9 June 2016

SKY and Vodafone NZ merger to create a leading integrated telecommunications and media group in New Zealand[1]

Key highlights:

- **SKY and Vodafone NZ merging to create a leading integrated telecommunications and media group in New Zealand**
- **The Combined Group will have the ability to offer New Zealand's best entertainment content across all platforms and devices in a rapidly evolving media and telecommunications market**
- **The Combined Group will provide an enhanced customer experience and greater choice of products and services, as well as attractive offers of entertainment content, broadband and mobile to meet the growing consumer demand for packaged services**
- **Vodafone will become a 51% shareholder in the Combined Group as a result of a consideration comprising an issue of new SKY shares and NZ$1250 million in cash, equivalent to an Enterprise Value ("EV") of $3,437 million**
- **New SKY shares will be issued at $5.40 per share, representing a 21% premium to SKY's last close of $4.47 and 27% premium to SKY's 1 month VWAP of $4.25 on 7 June 2016[2]**
- **The Combined Group is expected to deliver cost, capital expenditure and revenue synergies with a net present value ("NPV") of approximately NZ$850 million, or NZ$1.07 per share[3]**
- **The transaction is expected to be accretive to Underlying Free Cash Flow[4] per share for SKY shareholders on a pro-forma FY2017E[5] basis (prior to synergies and integration costs), with additional benefits delivered over time as synergies are realised**
- **The stronger cash flow generation and anticipated synergies are expected to support increased dividends for SKY shareholders[6]**
- **The directors of SKY unanimously recommend its shareholders to vote in favour of the resolutions to implement the proposed transaction**

[1] This announcement and the investor presentation materials released to NZX and ASX today provide a high level overview about the proposed merger of SKY and Vodafone NZ to form the Combined Group. The investor presentation contains important information including important notices and key risks in relation to certain forward looking information in this document and should be read in conjunction with this announcement. More detailed information will be contained in a combined Notice of Meeting and Explanatory Memorandum, which is expected to be made available and mailed to all SKY shareholders during the week beginning 13 June 2016

[2] Volume weighted average price between 8 May 2016 and 7 June 2016, calculated as total value of shares traded divided by the total volume of shares on the NZX

[3] Note that this amount per share solely represents the estimated aggregate post-tax NPV amount of the synergies divided by 794.2 million shares (being the expected number of shares in issue following completion). This amount does not equate to, and should not be read or taken as, an indication of any additional or increased share value or an indication of any likely movement or appreciation of the price or value of the shares

[4] Cash generated from operations less capital expenditure less payments for interest and tax, adjusted to exclude certain one-off cash flow items (a non-GAAP cash flow measure)

5 FY refers to the year ending 30 June

[6] Refer to the section titled "Future dividends" for further details

- **Grant Samuel, the Independent Adviser and Appraiser, opining on the merits of the proposed transaction has concluded that "Sky TV shareholders will clearly be better off if the proposed transaction proceeds than if Sky TV continues as a standalone entity" and that "the price and terms of the Share Issue are fair"[7]**
- **A SKY shareholder meeting to vote on the proposed transaction is expected to take place during early July. Approval by shareholders holding more than 75% of votes cast at the meeting will be required**

Sky Network Television Limited ("**SKY**") (NZX: SKT; ASX: SKT) and Vodafone Group Plc ("**Vodafone Group**") (LON: VOD, NASDAQ: VOD) today announced that they have reached an agreement to create a leading integrated telecommunications and media group in New Zealand, via a combination of SKY and Vodafone New Zealand Limited ("**Vodafone NZ**") (together the "**Combined Group**").

SKY will acquire all of the shares in Vodafone NZ for a total purchase price of NZ$3,437 million (cash and debt free), through the issue of new SKY shares giving Vodafone Europe B.V. ("**Vodafone**")[8] a 51% interest in the Combined Group and cash consideration of NZ$1,250 million, to be funded through new debt. The new SKY shares will be issued at a price of NZ$5.40 per share, representing a 21% premium to SKY's last close of $4.47 and 27% premium to SKY's 1 month VWAP of $4.25 on 7 June 2016.

Vodafone NZ is New Zealand's leading mobile and clear number two broadband provider, with over 2.35 million mobile connections and over 500,000 fixed-line connections[9]. SKY is New Zealand's leading pay TV provider with over 830,000 subscribers[10], servicing New Zealand households with its portfolio of premium content.

SKY Chairman Peter Macourt said "The merger with Vodafone is a transformational strategic step for our company. The transaction is also highly attractive to our shareholders. Our shares are being issued at a premium to market price and shareholders also participate in the substantial synergy benefits we expect from the transaction."

SKY Chief Executive John Fellet said "This is a significant and positive step in SKY's evolution as a premium entertainment company. We already enjoy an excellent partnership with Vodafone, bringing together our two highly complementary businesses is in the best interests of shareholders and customers. The Combined Group will offer exciting new packages with SKY's premium entertainment content, Vodafone NZ's communications and digital services of the future."

Vodafone NZ Chief Executive Russell Stanners said "This is an exciting time for the rapidly evolving communications and entertainment industries. The merger brings together SKY's leading sports and entertainment content with our extensive mobile and fixed networks, enabling customers to enjoy their favourite shows or follow their team wherever they are. The combination with SKY will bring greater choice, enhanced viewing experiences and will better serve New Zealanders as demand for packaged television, internet and telecoms services increases."

The Combined Group will be one of the largest companies listed on the NZX Main Board ("**NZX**"). For the year ending 30 June 2017 ("**FY2017E**"), the Combined Group will have forecast pro-forma revenue of NZ$2,914 million, Underlying

[7] Refer to section titled "Independent Adviser and Appraisal Report" for further details
[8] A wholly owned subsidiary of Vodafone Group Plc
[9] As at 31 March 2016
[10] As at 30 June 2016 based on a forecast number

EBITDA of NZ$786 million[11], Underlying Operating Free Cash Flow of $467 million[12] and Underlying Free Cash Flow of NZ$298 million[13] prior to synergies and integration costs.

Transaction benefits

Creating a market leader in New Zealand

The proposed transaction will build on the complementary capabilities of both companies to create a leading integrated telecommunications and media group in New Zealand. SKY is New Zealand's leading media and entertainment provider with a portfolio of premium content, and Vodafone NZ is the leading mobile operator and the second largest fixed-line broadband and telephony services provider in the country.

Innovation and creation of new and engaging digital products

The Combined Group will have a significantly enhanced ability to innovate and create new and engaging products for a digital future. The Combined Group will have the opportunity to tailor these products to both households and individuals in New Zealand, via its premium content and distribution assets.

Improved customer experience

The Combined Group will continue to aggregate and offer premium content, including sports, movies, news and general entertainment and will be well positioned to meet customers' future communications and viewing preferences by making its premium content portfolio available across devices via multiple distribution technologies, including satellite, fixed broadband (including cable and fibre), mobile and the digital delivery models of the future.

Enhanced ability to create attractive packages

The Combined Group will have the opportunity to optimise the packaging and cross-marketing of media, entertainment and telecommunications services to create attractive packages for customers. This includes multi-play offerings combining mobile, fixed (including voice and broadband), traditional pay television and other digital content offerings (including OTT content services).

Accelerated data growth and greater utilisation of New Zealand's advanced high speed broadband infrastructure

The Combined Group will participate in the opportunities created by the expansion of high speed broadband through the Government's fibre and rural broadband initiatives, and be better placed to drive an accelerated take-up of services. New technologies are enhancing the ability of consumers to stay connected, be entertained and do business. Importantly, it will also provide SKY with a greater ability to benefit from the switch of content distribution from traditional broadcast platforms to alternative platforms including fixed and mobile broadband.

Leveraging Vodafone Group's global capabilities

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[11] Earnings before interest, tax, depreciation, amortisation and impairment, adjusted to exclude certain one-off expenses (a non-GAAP earnings measure)
[12] Cash generated from operations less capital expenditure, adjusted to exclude certain one-off cash flow items (a non-GAAP cash flow measure)
[13] Cash generated from operations less capital expenditure less payments for interest and tax, adjusted to exclude certain one-off cash flow items (a non-GAAP cash flow measure)

Vodafone Group will provide products and services for the benefit of the Combined Group, leveraging its know-how and global scale. Areas of differentiation include handset and set top box development and procurement, global enterprise services and highly efficient centralised services.

Significant cost and capex synergies

The Combined Group is expected to generate cost and capital expenditure synergies with a total estimated post-tax NPV of approximately NZ$415 million after integration costs (equivalent to approximately NZ$0.52 per share)[14]. The sources of these synergies include rationalisation of overlapping functions, utilisation of Vodafone NZ's technical and network capabilities and improvement in the efficiency of sales and marketing. The Combined Group will also have access to a lower cost set top box through Vodafone Group and the potential to reduce the amount of satellite transponder capacity required through the use of internet-based delivery over the medium term.

Significant opportunity to accelerate revenue growth

The Combined Group is expected to generate revenue synergies with a total estimated post-tax NPV of approximately NZ$435 million after integration costs (equivalent to approximately NZ$0.55 per share)[15]. Key target areas for revenue synergies include cross-marketing of services to drive traditional pay television and OTT penetration, churn reduction and developing new products to drive customer growth.

Additional revenue synergies from mobile content consumption

There are also significant opportunities to generate additional revenue synergies (in addition to the NZ$435 million referred to above) via the monetisation of entertainment content on mobile devices that have not been included in the estimated NPV of revenue synergies described above.

Transaction metrics

The acquisition price for Vodafone NZ represents a multiple of 7.1x EV / FY2017E Underlying EBITDA[16] and a multiple of 12.5x EV / FY2017E Underlying EBITDA less capital expenditure[17].

The issue of SKY shares to Vodafone at NZ$5.40 per share implies a multiple of 8.0x EV / FY2017E Underlying EBITDA[12] and a multiple of 12.3x EV / FY2017E Underlying EBITDA less capital expenditure[13].

Impact on SKY

[14] Note that this amount per share solely represents the estimated aggregate post-tax NPV amount of the synergies divided by 794.2 million shares (being the expected number of shares on issue following completion). <u>This amount does not equate to, and should not be read or taken as, an indication of any additional or increased share value or an indication of any likely movement or appreciation of the price or value of the shares</u>

[15] Note that this amount per share solely represents the estimated aggregate post-tax NPV amount of the synergies divided by 794.2 million shares (being the expected number of shares in issue following completion). <u>This amount does not equate to, and should not be read or taken as, an indication of any additional or increased share value or an indication of any likely movement or appreciation of the price or value of the shares</u>

[16] Earnings before interest, tax, depreciation, amortisation and impairment, adjusted to exclude certain one-off expenses (a non-GAAP earnings measure)

[17] Underlying EBITDA less capital expenditure, adjusted to exclude certain one-off cash flow items (a non-GAAP cash flow measure)

The proposed transaction is expected to be accretive to Underlying Free Cash Flow[18] per share for SKY shareholders on a pro-forma FY2017E basis (prior to synergies and integration costs), with additional benefits over time as cost, capital expenditure and revenue synergies are realised.

The Combined Group is expected to have Net Debt[19] / Underlying EBITDA[20] of 2.0x for the pro-forma FY2016E period.

Impact on Vodafone Group

The proposed transaction meets Vodafone Group's M&A criteria. The Combined Group will be a consolidated subsidiary of Vodafone Group going forward. Vodafone's shares in the Combined Group will be escrowed (subject to lock-up restriction) until the Combined Group results are released for of FY2017 and there are restrictions on Vodafone increasing its interest in the Combined Group above 51%.

Near-term dividends

SKY is entitled to pay a fully imputed final dividend for FY2016 of up to 15 cents per share. In addition SKY is also entitled to pay a dividend of up to 2.5 cents per share for each full calendar month between 1 October 2016 and completion. After completion the Combined Group may pay a further dividend such that the aggregate dividend paid within the six month period ending 31 March 2017 would be up to 15 cents per share. Payment of any dividends is subject to the Board's assessment of underlying performance, current and future capital needs and the maintenance of an appropriate and efficient balance sheet. Vodafone will only be entitled to dividends paid by the Combined Group after completion.

Future dividends

The SKY Board's current intention, which is aligned with Vodafone's expectations, is to pay an annual dividend of 85% to 100% of Free Cash Flow[21] subject to the underlying performance of the Combined Group for the relevant period, the current and future capital needs of the business and maintenance of an appropriate and efficient balance sheet.

The stronger cash flow generation of the Combined Group and the expected synergies are expected to support increased dividends for SKY shareholders going forward. Assuming an illustrative 1 July 2016 completion date, the Board's intended payout range of 85-100% of Free Cash Flows[22] would be equivalent to a dividend of between 31.9 cents and 37.5 cents per share for the FY2017E period (based on pro-forma Free Cash Flow per share of 37.5 cents for FY2017E).

Financing

SKY has entered into a facility agreement with the Vodafone Group for an amount up to NZ$1.8 billion to fund the cash consideration for the acquisition, transaction related costs, repay its existing debt and fund working capital requirements of the Combined Group following completion. This loan facility will be available to be drawn at

[18] Cash generated from operations less capital expenditure less payments for interest and tax, adjusted to exclude certain one-off cash flow items (a non-GAAP cash flow measure)
[19] Bank borrowings, bonds and finance leases less cash and cash equivalents (a non-GAAP earnings measure)
[20] Earnings before interest, tax, depreciation, amortisation and impairment, adjusted to exclude certain one-off expenses (a non-GAAP earnings measure)
[21] Cash generated from operations less capital expenditure less payments for interest and tax (a non-GAAP cash flow measure)
[22] Cash generated from operations less capital expenditure less payments for interest and tax (a non-GAAP cash flow measure)

completion. SKY's Directors consider that the terms of the loan provided by Vodafone Group are attractive, but have retained the right to replace this loan if more favourable terms are available from other sources.

Board and management of Combined Group

Following completion, the initial Board of the Combined Group will be comprised of nine directors, consisting of five directors from the existing SKY Board (being four independent directors and John Fellet as an executive director) and four directors appointed by Vodafone Group (being three directors appointed to represent Vodafone noted below and Russell Stanners as an executive director). The Chairman of SKY, Peter Macourt, will be the Chairman of the Board of the Combined Group.

Russell Stanners, currently CEO of Vodafone NZ, will be appointed CEO of the Combined Group, while John Fellet will be appointed CEO of Media and Content, reporting to Russell Stanners. Mr Stanners and Mr Fellet have already established a strong working relationship over the last decade as they have developed the existing commercial agreement and working relationships that are in place between SKY and Vodafone NZ. It is intended the remainder of the management team will be drawn from the existing teams at SKY and Vodafone NZ.

The directors appointed by Vodafone will be:

- Serpil Timuray, Regional CEO Africa, Middle East and Asia-Pacific, Vodafone Group
- John Otty, Regional CFO Africa, Middle East and Asia-Pacific, Vodafone Group
- Phil Patel, Regional Commercial Director, Africa, Middle East and Asia-Pacific, Vodafone Group

SKY Directors' recommendation

The Board of SKY have given detailed consideration to the merger and the potential alternatives available to SKY, including receipt of expert strategic, financial, consulting and legal advice. The Board of SKY unanimously believes the proposed transaction will create significant ongoing financial and strategic benefits for SKY and is expected to deliver long term value enhancement for shareholders.

The Board of SKY fully supports the proposed transaction and unanimously recommends that SKY shareholders vote in favour of the resolutions to implement the merger.

Independent Adviser and Appraisal Report

The Board of SKY has obtained a report from Grant Samuel as Independent Adviser and Appraiser. With respect to the merits of the combination, Grant Samuel has observed, amongst other things, that "Sky TV shareholders will clearly be better off if the Proposed Transaction proceeds than if Sky TV continues as a standalone entity." With respect to the issue of SKY shares to Vodafone as part of the purchase price, Grant Samuel has determined "for the purpose of the NZX Listing Rules that the price and terms of the Share Issue are fair"[23]. A copy of the summary of Grant Samuel's report is included with the Notice of Meeting and Explanatory Memorandum (which is expected to be made available during the week beginning 13 June 2016) together with instructions on how to obtain a copy of the full Independent Adviser and Appraisal Report.

Documentation and timing

[23] Note that these are only some of the conclusions reached by Grant Samuel and it is recommended that you read the summary report to be attached as Appendix One of the Notice of Meeting and Explanatory Memorandum, which is expected to be made available during the week beginning 13 June 2016

This announcement and the investor presentation materials released to NZX and ASX today provide a high level overview about the proposed merger of SKY and Vodafone NZ to form the Combined Group. The investor presentation contains important information including important notices and key risks in relation to certain forward looking information in this document and should be read in conjunction with this announcement. More detailed information will be contained in a combined Notice of Meeting and Explanatory Memorandum, which is expected to be made available and is expected to be mailed to all SKY shareholders during the week beginning 13 June 2016.

The Notice of Meeting and Explanatory Memorandum will also include a summary of the Independent Adviser and Appraisal Report by Grant Samuel. The shareholder meeting to vote on the proposal is expected to take place during early July. Approval by shareholders holding more than 75% of the votes cast at the meeting will be required.

The proposed transaction is also conditional on the consent of the Overseas Investment Office and a clearance from the Commerce Commission. SKY and Vodafone expect the proposed transaction to complete around the end of 2016.

Advisors

Citigroup has acted as financial advisor to SKY, and Buddle Findlay has acted as legal counsel. Deutsche Bank and Deutsche Craigs have acted as financial advisor to Vodafone, Vodafone NZ and Vodafone Group, and Bell Gully has acted as legal counsel.

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APPENDIX

Description of Vodafone NZ

Vodafone NZ has been operating in New Zealand since 1998 and has developed into a leading telecommunications provider, offering mobile as well as fixed-line voice, broadband and TV services (by reselling SKY's content package) to residential and business customers. The company has a mobile network covering 98% of the population which has been independently certified as "best in test" in the mobile benchmark in New Zealand[24]. It also provides fixed-line services throughout the country. Vodafone has been an innovation leader in the New Zealand market leveraging the capabilities of the Vodafone Group to be first to deliver 4G services in New Zealand and offering high-end connectivity and services to its business customer base. Vodafone NZ had over 2.35 million mobile and over 500,000 fixed-line connections as at 31 March 2016.

Vodafone NZ has recently experienced strong operating and financial momentum and increased demand for some of its core mobile services as customers increasingly subscribe to high-end data services.

The table below sets out the expected financial performance of Vodafone NZ for the FY2016E and FY2017E periods.

(NZ$ million, 12 months ended 30 June [25]	**FY2016E**	**FY2017E**
Revenue	1,999	2,024
Underlying EBITDA[26]	453	481
Underlying Operating Free Cash Flow[27]	189	266

Vodafone NZ is 100% owned by UK listed Vodafone Group[28], one of the world's largest telecommunications companies with a mobile presence in 26 countries and over 462 million mobile connections worldwide. Vodafone Group generated revenues of GBP41 billion and EBITDA of GBP12 billion for the year ended 31 March 2016.

Description of SKY

SKY was established in 1987 to offer subscription television to New Zealanders nationwide, something it has done since 1990.

Subscriber numbers have grown significantly and are expected to be approximately 830,000 at 30 June 2016, making it the leading subscription television provider in New Zealand. SKY has evolved from a three channel UHF service to a digital satellite service with high definition capability and now offers products that are exclusively internet delivered. The very best shows and channels have been sourced and curated from around the globe. All of

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[24] Based on independent testing undertaken by P3 Communications GmbH in April 2016

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[26] Earnings before interest, tax, depreciation, amortisation and impairment, adjusted to exclude certain one-off expenses (a non-GAAP earnings measure)

[27] Cash generated from operations less capital expenditure, adjusted to exclude certain one-off cash flow items (a non-GAAP cash flow measure)

[28] Via its subsidiary Vodafone Europe B.V.

New Zealand's key sports can be found live on SKY including Rugby, Rugby League, Cricket and Netball. More than 350 sporting events are produced annually making SKY New Zealand's largest creator of local content.

SKY is listed on the NZX and ASX and has a market capitalisation of approximately $1.7 billion as at 7 June 2016.

The table below sets out the expected financial performance of SKY for the FY 2016E and FY2017E periods.

(NZ$ million, 12 months ended 30 June)[29]	**FY2016E**	**FY2017E**
Revenue	927	920
Underlying EBITDA[30]	336	305
Underlying Operating Free Cash Flow[31]	237	201

Vodafone Services Agreement

Vodafone NZ currently receives and pays for, a number of services from the Vodafone Group which are integral to the operation of the Vodafone NZ business. These services are governed by various different service agreements. SKY has, in conjunction with Vodafone NZ and with independent advice, agreed terms of amended services agreements to support the ongoing operation of Vodafone NZ post-completion.

[29] The investor presentation contains important information including important notices and key risks in relation to certain forward looking information in this document and should be read in conjunction with this announcement. More detailed information will be contained in a combined Notice of Meeting and Explanatory Memorandum, which is expected to be made available and is expected to be mailed to all SKY shareholders during the week beginning 13 June 2016

[30] Earnings before interest, tax, depreciation, amortisation and impairment, adjusted to exclude certain one-off expenses (a non-GAAP earnings measure)

[31] Cash generated from operations less capital expenditure, adjusted to exclude certain one-off cash flow items (a non-GAAP cash flow measure)