Spark Digital

Chief Executive Officer

Tim Miles

Spark New Zealand

Who is Spark Digital?

Spark Digital provides **critical digital infrastructure** connecting New Zealanders, the public and private sectors to each other and to the world

Mission	**Create Brilliant Customer Connections** **Unleash Business Productivity**
Markets	**Telecommunications – Mobile, fixed voice, managed data** **IT Services – Moving from traditional / on-site to Cloud-delivered Platform ICT Services**
Value Proposition	**Seamless integration of Telecommunication and ICT Platform Services to deliver digital services and become the most important partner to businesses**

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Spark Digital and key markets overview

Business spend on ICT is shifting from traditional capital-intensive IT to consumption-based Cloud and platform delivered services

Spark Digital Revenues ($M) and Key Portfolios(1) FY15

$1,195

Portfolio	Revenue ($M)	Key portfolios
ICT Platform Services	$190	• Server / IT Infrastructure • IT Security • Connected Mobility • Video and Unified Comms • Contact Centres • Applications and Managed Desktop
Traditional IT Services	$185	
Procurement	$230	• Hardware & Software re-sales
Core Connectivity Data & Mobile	$380	• Corporate Networks • Government Networks • Mobiles • Machine-to-Machine
Voice	$210	• Landline voice • IP Voice

NZ Addressable Markets (1) & Forecast CAGR 2015-19

	Market	CAGR
	$600	+22%
	$1,900	-2%
		+4%
	$1,350	-1.3%
Data:	$500	+1%
Mobile:	$350	-2%
	$320	-13%
	$5.0Bn	**+0.8%**

(1) Addressable markets reflect Spark Digital's portfolio mix and market segments, i.e. >30 staff NZ businesses

Spark Digital strategic goals

1. **#1 provider of core connectivity and cloud solutions to NZ businesses and government**

2. **Customer-inspired, externally-focused provider**
   Our clients use our solutions to transform relationships with their customers

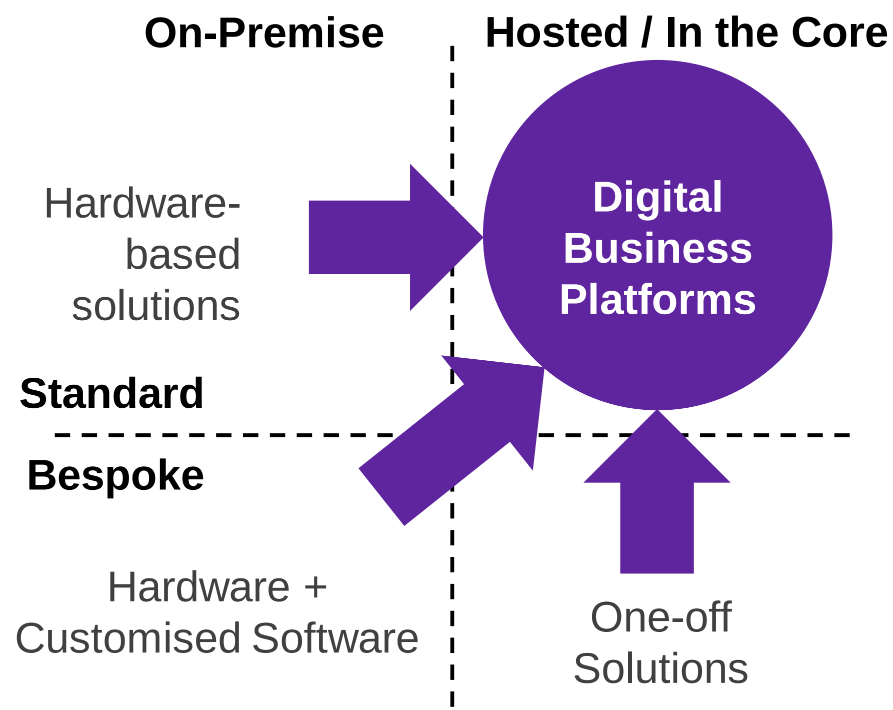
3. **Drive returns on infrastructure investments** through efficient delivery of **ICT Platform Services**

Delivering ICT Platform Services

Traditional ICT solutions are often **slow, costly and high risk,** both for providers and customers.

Our strategy is moving from traditional ICT to **ICT Platform Services**, providing:

- **Fast and scalable** deployment
- Repeatable, **strong EBITDA margins** and **returns on assets**
- **Local scale** capability provides us with a **competitive advantage**

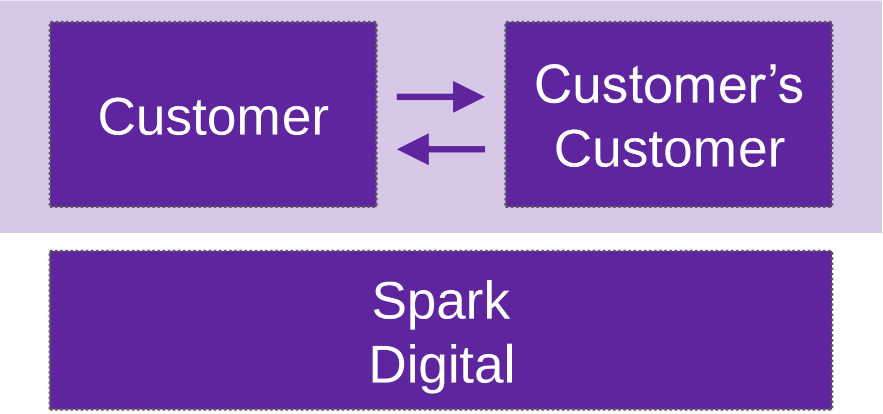


- **Example** - NZ Government moved from purchasing and managing dedicated hardware to consuming platform delivered services, such as Revera's Cloud infrastructure and Platform-as-a-Service offerings

Our platforms are complemented by strong local delivery expertise that is not available from offshore global providers

Customer inspired in everything we do

- **We are positioning Spark Digital as a true business enabler**
- This means putting ourselves in customers' shoes and understanding their needs
- Like Spark, many of our customers are going through major transformations
- Our delivery transformation programmes are focused on **customer outcomes** and **ease of doing business with us**
- Examples include **online portals / self-service** and using the mobile network to get business premises connected without delay



#1 Provider of mobility and data solutions

Today, we are #1 in both mobile and data in our markets

Long-term growth requires us to deliver differentiated connectivity to more businesses, providing strong foundations for growth in ICT Platform Services

Focus areas	How we will win
Stabilise mobile revenue	• Differentiate through mobility, mobilising our clients' workforces and their interactions with end-customers • Lead in growing Connected Mobility, i.e. Machine to Machine and Internet of Things • New plans, offering cost certainty to customers, slowing ARPU decline • Target under-represented segments e.g. sub 250 users
Slow the decline in managed data	• Aggressively pursue the Managed Data market with Cloud-ready, secure networking and simpler product portfolio • Targeting under-represented segments e.g. medium business • Migrate older installed base to latest technologies, providing foundations for long-term ICT growth

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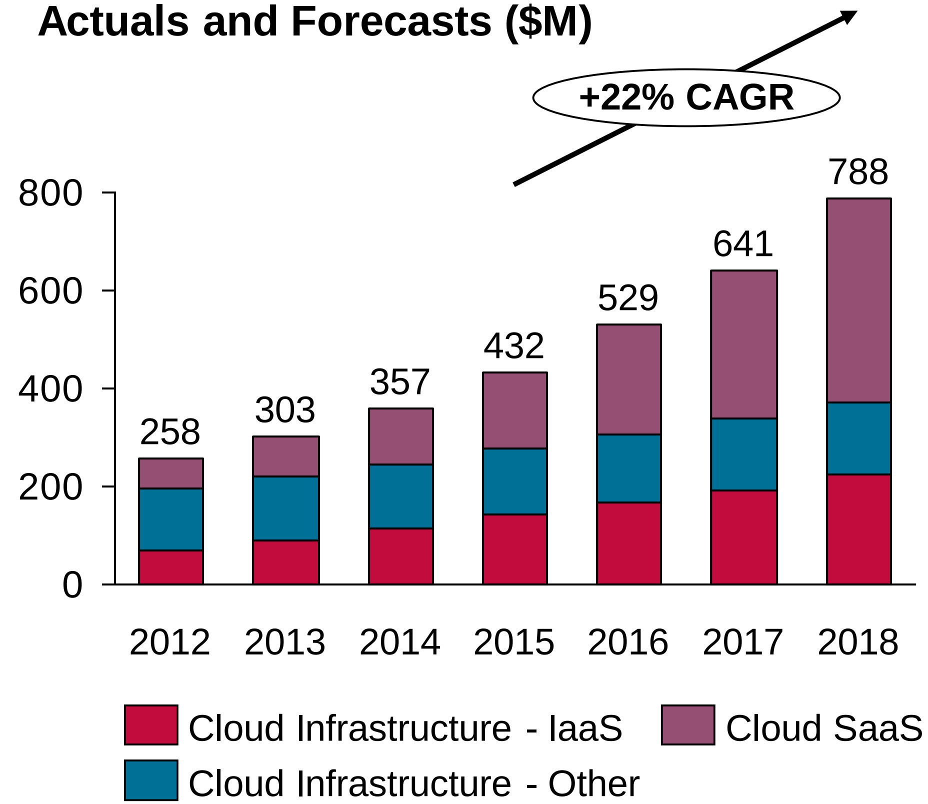
Ambition: #1 Provider of Cloud solutions

- Spark provides market-leading onshore Cloud infrastructure, which we aggregate with our partners' Public Cloud services, e.g. Microsoft Azure
- Customers value our in-country 'Hybrid Cloud' capabilities for their data and mission-critical applications
- Strong growth in the NZ Cloud Services market is expected to continue, as only 1/3 of businesses have started migrating to Cloud
- We operate 15 data centre buildings and 28 data halls in 10 NZ locations, with capacity to support further growth
- Multi-brand Cloud strategy:

revera CLOUD SERVICES PROVIDER | A Spark New Zealand Company

NZ Cloud Services Market Actuals and Forecasts ($M)



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Best run and most efficient business

During FY16, **Spark Digital** and **Spark Connect** are collaborating on a transformation programme that delivers:

- Better leverage of all Spark resources
- Greater focus on customer outcomes
- Increased revenues through faster order fulfilment
- More profitable products with lower cost per unit
- A new culture, based around flexible and rapid delivery

Spark Connect

Chief Operating Officer

David Havercroft

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Creating the next waves of value

Goals	To be New Zealand's best run and most efficient business	
	Re-engineering as a key enabler	Innovate around the core
	Future Technology Evolution	Software Defined Networking (SDN) and Network Function Virtualisation (NFV)
Strategic Programme	Digital First	
Foundation	New Zealand's best data network and digital services capability	

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Re-engineering as a key enabler

Re-engineering delivering

- **Simplified** customer and back office systems and a single, flexible integration architecture
- **Re-usable** building blocks, a catalogue of products and the foundations of single view of customer
- Improved online capability, bundling capability, speed to market and business intelligence
- **“Simplicity dividend”** across channels and in back office functions
- A new **culture**, based around flexible and rapid delivery
- The enabler of **Digital First**

Outcomes

- **20 times** more offers in market last Christmas – without additional resource
- Improved **online journeys** for customers
- Improved cross sell / upsell
- **Automation** of processes
- Call volume reduction
- **Real time** view of operations
- From **2 to 3** online deployments **a year** to an average of **1 to 2 a week**
- **Capital efficiency** – for example integration costs less than 80% of legacy
- Decommissioning of legacy assets

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Innovating around the core

Using speed, innovation and the major investments in technology to drive more revenue, margin and help customers with real world business problems

Leveraging core investments

- Network and IT re-engineering programmes have delivered foundations for future:
  - **Increased speed** and data **capacity** of core networks and data centres
  - Rich IT systems designed in a **reusable** component based model
  - Advanced Network and IT management and monitoring capabilities
  - **New data analytics tools** to drive greater Business Intelligence
  - **Real time data** allowing effortless business transaction monitoring
  - A new **culture**, based around flexible and rapid delivery

To unlock new waves of value

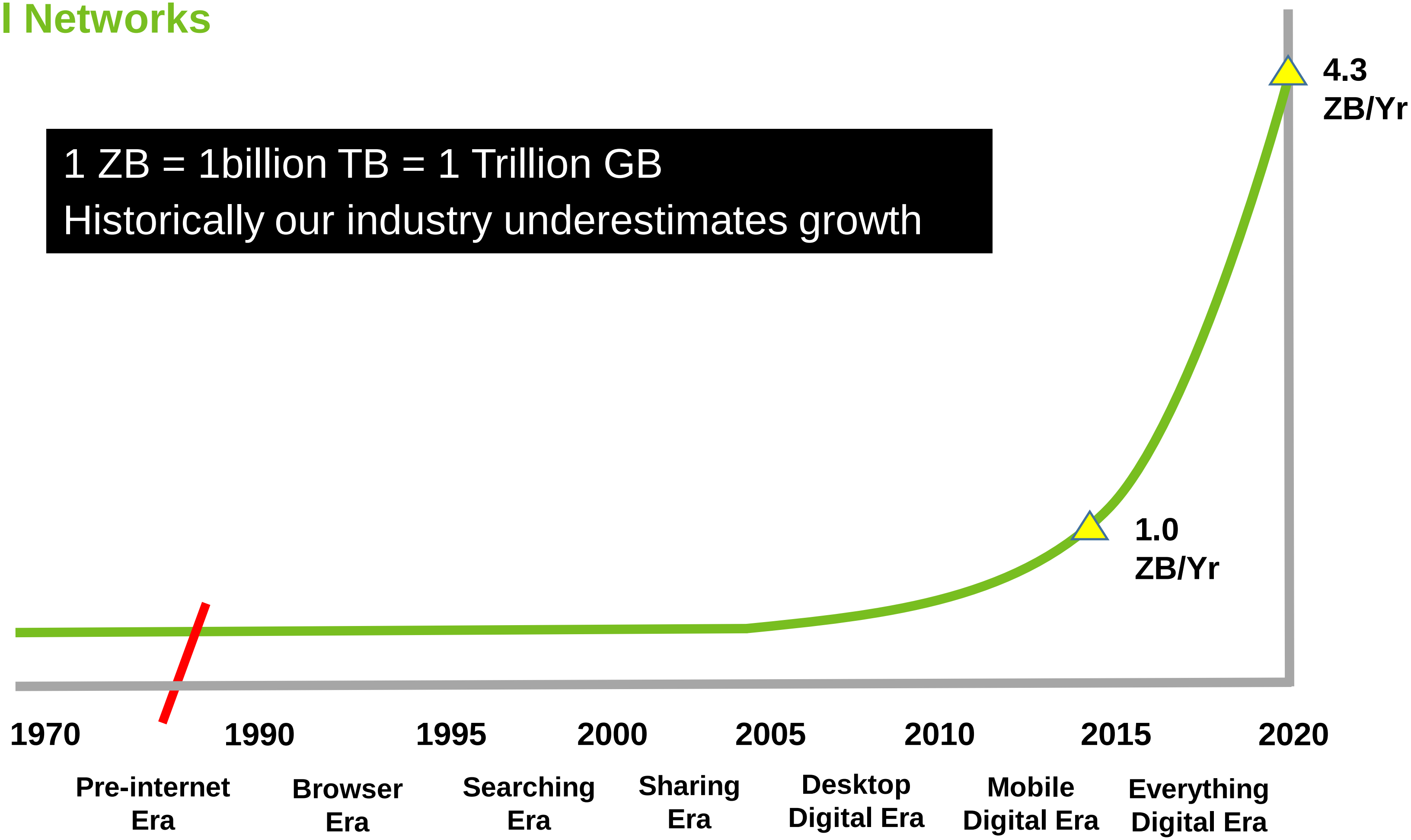
- Turning Spark into the **Customer Defined Network** - designed with customers for customers
- New set of offerings all designed **Digital First**
- First two prototype products already in market and billing
- Simple processes and reduced back office complexity

(1) WAN – Wide Area Network

Future technology evolution

Huge data growth driven by video will drive the need to change the approach to all Networks

1 ZB = 1billion TB = 1 Trillion GB
Historically our industry underestimates growth



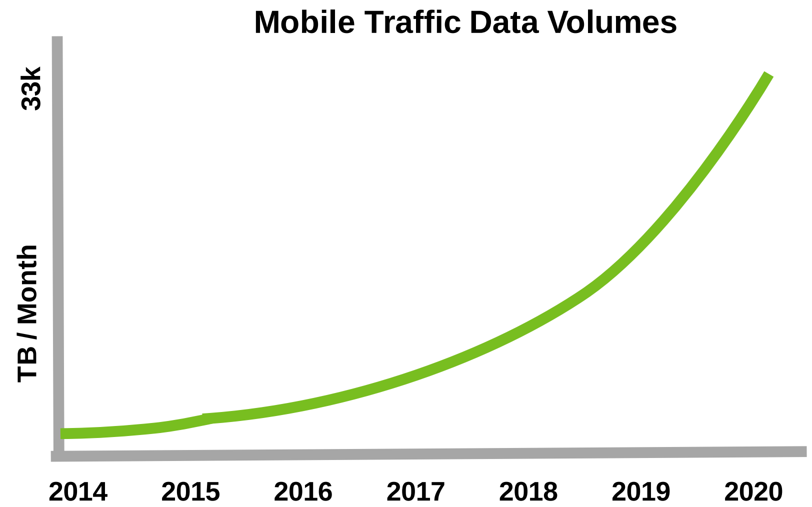
Future technology evolution (ctd)

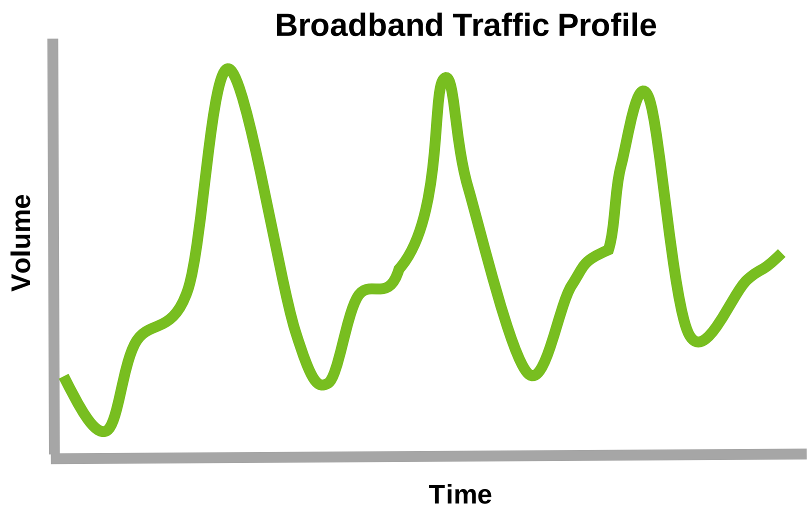
Mobile

- Scale **mobile network** in unison **with** the massive **growth in data** as more usage moves to mobile
- **Single Radio Access Network (RAN)** strategy to optimise macro cell site network
- Faster speeds in more places, leveraging **700Mhz** advantage and full range of spectrum assets
- Small cell, carrier aggregation, roadmap to **5G**

IP Voice & Data network

- Move from PSTN & 3G **switched voice to** an **all IP network** including VOF & VOLTE
- A resilient and efficient backbone network to support **cloud** services and growth in **video**
- Expand **OTN** and **Carrier Ethernet**
- Extend and maintain our core fibre network footprint through our **Connect 8** Joint Venture





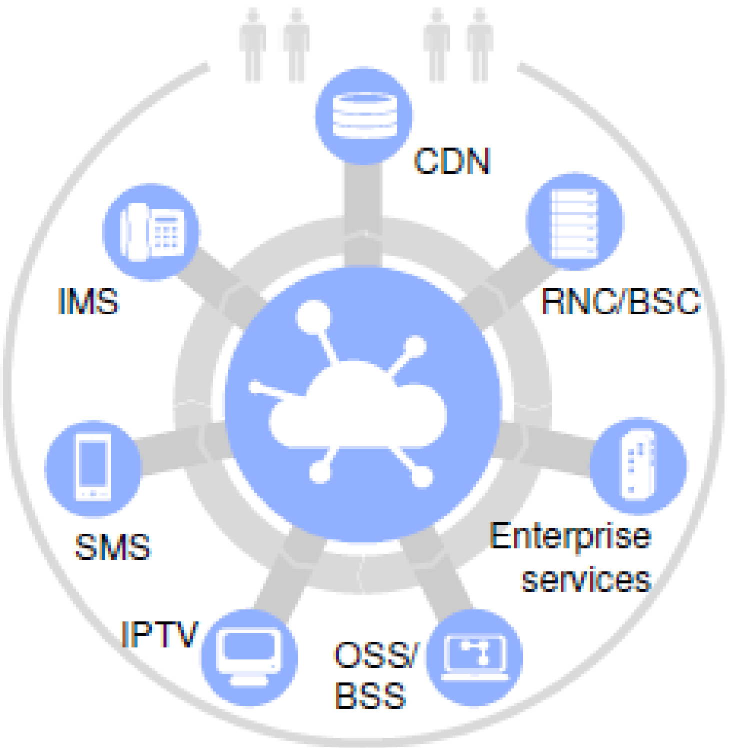
SDN and NFV

Bell labs study[1] shows that both capex and opex can be positively impacted by SDN and NFV, resulting in 15% to 30% Total Cost of Ownership (TCO) savings, plus the promise of new services and a more efficient operating model

First SDN products already in market trial

- Self service Virtual Private Network (VPN) product for Spark Digital and Small and Medium Enterprise (SME) customers
- Virtualised WAN service reduces provision time from weeks to hours

SDN Diagram [2]



(1) Bell Labs Consulting September 2015
(2) McKinsey global research

Network virtualisation example

Network Virtualisation Integrating to Core Network

PSTN

Hundreds of millions to build 682 switches, held in 4,553 frames over 482 exchanges

Broadsoft

$30M cost to build four racks and uses the PSTN to connect to Mobile, PSTN and International

Mobile Voice

$30-40M cost to build three switches held in 24 cabinets, Single RAN 24 RNCs

IP Multi-media Subsystems

Low tens of millions to build three racks, will run on common off the shelf hardware

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Outcomes / measures of success

Outcomes	Measures
Customers benefiting from exemplary network and operational performance	Underlying network reliability supports customer NPS score improvement
Most efficiently run network	Capex below $400M per annum
Manage exponential growth in data usage	Data costs remain flat. Cost per G/B reductions sufficient to offset 80% to 100% YoY growth in data volumes
Leverage investments in Re-engineering and Digital First Capability	Reduce provisioning time for services from days to hours
Innovating around the core	Create new waves of value which contribute tens of millions to Spark NZ's bottom line

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