



MARKET RELEASE

1 October 2019

Agreements signed for build of new Southern Cross NEXT cable

In line with updates provided as part of Spark New Zealand's annual results announcement on 21 August 2019, the Southern Cross Cable Network (Southern Cross) and its shareholders have now signed agreements and received regulatory approval for:

- Telstra to become a 25% shareholder of Southern Cross and an anchor customer of the Southern Cross NEXT undersea data cable (SX NEXT); and
- The build of SX NEXT to proceed

As previously announced, SX NEXT has been developed as an extension of the existing Southern Cross cable ecosystem and when completed is expected to be the lowest latency path from Australia and New Zealand to the United States.

The transaction will complete subject to certain conditions being satisfied. These are procedural in nature and are expected to be satisfied within the next few days.

Build costs for SX NEXT are expected to be approximately US\$300m and will be funded via a combination of:

- Debt held by Southern Cross;
- Retention of dividend streams from the existing cable network during the build phase – with no dividends expected to be received from Southern Cross in FY20 and FY21; and
- Further equity investment by Southern Cross shareholders

As a consequence of Telstra becoming a Southern Cross shareholder, Spark's shareholding in Southern Cross will be diluted from 50% to approximately 40%. Depending on the level of SX NEXT pre-sales that are secured, Spark expects to contribute a total of between NZ\$70m and NZ\$90m of equity across FY20, FY21 and FY22; with this investment providing Spark with:

- Owners economics for international bandwidth, which will continue to be a critical component of the telecommunications infrastructure serving New Zealand homes and businesses;
- Greater certainty of supply should demand for data grow faster than expected; and
- Strong long-term returns, with dividend receipts from Southern Cross expected to resume from FY22



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