TELECO INSURANCE (NZ) LIMITED

ANNUAL REPORT 2017

CONTENTS

COMPANY DIRECTORY

Nature of business:	Mobile phone insurance
Registered office:	Level 2 Spark City 167 Victoria Street West, Auckland, 1010 New Zealand
Company registration number:	509425
Directors:	Richard Quince Dean Werder (appointed 18 July 2016) Stefan Knight (resigned 18 July 2016)
Shareholder:	Spark New Zealand Limited
Auditors:	KPMG 10 Customhouse Quay Wellington
Bankers:	Westpac Banking Corporation

Richard Quince
DIRECTOR

Dean Werder
DIRECTOR

Date 25 October 2017

Statement of profit or loss and other comprehensive income

YEAR ENDED 30 JUNE	NOTES	2017 $'000	2016 $'000
Insurance premiums		14,659	11,221
Claims incurred	2	(10,039)	(9,461)
Operating expenses	3	(219)	(236)
Underwriting surplus		4,401	1,524
Finance income	4	2,844	2,609
Net earnings before income tax		**7,245**	**4,133**
Income tax expense	5	(2,029)	(1,157)
Total comprehensive income for the year		**5,216**	**2,976**

See accompanying notes to the financial statements.

Statement of financial position

AS AT 30 JUNE	NOTES	2017 $'000	2016 $'000
Current assets			
Cash and short-term investments	6	597	582
Interest receivable		1	2
Prepayments		22	22
Amounts due from related parties	12	52,986	46,211
Total current assets		53,606	46,817
Non-current assets			
Deferred tax assets	7	55	44
Total non-current assets		55	44
Total assets		**53,661**	**46,861**
Current liabilities			
Outstanding claims liability	8	1,522	1,218
Unearned revenue		666	485
Amounts due to related parties	12	1,070	837
Redeemable preference shares	9	5,500	5,500
Taxation payable	5	2,017	1,151
Total current liabilities		10,775	9,191
Total liabilities		10,775	9,191
Equity			
Share capital	10	1	1
Retained earnings		42,885	37,669
Total equity attributable to equity holders of the Company		42,886	37,670
Total liabilities and equity		53,661	46,861

See accompanying notes to the financial statements.

On behalf of the Board

Richard Quince
Director

Dean Werder
Director

Authorised for issue on 25 October 2017

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Statement of changes in equity

YEAR ENDED 30 JUNE 2017	SHARE CAPITAL $'000	RETAINED EARNINGS $'000	TOTAL EQUITY $'000
Balance at 1 July 2016	**1**	**37,669**	**37,670**
Net earnings for the year	-	5,216	5,216
Total comprehensive income for the year	**-**	**5,216**	**5,216**
Balance at 30 June 2017	**1**	**42,885**	**42,886**

YEAR ENDED 30 JUNE 2016	SHARE CAPITAL $'000	RETAINED EARNINGS $'000	TOTAL EQUITY $'000
Balance at 1 July 2015	**1**	**34,693**	**34,694**
Net earnings for the year	-	2,976	2,976
Total comprehensive income for the year	**-**	**2,976**	**2,976**
Balance at 30 June 2016	**1**	**37,669**	**37,670**

See accompanying notes to the financial statements.

Statement of cash flows

YEAR ENDED 30 JUNE	2017 $'000	2016 $'000
Cash flows from operating activities		
Cash received from customers	14,136	11,101
Cash paid for repair and replacement of handsets	(9,052)	(9,098)
Interest income	2,844	2,610
Cash paid for other operating activities	(667)	(686)
Income tax paid	(1,174)	(1,132)
Net cash flows from operating activities	**6,087**	**2,795**
Cash flows from investing activities		
(Increase) in intercompany investments	(6,072)	(2,776)
Net cash flows from investing activities	**(6,072)**	**(2,776)**
Net cash flow	**15**	**19**
Opening cash position	582	563
Closing cash position	**597**	**582**

Reconciliation of net earnings to net cash flows from operating activities

YEAR ENDED 30 JUNE	2017 $'000	2016 $'000
Net earnings for the year	5,216	2,976
Changes in assets and liabilities net of effects of non-cash and investing and financing activities		
Movement in insurance premiums	182	40
Movement in claims incurred	306	(160)
Movement in current taxation	866	21
Movement in related party and accounts receivable	(715)	(154)
Movement in related party and accounts payable	232	72
Net cash flows from operating activities	6,087	2,795

See accompanying notes to the financial statements.

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Notes to the financial statements

Note 1 Accounting Policies

Ownership and activities

Teleco Insurance (NZ) Limited (the "Company") is a wholly owned subsidiary of Spark New Zealand Limited (the "parent company" or "Spark"). The Company is a profit oriented entity and was incorporated in New Zealand on 18 July 1991.

The principal activity of the Company is to provide insurance policies for mobile phone handsets sold by Spark Home, Mobile & Business. The Company has a credit rating with Standard and Poor's of BBB+, which was reaffirmed on 21 February 2017.

Basis of preparation

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with the New Zealand equivalents to New Zealand International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate for profit-orientated entities including the External Reporting Board Standard A1, Accounting Standards Framework (For-profit Entities Update) (XRB A1). The Company is a Tier 1 entity, along with a reporting entity for the purposes of the Financial Reporting Act 2013. The Company is registered under the Companies Act 1993 and is an FMC reporting entity under the Financial Markets Conduct Act 2013.

The introduction of the Insurance (Prudential Supervision) Act 2010 has resulted in all insurers carrying on insurance business in New Zealand being required to be licensed by the Reserve Bank of New Zealand ("RBNZ"). The Company was granted full license on 10 June 2013. In accordance with the terms of the license, the Company is deemed to be an issuer under section 4(i)(da) of the Financial Reporting Act 2013.

For the year ended 30 June 2017, in line with the previous paragraph, the Company has prepared full financial statements under NZ IFRS as required for all issuers. Certain comparative information has been reclassified to conform with the current year's presentation.

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

Measurement basis

The measurement basis adopted in the preparation of these financial statements is historical cost, with the exception of the outstanding claims liability, which is stated at fair value. The financial statements are presented in New Zealand dollars, the Company's functional currency.

Premium revenue

Premium revenue comprises amounts charged to the policy holders. The earned portion of premiums received and receivable is recognised as revenue. Premium is earned over the indemnity period based on the pattern of risks underwritten, from the date of attachment of risk. Unearned revenue comprises the element of the monthly premiums paid in advance by customers part way through the month preceding the year-end, that relates to insurance coverage post the year-end reporting date.

Taxation

The taxation expense charged to earnings includes both current and deferred tax and is calculated after allowing for non-temporary differences. Current tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Deferred taxation is recognised using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except for temporary differences arising on initial recognition of an asset or liability (unless arising in a business combination or impacting profit or loss). Future tax benefits are recognised where realisation of the asset is probable. Deferred tax is determined based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Current and deferred tax is recognised in the statement or profit or loss, except when the tax relates to items charged or credited directly in equity or other comprehensive income, in which case the tax is also recognised in equity and other comprehensive income.

Claims and outstanding claims liability

Claims incurred expense consists of payment for claims and the movement in the outstanding claims liability. Claims represent the benefits paid or payable to the policyholder on the occurrence of an event giving rise to a claim according to the terms of the policy. Claims expenses are recognised in the statement of profit or loss according to the point in time when the event giving rise to the claim occurs.

The outstanding claims liability is calculated retrospectively based on claims reported but not yet paid; claims incurred prior to the year-end but not yet reported (IBNR); expected direct and indirect claims settlement costs; plus a risk margin. The IBNR is calculated using an average term to settlement based on historic settlement patterns, which for the current and previous financial years was deemed to be 50% of the total claims settlement value for the month subsequent to the year-end date.

The value of outstanding claims has not been discounted because the period between the date of claim and the settlement date is short (within one year) and the valuation estimates of an expected level of payment allows for current inflation. The variation in outcome of the claims liability will be small because the valuation of claims for replacement mobile handsets is based on current retail prices, the number of open claims relating to the financial year is known, and the insurance settlement date is short.

Financial assets backing general insurance liabilities

The Company's financial assets consist primarily of surplus funds invested with Spark Finance Limited, and these funds are used to back both general insurance liabilities and financial liabilities arising under non-insurance contracts. The Company has an agreement with Westpac to guarantee $27 million of its receivable from Spark Finance.

Interest income

Interest income is recognised on an effective interest basis.

Notes to the financial statements (continued)

Note 2 Claims incurred

YEAR ENDED 30 JUNE	2017 $'000	2016 $'000
Claims incurred in current year	9,390	8,852
Risk margin adopted	199	159
Claims management fee	450	450
Total claims incurred	**10,039**	**9,461**

Claims incurred in the current year relate fully to risks bourne in the current year.

Note 3 Operating expenses

YEAR ENDED 30 JUNE	2017 $'000	2016 $'000
Credit rating fee	53	52
Fire service levy	-	20
Audit fees	9	9
Directors' fees	10	10
Other operating expenses	147	145
Total operating expenses	**219**	**236**

The Company had no employees in the current year (2016: nil). Some costs are incurred by Spark on behalf of the Company for administration and accounting services.

Note 4 Finance income

YEAR ENDED 30 JUNE	2017 $'000	2016 $'000
Finance income		
Intercompany interest income	2,830	2,591
Other interest income	14	18
Total finance income	**2,844**	**2,609**

Note 5 Taxation

YEAR ENDED 30 JUNE	2017 $'000	2016 $'000
Current income tax	2,040	1,151
Deferred income tax	(11)	6
Income tax expense per Statement of profit or loss and other comprehensive income	2,029	1,157
Net earnings before income tax	7,245	4,133
Tax at 28%	2,029	1,157
Income tax expense per Statement of profit or loss and other comprehensive income	2,029	1,157
Opening balance of tax liability	1,151	1,130
Tax paid and inter-group allocation	(1,174)	(1,130)
Closing tax balance of tax payable	**2,017**	**1,151**

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Notes to the financial statements (continued)

Note 6 Cash and short-term investments

AS AT 30 JUNE	2017 $'000	2016 $'000
Cash at bank	97	82
Short-term investments	500	500
Total cash and short-term investments	**597**	**582**

Note 7 Deferred tax

AS AT 30 JUNE	2017 $'000	2016 $'000
Balance at the beginning of the year	44	50
Prior period adjustment	23	-
Adjustments relating to current period	(12)	(6)
Total deferred tax	**55**	**44**

Note 8 Outstanding claims liability

AS AT 30 JUNE	2017 $'000	2016 $'000
Outstanding claims liability	1,323	1,059
Risk margin	199	159
Total outstanding claims liability	**1,522**	**1,218**

Paul Rhodes FNZSA FIA is the Appointed Actuary for the Company. The actuary has nominated a 15% risk margin based on industry benchmarking as reasonable to allow for uncertainty in the central estimate of claims and to achieve a 75% probability of sufficiency of the provision. A 1% increase / (decrease) in the risk margin assumption would increase / (decrease) the reported profit, outstanding claims liabilities and equity of the Company for the year by $13,000 (2016: $11,000).

The liability adequacy test which was performed as at 30 June 2017 identified a surplus for the Company (30 June 2016: small deficit, however, the unexpired risk reserve is included in the outstanding claims liability).

Reconciliation of movement in claims liability:

AS AT 30 JUNE	2017 $'000	2016 $'000
Balance at beginning of year	1,218	1,378
Claims notified	9,303	9,511
Claims expenses	(9,124)	(9,654)
Movement in risk margin	40	(21)
Movement in claims incurred but not reported (IBNR)	85	4
Balance at end of year	**1,522**	**1,218**

Note 9 Redeemable preference shares

The Company has 550 fully paid redeemable preference shares on issue (2016: 550), each with a value of $10,000. The shares have no fixed repayment date and the holder, Spark New Zealand Limited, can ask for repayment at any time by providing written notice to the Company. The holder has no intention of requesting repayment within the next year.

Redeemable preference shares have no voting rights. The holder of the preference shares has the right on winding up of the Company to payment in priority to the holders of ordinary shares of the Company of the redemption amounts of each preference share held, calculated as at the date of distribution. All other rights conferred to the holder of either ordinary or preference shares are the same.

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Notes to the financial statements (continued)

Note 10 Equity

Ordinary shares and redeemable preference shares

	ORDINARY SHARES	
	Number	*$'000*
As at 30 June 2017	100	1
As at 30 June 2016	100	1

Each share confers on the holder the right to vote at any meeting of shareholders.

The Company maintains equity in the form of retained earnings of $43m (2016: $38m), and the Directors believe that this is an appropriate level to cover its exposure to risk, based on annual aggregate exposure and loss history.

Note 11 Risk management

The Company is exposed to a number of risks in the normal course of business, primarily insurance risk, financial risk (liquidity risk and interest rate risk), credit risk and capital adequacy.

Insurance risk

The Company's main insurance risk is from the increasing value of smartphones which will impact on claim costs in the future. Therefore, the main risk management objective is to manage the magnitude and the volatility of claim costs. Aon New Zealand Limited, the claims administrator, also actively manages claim activity, with assistance from the Spark fraud team. The Company will review the premium rates by having the Appointed Actuary regularly review the premium rates to ensure that prices reflect risk.

For the Company a broader risk is the reliance on one line of business in a niche market (namely mobile handset insurance for pay-monthly customers). If something were to arise that negatively affects this niche, such as reduced use of mobile phones, it would have a flow on impact on the Company's financial position. This is the same risk that the parent company has and the Company accepts this risk.

The probability of catastrophe risk causing a large number of handset replacement claims is low as the value of policies is relatively low and policyholders are geographically widespread throughout New Zealand.

Financial risk

a) Liquidity risk

The risk of being unable to pay claims and operating expenses in a timely manner is negated by the Company holding surplus funds of $50m (2016: $44m) in an on-call current account with Spark Finance Limited.

The Company has entered into an agreement with Westpac Banking Corporation to guarantee $27m of the $50m funds held by Spark Finance Limited, in order to mitigate the risk of asset concentration of these funds being held by a related party.

All financial liabilities, including outstanding claims liabilities and with the exception of the redeemable preference shares, are treated as current with all net cash flows from recognised insurance liabilities expected to be incurred within the subsequent financial year.

Westpac New Zealand Limited has current credit ratings as follows:

Standard and Poor's	AA-
Moody's Investor Services	A1

b) Interest rate risk

There is minimal interest rate risk as surplus funds invested with Spark Finance Limited earn a fixed interest rate (6%). An interest risk exists when short-term investments held with financial institutions mature and a new investment is purchased. The investment held at 30 June 2017 matures in August 2017.

Credit risk

The Company incurs credit risk related to financial assets of $54m (2016: $47m).

Except for $500,000 invested with a financial institution, the Company's funds are invested by Spark Finance Limited. The board of directors of Spark Finance Limited have approved a credit risk policy that limits exposure with counterparties by placing its cash and short-term investments with high credit quality financial institutions and sovereign bodies, and it also limits the amount of credit exposure to any one of these financial institutions.

Spark (which guarantees Spark Finance Limited's debt) has a credit rating from Standard & Poor's as at 30 June 2017 as follows:

Long Term Senior Debt	A-
Short Term Debt	A-2
Outlook	Stable

Notes to the financial statements (continued)

Capital adequacy

Capital management policies and objectives
The Insurance (Prudential Supervision) Act 2010 ("the Act") requires all general insurance entities carrying on business in New Zealand are required to be licensed by the Reserve Bank of New Zealand. The Company held a full licence in the current financial year. The Company is managing its capital in accordance with the requirements of the Act.

Under the Solvency Standard for Non-life Insurance Business ("the solvency standard") issued by the Reserve Bank of New Zealand, the Company is required to maintain a solvency margin as determined under the solvency standard at or above the minimum solvency capital level.

The Company satisfied all externally imposed capital requirements which they were subject to during the year ended 30 June 2017. The Company has embedded in its capital management framework the necessary tests to ensure continuous and full compliance with the solvency standard.

Capital composition
The Company manages its capital by considering both regulatory and economic capital. The primary source of capital used is total equity attributable to owners. Total equity attributable to owners equates to "capital" as defined in the solvency standard and shown below.

Regulatory capital is made up of two components, actual solvency capital and minimum solvency capital, with the difference representing the solvency margin. The calculation of the solvency margin for the Company is detailed below:

AS AT 30 JUNE	2017 $'000	2016 $'000
Actual solvency capital	42,830	37,626
Minimum solvency capital	30,765	25,465
Solvency margin	12,065	12,161
Solvency ratio	1.39	1.48

Note 12 Related parties

AS AT 30 JUNE	2017 $'000	2016 $'000
Current assets		
Amounts due from Spark Finance Limited	50,343	44,271
Amounts due from Spark New Zealand Trading Limited	2,643	1,940
Total related party current assets	**52,986**	**46,211**
Current liabilities		
Amounts due to Spark New Zealand Trading Limited	1,070	837
Total related party current liabilities	**1,070**	**837**

Transactions occurring during the year:

Spark Finance Limited:		
Net operating transactions	3,242	185
Interest received	2,830	2,591
Spark New Zealand Trading Limited:		
Replacement mobile handsets	(9,124)	(9,654)

Surplus funds are invested with Spark Finance Limited. Funds are held on-call and earn fixed interest at 6% (2016: 6%).

At 30 June 2017, the Company owes amounts to Spark for the reimbursement of expenses paid to suppliers and for replacement mobile handsets provided to insurance claimants on the Company's behalf. No related party debts have been written off or forgiven during the year.

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Notes to the financial statements (continued)

Note 13 Contingent liabilities

The Directors are not aware of any significant contingent liabilities at 30 June 2017 (30 June 2016: nil).

Note 14 Capital commitments

There are no capital commitments at 30 June 2017 (30 June 2016: nil).

Note 15 Subsequent events

There have been no events subsequent to balance date that impact these financial statements.

Note 16 New standard not yet adopted

NZ IFRS 17 *Insurance Contracts* will replace NZ IFRS 4 *Insurance Contracts* and related interpretations. The standard will be effective for the Company from the year ending 30 June 2022. The Company is assessing the impact of NZ IFRS 17 and is expected to adopt it in the period it becomes mandatory.

Independent Auditor's Report

To the shareholder of Teleco Insurance (NZ) Limited

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Teleco Insurance (NZ) Limited (the company) on pages to 3 to 10 :

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 statements of profit or loss and other comprehensive income, changes in equity and 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) ('ISAs (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 ISAs (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. Subject to certain restrictions, partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the company.

Use of this independent auditor's 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 independent 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.

KPMG

Responsibilities of the 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 independent 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 ISAs NZ 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/Page8.aspx.

This description forms part of our independent auditor's report.

KPMG

KPMG
Auckland

25 October 2017

The Board of Directors
Teleco Insurance (NZ) Limited
42-52 Willis Street
Wellington

25 October 2017

Appointed actuary's review of actuarial information for Teleco Insurance (NZ) Limited

To the Directors of Teleco Insurance (NZ) Limited,

This letter has been prepared for Teleco Insurance (NZ) Limited ("Teleco") to meet the requirements of Section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Act") in respect of Section 77 of the Act which requires that each Licensed insurer must ensure that the actuarial information contained in, or used in preparation of, the financial statements of the insurer is reviewed by the appointed actuary.

I have reviewed the following actuarial information included in the audited accounts for Teleco as at 30 June 2017:

- Outstanding claims liability.
- Unearned premium liability.

I have been provided with all the information and explanations that I have required to complete my review.

I am the appointed actuary to Teleco and am a Partner of PricewaterhouseCoopers New Zealand. I am independent of Teleco.

In my opinion:

- the actuarial information contained in the financial statements has been appropriately included in those statements; and
- the actuarial information used in the preparation of the financial statements has been used appropriately; and
- Teleco is maintaining a solvency margin as required under the Solvency Standard for Non-Life Insurance Business 2014, issued by the Reserve Bank of New Zealand.

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Reliances and limitations

This letter has been prepared for Teleco and is provided in accordance with the terms set out in our statement of work signed 7 July 2017.

No distribution of this letter to third parties, other than as required by law is permitted by us. There may be requests for our letter to be copied to third parties. We will be happy to consider these requests, as and when they arise.

Our responsibilities and liabilities are limited to Teleco and exist only in the context of their use of our letter. No liability or responsibility will be accepted by us in relation to the use of our letter for any other purpose. We will not accept any liability or responsibility to any third party recipients.

We have relied on information provided to us in the course of carrying out our work. We perform some data validation checks but we have not verified all of the information provided to us, nor have we carried out anything in the nature of an audit. Accordingly, we express no opinion on the total reliability, accuracy or completeness of the information provided to us and upon which we have relied. We have no reason to believe that the information provided to us is inaccurate or misleading.

This letter must be read in its entirety. Individual sections of this letter could be misleading if considered in isolation from each other. If distributed, this letter must be distributed in its entirety.

This letter is not considered an actuarial report under Professional Standard 90 of the New Zealand Society of Actuaries.

Yours sincerely

PRhodes.

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