basis of Preparation

These unaudited interim financial statements are for Spark Finance Limited for the six months ended 31 December 2016 and have been prepared in accordance with the New Zealand equivalent to International Accounting Standard 34: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting*.

The Company is incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and is an FMC reporting entity under the Financial Markets Conduct Act 2013.

These interim financial statements do not include all the notes and information normally included in the annual financial statements. Accordingly, they should be read in conjunction with the annual financial statements for the year ended 30 June 2016.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 30 June 2016. The preparation of the 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 2016. Critical accounting policies are the same as those set out in the annual financial statements for the year ended 30 June 2016.

Financial instruments are either carried at amortised cost, less any provision for impairment, or fair value. The only significant variances between instruments held at amortised cost and their fair value relates to long-term debt. There were no changes in valuation techniques during the period. The Company'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 period end date.

The presentation currency of these 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.

### Note 2 Finance income and expense

	2016 Unaudited \$m	2015 Unaudited \$m
<b>Six months ended 31 December</b>		
Finance income:		
Interest income on loans to other Spark New Zealand Group companies	284	350
Interest income from deposits	-	1
<b>Total finance income</b>	<b>284</b>	<b>351</b>
Finance expense:		
Finance expense on long-term debt:		
- European Medium Term Notes	3	3
- TeleBonds	-	5
- Domestic Notes	11	9
- Bank Funding	3	3
Interest expense on loans from other Spark New Zealand Group companies	131	164
Other interest and finance expense	5	3
<b>Total finance expense</b>	<b>153</b>	<b>187</b>

## Notes to the interim financial statements

### Note 3 Other income and expenses

	2016 Unaudited \$m	2015 Unaudited \$m
<b>Six months ended 31 December</b>		
Other income:		
Revaluation of derivatives	1	1
<b>Total other income</b>	<b>1</b>	<b>1</b>
Other expenses:		
Net foreign exchange losses	1	-
<b>Total other expenses</b>	<b>1</b>	<b>-</b>

Administration costs, including audit fees for the period of \$10,500 (31 December 2015: \$10,691, 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 or any related party in respect of services provided by the directors to Spark Finance.

### Note 4 Debt

During the period Spark Finance entered into a \$125 million committed revolving facility with Westpac New Zealand Limited, maturing on 30 November 2020. The facility was undrawn as at 31 December 2016.

Spark Finance issued \$125 million of unsecured, unsubordinated fixed rate bonds ('Bonds') with a coupon rate of 3.94% on 7 September 2016. The Bonds mature on 7 September 2026.

Spark Finance continues to have short-term financing programmes in place: a \$500 million Note Facility, of which \$150 million was drawn at 31 December 2016 (30 June 2016: \$100 million); and a US\$1 billion European Commercial Paper Programme, which was undrawn at 31 December 2016 (30 June 2016: same).

In addition to these short-term financing programmes and the new committed revolving facility outlined above, Spark Finance has a committed stand-by facility of \$200 million (30 June 2016: \$200 million) which was undrawn at 31 December 2016, a \$100 million committed revolving facility with the Bank of Tokyo Mitsubishi, UFJ Limited of which \$100 million was drawn as at 31 December 2016 (30 June 2016: \$100 million) and a \$100 million committed revolving facility with the Bank of New Zealand of which \$70 million was drawn as at 31 December 2016 (30 June 2016: \$50 million).

## Notes to the interim financial statements

### Note 4 Debt (continued)

Face value	Facility	Coupon rate	Maturity	31 December	30 June
				2016	2016
				Unaudited	Audited
				\$m	\$m
<b>Short-term debt</b>					
Commercial Paper		Variable	< 4 months	149	100
Short-term borrowings		Variable	< 1 month	50	-
				<b>199</b>	<b>100</b>
<b>Bank funding</b>					
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	70	50
				<b>170</b>	<b>240</b>
<b>Domestic notes</b>					
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	101	106
125 million NZD		3.94%	07/09/2026	113	-
				<b>566</b>	<b>459</b>
<b>Euro Medium Term Notes</b>					
22 million GBP		5.63%	14/05/2018	40	42
18 million GBP		5.75%	06/04/2020	31	34
				<b>71</b>	<b>76</b>
				<b>1,006</b>	<b>875</b>
Debt due within one year				199	190
Long-term debt				807	685

### Note 5 Net tangible assets per security

As at 31 December	2016	2015		
	Unaudited	Unaudited		
			\$	\$
Net tangible assets per security	1.66	1.97		

### Note 6 Dividend

On 25 August 2016, Spark Finance paid a dividend of 52.1 cents per share or \$460 million to Spark New Zealand Limited which was paid through the intercompany current account.

**Contact details***Registered office*

The registered office of Spark Finance is:

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*Inquiries*

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

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