Updates to External Reporting

Investor & Analyst Briefing 16 February 2018

Updates to External Reporting (1/2)

Segmental reporting has been updated to align with recent changes in business unit accountability

Segmental Updates			
Description	**Details**	**From**	**To**
Medium enterprise customers	Medium enterprise customers now serviced by HMB business hubs, to better align service models	Digital	HMB
Interconnection	Change in allocation method for interconnect revenue and costs	Ventures and Wholesale	HMB and Digital
Payphones	Management of payphones and calling card business transferred to Connect and Platforms	HMB	Connect and Platforms
Inbound Roaming	Inbound roaming revenue transferred to Wholesale to align with ownership of international carrier relationships	HMB	Ventures and Wholesale
Data centre costs	Transfer of data centre costs to centralise management of all accommodation expenses	Digital	Connect and Platforms
Service centre costs	Transfer of service desk costs to align with management of associated resources	Digital	Connect and Platforms
Mobility IOT	Management of mobile machine-to-machine products moved to Spark Ventures' Internet of Things unit	Digital	Ventures and Wholesale

Updates to External Reporting (2/2)

Additional disclosure changes have also been made to provide greater insight into the performance of IT services, broadband and voice

Other Disclosure Changes

IT services revenue

As indicated at our FY17 Results Announcement we have reclassified IT services revenues to provide greater insight into the drivers of business performance. Previously reported IT services revenues have now been reclassified into the following categories:

- Procurement and partners
- Cloud, security and service management
- Voice
- Managed data and networks
- Other operating revenues

Previously reported FY17 IT services revenues are reconciled to the new categories below:

		Previous Categories ($m)			
		Traditional IT	Platform IT	Procurement	**Total**
New Categories ($m)	Voice	29	25	-	**54**
	Managed data and networks	32	11	-	**43**
	Cloud, security and service management	124	198	2	**324**
	Procurement and partners	27	-	318	**345**
	Other operating revenue	2	14	1	**17**
	Total	**214**	**248**	**321**	**783**

Broadband input costs

As indicated at our FY17 Results Announcement all broadband related Unbundled Copper Local Loop (UCLL) costs have now been reallocated to 'broadband cost of sales'. This is to align the classification of copper broadband inputs with the existing classification of fibre broadband inputs.

Voice connections

To better align with the definition used for reporting of voice revenues, reported voice connections now include all connection types (including ISDN, VOIP and wireless voice) rather than just those provisioned on the legacy PSTN network.

Modelling Spark Digital
Spark's Enterprise and Government Business

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Spark Digital Overview

Key Facts

- Focused on business segments, starting at businesses with ~100 FTE, up to and including large Enterprise and Government

- Operates in the telecommunications and digital services markets; focused on meeting the needs of businesses

- Major competitors include Vodafone New Zealand, Datacom, Dimension Data and Fujitsu

- Includes revenues from subsidiaries Revera and Computer Concepts Limited (CCL)

Financial breakdown for Spark Digital (restated)

	H1 FY16 $m	H2 FY16 $m	H1 FY17 $m	H2 FY17 $m
Operating revenues				
Mobile	82	84	87	84
Voice	107	109	108	108
Broadband	15	14	14	15
Cloud, security and service management	113	136	150	166
Procurement and partners	149	145	173	167
Managed data and networks	88	84	81	82
Internal revenue	3	3	1	1
	557	575	614	623
Operating expenses				
Labour	94	95	110	101
Other operating expenses	283	274	322	312
Internal expenses	4	5	4	4
	381	374	436	417
EBITDA	176	201	178	206
EBITDA margin	31.6%	35.0%	29.0%	33.1%

Voice

Revenue line	Description	FY17 Revenue	FY17 YoY movement	FY18 to FY20 Aspiration	How to model
Landline only	Access revenues for landline (including POTS, VOIP & ISDN)	$60m	(8%)	**Consistent** rate of decline: • Some variability driven by migration rates as customers shift from legacy access to cheaper VoIP options	Connections x ARPU
Calling	Calling revenue for landlines (including POTS, VOIP & ISDN)	$100m	(2%)	**Greater** rate of decline due to: • FY17 included strong growth in 0800 calling which is expected to moderate • Ongoing migration off landline • Shift to unlimited calling plans	Year on year trends
Video-conferencing	Video and audio conferencing, including Skype for Business and contact centre solutions	$54m	15%	**Moderated** rate of growth due to: • Volume growth in Skype for Business and video conferencing, partially offset by • Price pressure and decline in contact centre solutions	Year on year trends
Other voice	Not material	$2m	0%	Not material	Not material
Total Voice	As above	$216m	0%		

Notes
• POTS: Plain Old Telephone Service, refers to the standard analogue copper based telephone service that most homes and businesses have historically used. Excludes VoIP and ISDN
• ISDN: Integrated Services Digital Network, refers to a digital service that allows simultaneous transmission of voice, data and video
• VoIP: Voice over IP

Broadband

Revenue line	Description	FY17 Revenue	FY17 YoY movement	FY18 to FY20 Aspiration	How to model
Total Broadband	Fixed and wireless broadband, includes business broadband as well as managed corporate internet	$29m	0%	**Marginal** rate of decline due to: • Customers migrating from legacy managed internet products to cheaper business broadband plans	Connections x ARPU

Managed Data and Networks

Revenue line	Description	FY17 Revenue	FY17 YoY movement	FY18 to FY20 Aspiration	How to model
Managed Data	Services which allow customers to connect to data centres and to connect remote sites together. Includes WAN, carrier ethernet, and DTS	$120m	(8%)	**Consistent** rate of decline due to: • Ongoing pricing pressure • Increased migration off legacy products and closure of ATM platform • Opportunity to grow connections in mid market	Year on year trends
Networks	Proactive monitoring and managed services for clients networks	$43m	5%	**Higher** rate of growth due to: • Strong pipeline of opportunities across Enterprise and Government segments	Year on year trends
Total Managed Data and Networks	As above	$163m	(5%)	**Smaller** rate of decline, as described above	As above

Notes
- WAN - Wide Area Networking: Provides customers with their own private, managed network to securely connect multiple locations in New Zealand or around the world
- Carrier ethernet: Provides a high speed, scalable private and secure WAN connection that caters to applications such as cloud-delivered video conferencing, IP telephony or data centre connections.
- DTS: Provides a reliable connection for transferring large amounts of data at very fast speeds, using a private optical path

Mobile

Revenue line	Description	FY17 Revenue	FY17 YoY movement	FY18 to FY20 Aspiration	How to model
Total Mobile	Mobile usage revenues (including voice, text and data usage) and revenues from device sales	$171m	3%	**Flat to declining** due to: • Strong pricing pressure impacting ARPU's; and • Ongoing growth in connections; potentially offset by • Growth in device revenues including reductions in subsidies	Connections x ARPU

Cloud, Security and Service Management

Revenue line	Description	FY17 Revenue	FY17 YoY movement	FY18 to FY20 Aspiration	How to model
Cloud	Includes services such as: • Infrastructure as a Service (IaaS*), • Desktop as a Service (DaaS) • Platform as a Service (PaaS*) • Public cloud (e.g. Amazon Web Services, Microsoft Azure) resale • Cloud related consulting and managed services. • Data centre co-location revenue within Spark including Managed Infrastructure. Includes all revenues from Revera and CCL (excluding procurement)	$316m	27%	**Moderated** growth due to: • Strong growth in a cloud market with relatively low penetration; • Higher growth in security; and • Consistent growth in service management; partially offset by • Pricing pressure from global providers NB: FY17 was the first full year of CCL revenues	Year on year trends
Security	Cyber security services				
Service Management	Managed ICT services provided via service desks for Spark products and third parties				
Total Cloud, Security and Service Management	As above	$316m	27%	As above	As above

Notes
• IaaS: Provision of virtualised cloud based computing and data centre storage, where the hardware is provided by an external provider
• PaaS: Consistent with IaaS, however the operating system is also managed by an external provider

Procurement & Partners

Revenue line	Description	FY17 Revenue	FY17 YoY movement	FY18 to FY20 Aspiration	How to model
Procurement	Procurement of hardware and software on behalf of customers	$340m	16%	**Moderated** rate of growth: • Procurement revenues can be "lumpy" according to deal flow, but low margin so limited impact on EBITDA • Continued growth from Partners as demand for IT services grows in regional areas	Year on year trends
Partners	Partner provided IT services, primarily in the regions where Spark Digital does not have a presence				
Total Procurement and Partners	As above	$340m	16%	As above	As above

Disclaimer

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These forward-looking statements may be identified by words such as 'guidance', 'anticipate', 'believe', 'estimate', 'expect', 'intend', 'will', 'plan', 'may', 'could', 'ambition', 'aspiration' and similar expressions. Any statements in this announcement that are not historical facts are forward-looking statements. These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond Spark New Zealand's control, and which may cause actual results to differ materially from those projected in the forward-looking statements contained in this announcement.

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