



Spark Finance Limited

Half-year Report

For the six months ended 31 December 2017

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 2017.

Directors' report

For the six months ended 31 December 2017

Spark Finance Limited ('Spark Finance') 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. These entities are all related parties by virtue of their common control. Spark Finance also enters into derivative financial instruments with these companies to manage the 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. These arrangements are matched with similar derivative financial instruments obtained from the external market. 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.

Spark Finance recorded net earnings for the six months ended 31 December 2017 of \$84 million compared to net earnings of \$94 million for the six months ended 31 December 2016. On 24 August 2017, Spark Finance paid a dividend of 52.1 cents per share or \$460 million to Spark New Zealand Limited.

On 31 August 2017, Spark Finance expanded its available revolving facilities:

- Increased its existing revolving facility with Westpac New Zealand Limited, maturing on 30 November 2020, by \$75 million. The total facility now totals \$200 million; and
- Established a new \$125 million revolving facility with The Bank of Tokyo-Mitsubishi UFJ, Ltd with a maturity date of 30 November 2022.

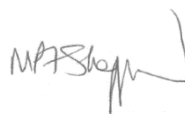
On 20 October 2017, Spark Finance issued A\$150 million fixed rate bonds with an interest rate of 4.00% per annum and a maturity date of 20 October 2027.

The directors of Spark Finance consider it to be in a sound financial position and its results to be satisfactory.

On behalf of the Board



David Chalmers
DIRECTOR



Matthew Sheppard
DIRECTOR

1 March 2018

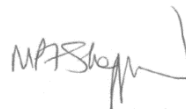
Directors' report
For the six months ended 31 December 2017

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 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 performance 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

1 March 2018

Statement of profit or loss and other comprehensive income

For the six months ended 31 December

	Notes	2017 Unaudited \$m	2016 Unaudited \$m
Finance income	2	272	284
Finance expense	2	(156)	(153)
Net finance income		116	131
Other income	3	1	1
Other expenses	3	-	(1)
Net earnings before income tax		117	131
Income tax expense		(33)	(37)
Net earnings for the period		84	94
Other comprehensive income			
<i>Items that may be reclassified to the profit or loss:</i>			
Cash flow hedges net of tax		(9)	14
Other comprehensive (loss) / income for the period		(9)	14
Total comprehensive income for the period		75	108

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

Statement of changes in equity

Six months ended 31 December 2017 Unaudited	Share capital \$m	Retained earnings \$m	Hedge reserve \$m	Total equity \$m
Balance as at 1 July 2017	883	661	(17)	1,527
Net earnings for the period	-	84	-	84
Other comprehensive income for the period	-	-	(9)	(9)
Total comprehensive income	-	84	(9)	75
Dividend paid	-	(460)	-	(460)
Balance as at 31 December 2017	883	285	(26)	1,142

Six months ended 31 December 2016 Unaudited	Share capital \$m	Retained earnings \$m	Hedge reserve \$m	Total equity \$m
Balance as at 1 July 2016	883	963	(27)	1,819
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)
Balance as at 31 December 2016	883	597	(13)	1,467

Statement of financial position

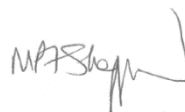
	Note	As at 31 December 2017 Unaudited \$m	As at 30 June 2017 Audited \$m
Current assets			
Cash		47	-
Prepayments		1	-
Due from other Spark New Zealand Group companies		2,287	2,280
Short-term derivative assets		24	28
Total current assets		2,359	2,308
Non-current assets:			
Due from other Spark New Zealand Group companies		4,422	4,446
Long-term derivative assets		8	8
Deferred tax asset		10	6
Investments in fellow Spark New Zealand Group companies		540	540
Total non-current assets		4,980	5,000
Total assets		7,339	7,308
Current liabilities			
Bank overdraft		-	2
Income tax payable		102	69
Due to other Spark New Zealand Group companies		4,833	4,644
Short-term derivative liabilities		25	30
Debt due within one year	4	342	295
Accrued interest		5	4
Total current liabilities		5,307	5,044
Non-current liabilities			
Long-term derivative liabilities		52	45
Long-term debt	4	838	692
Total non-current liabilities		890	737
Total liabilities		6,197	5,781
Equity			
Share capital		883	883
Reserves		(26)	(17)
Retained earnings		285	661
Total equity		1,142	1,527
Total liabilities and equity		7,339	7,308

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

On behalf of the Board of Spark Finance Limited



David Chalmers
DIRECTOR
Authorised for issue on 1 March 2018



Matthew Sheppard
DIRECTOR

Statement of cash flows

For the six months ended 31 December

	2017 Unaudited \$m	2016 Unaudited \$m
Cash flows from operating activities		
Interest receipts	272	284
Interest payments	(149)	(152)
Net cash flows from operating activities	123	132
Cash flows from investing activities		
Net advances to other Spark New Zealand Group companies	(258)	(278)
Net cash flows applied to investing activities	(258)	(278)
Cash flows from financing activities		
Proceeds from long-term debt	651	595
Repayment of long-term debt	(510)	(540)
Proceeds from short-term debt	720	495
Repayment of short-term debt	(677)	(397)
Net cash flows from financing activities	184	153
Net cash flow	49	7
Net cash at beginning of period	(2)	(5)
Net cash position at end of period	47	2

Reconciliation of net earnings to net cash flows from operating activities

	2017 Unaudited \$m	2016 Unaudited \$m
Six months ended 31 December		
Net earnings for the period	84	94
<i>Adjustments to reconcile net earnings to net cash flows from operating activities</i>		
Amortisation of discount	4	1
Foreign exchange loss	-	1
Revaluation of derivatives	(1)	(1)
Revaluation of long-term debt in fair value hedges	7	(18)
Revaluation of derivatives in fair value hedge relationships	(3)	18
<i>Changes in assets and liabilities net of effects of non-cash and investing and financing activities</i>		
Increase in current tax payable	33	37
Movement in receivables and related items	(1)	-
Net cash flows from operating activities	123	132

Notes to the interim financial statements

Note 1 About this report

Reporting entity

These unaudited interim financial statements are for Spark Finance Limited ('Spark Finance') for the six months ended 31 December 2017.

Spark Finance 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.

Basis of preparation

The interim financial statements 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*.

Except as amended by the early adoption of NZ IFRS 9 *Financial Instruments* (2014), the accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of Spark Finance's annual financial statements for the year ended 30 June 2017. The preparation of the interim financial statements also requires management to make judgements, estimates and assumptions. Spark Finance has been consistent in applying the judgements, estimates and assumptions adopted in the annual financial statements for the year ended 30 June 2017. Critical accounting policies are the same as those set out in the annual financial statements for the year ended 30 June 2017.

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. 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 period end date.

Early adoption of NZ IFRS 9 *Financial Instruments* (2014)

Spark Finance has now adopted NZ IFRS 9 *Financial Instruments* (2014) (NZ IFRS 9), the final version of the standard which replaces earlier versions of NZ IFRS 9 and completes the replacement of NZ IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard includes three areas of change:

- a. Classification and measurement of financial instruments;
- b. A single, forward-looking, 'expected loss' impairment model; and
- c. Substantially reformed approach to hedge accounting.

a. 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 adoption of the final NZ IFRS 9 standard has not required any changes to Spark Finance's classification and measurement of financial assets or financial liabilities.

b. New impairment model

NZ IFRS 9 prescribes an 'expected credit loss' model instead of the previous incurred loss model, so it is no longer necessary for a trigger event to have occurred before recognising credit losses. NZ IFRS 9 requires Spark Finance to now base the measurement of expected credit losses on forward-looking information, as well as current and historic information. There was no expected credit loss allowance recognised as a result of adoption, as Spark Finance has not experienced a history of credit losses (including in relation to intercompany balances), and no current or forward-looking information existed as at 31 December 2017, which would indicate a significant increase in credit risk.

c. Hedge accounting

NZ IFRS 9 introduces a new hedge accounting framework which better aligns with Spark's risk management objectives and provides greater flexibility in achieving hedge accounting. This includes the introduction of an aggregate exposure concept, being the combination of an exposure and a derivative which, together, can be designated as a hedged item. NZ IFRS 9 also includes a more qualitative and forward-looking approach to assessing hedge effectiveness. There was no financial impact on adoption.

Notes to the interim financial statements

Note 2 Finance income and expense

Six months ended 31 December	2017 Unaudited \$m	2016 Unaudited \$m
Finance income:		
Interest income on loans to other Spark New Zealand Group companies	272	284
Total finance income	272	284
Finance expense:		
Finance expense on long-term debt:		
- Foreign Currency Medium Term Notes	5	3
- Domestic Notes	12	11
- Bank Funding	3	3
Interest expense on loans from other Spark New Zealand Group companies	131	131
Other interest and finance expense	5	5
Total finance expense	156	153

Note 3 Other income and expenses

Six months ended 31 December	2017 Unaudited \$m	2016 Unaudited \$m
Other income:		
Revaluation of derivatives	1	1
Total other income	1	1
Other expenses:		
Net foreign exchange losses	-	1
Total other expenses	-	1

Administration costs 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.

Notes to the interim financial statements

Note 4 Debt

Face value	Facility	Coupon rate	Maturity	31 December	30 June
				2017	2017
				Unaudited	Audited
				\$m	\$m
Short-term debt					
Short-term borrowings		Variable	< 1 month	50	6
Commercial paper		Variable	< 3 months	150	149
				200	155
Bank funding					
Bank of Tokyo-Mitsubishi UFJ	100 million NZD	Variable	13/03/2018	100	100
Bank of New Zealand	100 million NZD	Variable	31/10/2018	-	90
Westpac New Zealand Limited	200 million NZD	Variable	30/11/2020	15	-
Bank of Tokyo-Mitsubishi UFJ	125 million NZD	Variable	31/11/2022	50	-
				165	190
Domestic notes					
250 million NZD		5.25%	25/10/2019	250	250
100 million NZD		4.50%	25/03/2022	102	102
100 million NZD		4.51%	10/03/2023	103	102
125 million NZD		3.94%	07/09/2026	118	116
				573	570
Foreign Currency Medium Term Notes					
Euro Medium Term Notes – 22 million GBP		5.63%	14/05/2018	42	40
Euro Medium Term Notes – 18 million GBP		5.75%	06/04/2020	34	32
Australian Medium Term Notes – 150 million AUD		4.00%	20/10/2027	166	-
				242	72
				1,180	987
Debt due within one year				342	295
Long-term debt				838	692

On 31 August 2017 Spark Finance increased its existing committed revolving facility with Westpac New Zealand Limited, maturing on 30 November 2020, by \$75 million to \$200 million. On 31 August 2017 Spark Finance also established a new \$125 million committed revolving facility with The Bank of Tokyo-Mitsubishi UFJ, Ltd to mature on 30 November 2022. On 20 October 2017 Spark Finance issued A\$150 million of 10-year fixed rate bonds maturing on 20 October 2027.

There have been no other changes in Spark Finance's short-term financing programmes or stand-by facilities since 30 June 2017.

Note 5 Dividend

On 24 August 2017, 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

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