CREATING A LEADING TELECOMMUNICATIONS AND MEDIA GROUP

SKY

vodafone

VOTE IN FAVOUR

NOTICE OF MEETING AND EXPLANATORY MEMORANDUM
RELATING TO THE MERGER OF THE BUSINESSES
OF SKY AND VODAFONE NZ

IMPORTANT TRANSACTION FOR SKY SHAREHOLDERS

Sky Network Television Limited (SKY) is pleased to announce its agreement to merge the businesses of SKY and Vodafone New Zealand Limited (Vodafone NZ).

SKY proposes to acquire all of the shares in Vodafone NZ from Vodafone Europe B.V. (Vodafone) for a total purchase price of $3.44 billion, paid for through a mixture of cash and SKY shares. The issue of shares will result in Vodafone owning 51% of the total number of shares in SKY.

To achieve the proposed acquisition, SKY seeks shareholder approval to:

- undertake the proposed acquisition and the other ancillary transactions described in this Notice of Meeting and Explanatory Memorandum;
- issue new SKY shares to Vodafone to pay $2.19 billion of the price payable to Vodafone; and
- incur new debt to fund the $1.25 billion cash portion of the price payable to Vodafone.

The transactions referred to above are collectively referred to as the "Proposed Transaction" in this document.

The purpose of this Notice of Meeting and Explanatory Memorandum is to:

- inform you about the Proposed Transaction and the important matters requiring SKY shareholder approval in connection with the Proposed Transaction;
- make you aware of the special meeting to be held at the Pullman Hotel (Regatta Room D), Corner Princes Street and Waterloo Quadrant, Auckland 1010 on Wednesday 6 July 2016 at 10:30 a.m. to vote on the resolutions relating to those important matters;
- enable you to appraise the implications of the Proposed Transaction; and
- help you decide whether to vote for or against the resolutions. Note that if you choose not to vote at all, whether the resolutions are passed or not will be determined solely by reference to the number of votes cast by the shareholders who do vote.

As such, this is an important document that requires your immediate attention and the Board strongly advises that you read it (including the Independent Report from Grant Samuel that accompanies this Notice of Meeting and Explanatory Memorandum as Appendix One) carefully and in full before deciding how to vote. The Independent Report is a summary of the full independent adviser's report and appraisal report by Grant Samuel, a copy of which can be downloaded from the investor relations page on SKY's website at www.sky.co.nz/investor-relations. A hard copy of that full report can also be requested by calling 0800 378 300 (freephone within New Zealand), 1800 501 366 (freephone within Australia) or +64 9 488 8777.

CONTENTS

DISCLAIMER

This Notice of Meeting and Explanatory Memorandum is not an offer of securities or other financial products and the provision of this document to any person does not constitute, and may not be used for the purposes of, an offer of securities or other financial products or interests of any kind to that person or an invitation to any person to apply for the issue of securities or other financial products or interests of any kind.

NO INVESTMENT ADVICE

This Notice of Meeting and Explanatory Memorandum has been prepared without reference to the investment objectives, financial and taxation situation or particular needs of any Shareholder or any other person or entity. The information and recommendations contained in this Notice of Meeting and Explanatory Memorandum do not constitute, and should not be taken as, financial or investment advice. The Board encourages you to seek independent financial, investment or other professional advice before making any decision as to whether or not to vote in favour of the Resolutions or any other investment decision in connection with any matter related to this Notice of Meeting and Explanatory Memorandum.

WARNING AS TO FORWARD LOOKING STATEMENTS

This Notice of Meeting and Explanatory Memorandum contains certain statements that relate to the future, including some prospective financial information. Such statements are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of SKY and which may cause actual results, performance or achievements of SKY to differ materially from those expressed or implied by such statements. None of SKY, Vodafone Plc, any of their respective subsidiaries or their respective officers, directors, employees or advisers or any person named in this Notice of Meeting and Explanatory Memorandum or involved in the preparation of this Notice of Meeting and Explanatory Memorandum makes any representation or warranty (either expressed or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement. Accordingly, Shareholders are cautioned not to place undue reliance on such statements. You should read statements that relate to the future, including any prospective information in this document, in the context of all of the other information in this document (including, in particular, in the section on page 44 headed "Key risks").

ENQUIRIES

Enquiries in connection with this Notice of Meeting and Explanatory Memorandum can be directed to your broker, financial, investment, other professional adviser, or you can contact the investor hotline on 0800 378 300 (freephone within New Zealand), 1800 501 366 (freephone within Australia) or +64 9 488 8777. If you have any questions about the number of shares you hold in SKY, or how to complete the voting/proxy form, please contact SKY's registrar, Computershare Investor Services Limited on +64 9 488 8777.

ADDITIONAL INFORMATION ABOUT SKY

SKY is subject to continuous disclosure obligations under the NZX Listing Rules and the ASX Listing Rules. Market releases by SKY, including its most recent financial statements, are available at www.nzx.com under stock code SKT or at www.sky.co.nz/investor-relations. Further background and historical information in connection with SKY can be found on the main page of SKY's website www.sky.co.nz.

DEFINED TERMS, TIMES AND DATES

Unless otherwise indicated, capitalised terms used in this Notice of Meeting and Explanatory Memorandum and Appendix Two – Financial Information have the specific meaning given to them in the Glossary on page 64 of this document. All times and dates referred to in this Notice of Meeting and Explanatory Memorandum are times and dates in Auckland, New Zealand, unless otherwise stated.

CHARTS, MAPS AND DIAGRAMS

Any diagrams, charts, maps, graphs or tables appearing in this Notice of Meeting and Explanatory Memorandum are illustrative only and may not be drawn to scale.

FINANCIAL AMOUNTS

All financial amounts in this Notice of Meeting and Explanatory Memorandum are expressed in New Zealand currency unless otherwise stated. Any discrepancies between totals in tables or financial statements, or in calculations, graphs or charts are due to rounding. All financial and operational information set out in this Notice of Meeting and Explanatory Memorandum is current as at the date of this Notice of Meeting and Explanatory Memorandum, unless otherwise stated. Certain financial amounts relate to the future, including, in particular, financial information set out in Appendix Two – Financial Information. Forward looking statements should be read together with the other information in this Notice of Meeting and Explanatory Memorandum including the section on page 44 headed "Key risks" and the assumptions and the sensitivity analysis in Appendix Two – Financial Information. Certain financial information included is non-GAAP financial information. An explanation of the non-GAAP measures employed by SKY and calculations from information prepared in accordance with GAAP are included in Appendix Two – Financial Information.

DATE OF NOTICE OF MEETING AND EXPLANATORY MEMORANDUM

This Notice of Meeting and Explanatory Memorandum is dated 13 June 2016.


SKY


Vodafone

01

LETTER FROM THE CHAIRMAN OF SKY

13 JUNE 2016

Dear Shareholders,

It is my pleasure to present SKY shareholders with the opportunity to become a shareholder in a leading integrated telecommunications and media platform in New Zealand, via the proposed combination of SKY and Vodafone NZ.

In SKY's most recent annual report, Chief Executive John Fellet explained that SKY, and the entire media industry, is at a crossroads. The growing consumption of media and entertainment services over the internet has permanently changed viewing behaviours, and requires greater ability to deliver content in new and innovative ways.

SKY's Board and management team has been working on a vision to move SKY further into the media world of the future, where the focus is on enhancing the customer experience, innovation and one-on-one customer relationships.

The proposed combination of SKY and Vodafone NZ delivers on that vision by bringing together SKY's entertainment content portfolio with Vodafone NZ's telecommunications assets to create a leading integrated telecommunications and media group in New Zealand. The Combined Group will have the ability to deliver New Zealand's premium entertainment content over all forms of delivery technology, and provide customers with greater choice and an enhanced entertainment experience.

Under the proposal, the businesses of SKY and Vodafone NZ will be merged through SKY purchasing Vodafone NZ from Vodafone for a mix of cash and the issue of new SKY Shares, resulting in Vodafone becoming a 51% majority shareholder in SKY.

The Board of SKY fully supports the proposal outlined in this document, and unanimously recommends that Shareholders vote in favour of the three Resolutions to be put to them at the Special Meeting.

You'll know from SKY's previous annual and interim reports that SKY and Vodafone NZ already enjoy a long standing strategic relationship. The Proposed Transaction builds on that relationship, with the added upside being Vodafone's decision to take a 51% shareholding in SKY. Vodafone's decision to retain a significant investment through this shareholding reflects the strong working relationship between both parties, its confidence in this combination and a shared vision for the future.

The Board believes that the Combined Group will generate significant benefits for customers and Shareholders through the creation of a leading integrated telecommunications and media group in New Zealand, providing a seamless combination of premium content with market-leading customer connectivity. The Board anticipates that significant value will be generated to Shareholders through the realisation of cost, capital expenditure and revenue synergies, with an estimated post-tax NPV of approximately $850 million after integration costs.

The Board also expects that there are significant opportunities for the Combined Group to generate additional revenue synergies through the monetisation of entertainment content on mobile devices, which have not been included in the estimated NPV of synergies discussed above. Throughout the world, increased smart-phone penetration and higher mobile data speeds show a clear trend towards greater consumption of entertainment content on mobile devices, which is in turn resulting in increased mobile data usage and higher data spend by mobile users. This trend is expected to present additional revenue synergy opportunities for the Combined Group.

The Proposed Transaction is expected to be immediately accretive per Share to Shareholders on an Underlying Free Cash Flow basis in FY 2017 (prior to synergies) and the Combined Group is expected to offer an increased dividend pay-out per Share.

Grant Samuel was appointed by SKY (as an independent adviser approved by the New Zealand Takeovers Panel and an independent appraiser approved by NZX) to provide the Independent Report on the merits of the proposed combination of the SKY and Vodafone NZ businesses through SKY's acquisition of Vodafone NZ and the issue of SKY shares to Vodafone as part of the purchase price. 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". Please note however that these are only some of the conclusions reached by the Independent Adviser & Appraiser and it is recommended that you read the Independent Report attached as Appendix One.

The Board has taken advice from McKinsey and AT Kearney, amongst others, as part of the due diligence and analysis it has undertaken in relation to Vodafone NZ and the Proposed Transaction. The Board has concluded that the Proposed Transaction provides an unprecedented opportunity to create an integrated telecommunications and media group that is truly innovative in the New Zealand market and that embraces the digital future.

I am pleased to confirm that I will be Chairman of the Combined Group, that John Fellet will continue as an executive Director on the Board and will be appointed CEO of Media and Content, and that Russell Stanners (CEO of Vodafone NZ) will also join the Board and will be appointed as CEO of the Combined Group.

On behalf of the Board, I would like to thank John and all of SKY's staff and contractors for their tireless work and commitment in delivering this opportunity to you, our Shareholders. Transition periods are not new to SKY. We've gone from UHF analogue to digital satellite, satellite to internet and UFB delivery. This is the next step in SKY's evolution.

The Board unanimously recommends this opportunity to you.

Yours faithfully,

Peter Macourt
Chairman

LETTER FROM THE REGIONAL CEO – AFRICA, MIDDLE EAST AND ASIA PACIFIC, VODAFONE GROUP

13 JUNE 2016

Dear SKY shareholders,

The combination of Vodafone NZ's telecommunications business with SKY's pay television business will create a leading integrated telecommunications and media group in New Zealand that will provide services to more than half of New Zealand homes. The Combined Group will comprise two strong brands, and be number one in pay television and mobile, and number two in fixed broadband and telephony services.[1]

To date Vodafone NZ has enjoyed a successful and complementary working relationship with SKY, whereby Vodafone NZ resells SKY's pay television services and SKY promotes Vodafone NZ's broadband products and refers customers to Vodafone NZ. The combined business will build on this foundation – we believe that merging the complementary capabilities of each company will be a winning strategy to meet customers' converging communications and viewing preferences. SKY's premium content portfolio will be made available across all devices via multiple distribution technologies (including satellite, fixed broadband and mobile broadband). The combined business will also be much better placed to participate in the opportunities created by the world leading expansion of high speed broadband through the New Zealand Government's fibre and rural broadband initiatives.

Vodafone Plc will become a majority shareholder of SKY and provide products and services to the combined business for the benefit of all shareholders, leveraging its global scale and know-how, including operating in markets with increasing convergence between mobile, fixed broadband, fixed telephony and pay television services. In addition to Vodafone Group's 462 million mobile customers, we had 13.4 million fixed broadband customers and 9.5 million television customers as at 31 March 2016. Vodafone Plc has previous experience from working as a large shareholder in publicly listed companies to deliver positive returns for all shareholders. Notable examples include Vodacom in South Africa and Safaricom in Kenya. Vodafone Plc, as the ultimate parent company of Vodafone NZ, is listed on the London Stock Exchange and as at 31 May 2016 it had a market capitalisation of £61.3 billion. Vodafone Group has mobile operations in 26 countries, partners with mobile networks in a further 57 countries and has fixed broadband operations in 17 countries.

As a SKY shareholder your vote is extremely important in order to ensure that the proposed transaction can be implemented and its benefits realised for all shareholders. Vodafone Group is excited about this compelling business opportunity and we look forward to becoming a shareholder alongside you in SKY to contribute to the combined business' successful development.

Yours faithfully,

Serpil Timuray
Regional CEO –
Africa, Middle East and Asia Pacific,
Vodafone Group

[1] Market positions based on subscriber/connection numbers as at 31 December 2015 and information contained in the New Zealand Commerce Commission Annual Telecommunications Monitoring Report 2015 (published 26 May 2016).

02

KEY TRANSACTION HIGHLIGHTS

1.

Creating a market leader in New Zealand through the combination of two leading New Zealand telecommunications and media providers.

NZ ("COMBINED GROUP" SNAPSHOT)

2.35M
MOBILE CONNECTIONS[2]

#1 Market position[3]

0.51M
FIXED CONNECTIONS[4]

#2 Market position[5]

0.83M
PAY TELEVISION SUBSCRIBERS[6]

#1 Market position[7]

[2] As at 30 June 2016 based on a forecast number.

[3] Market position based on connection numbers as at 31 December 2015 and information in the New Zealand Commerce Commission Annual Telecommunications Monitoring Report 2015 (published 26 May 2016).

[4] As at 30 June 2016 based on a forecast number.

[5] Market position based on connection numbers as at 31 December 2015 and information in the New Zealand Commerce Commission Annual Telecommunications Monitoring Report 2015 (published 26 May 2016).

[6] As at 30 June 2016 based on a forecast number.

[7] Market position based on subscriber numbers as at 31 December 2015.

2.

Utilising the enhanced scale and expertise of the Combined Group to innovate and create new and engaging digital products tailored to both households and individuals in New Zealand.

FIBRE DELIVERED TV

Ability to utilise new technologies in one of the fastest growing fibre markets in the OECD

CONNECTED HOMES

Ability to deliver world class connectivity and integrate SKY with new entertainment propositions

MOBILE DELIVERED VIDEO

Personalised video experience, anywhere, anytime

3.

Improving the customer experience by enhancing the delivery of New Zealand's premium content portfolio across devices and via multiple distribution technologies.

MULTIPLE DISTRIBUTION TECHNOLOGIES

Mobile network accessible by 98% of New Zealanders

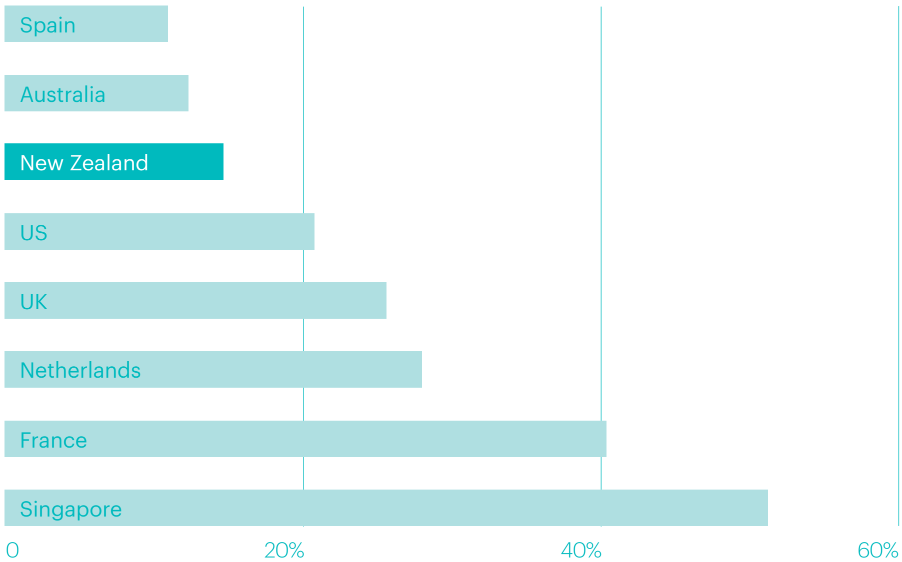
Owns more extensive fixed access network than any other retail telecommunications provider in New Zealand

Satellite television distribution

4.

Enhancing the ability to create attractive packages of content and broadband, mobile and telephony services for New Zealand customers.

FIXED TELEVISION PACKAGE PENETRATION – % OF HOUSEHOLDS*



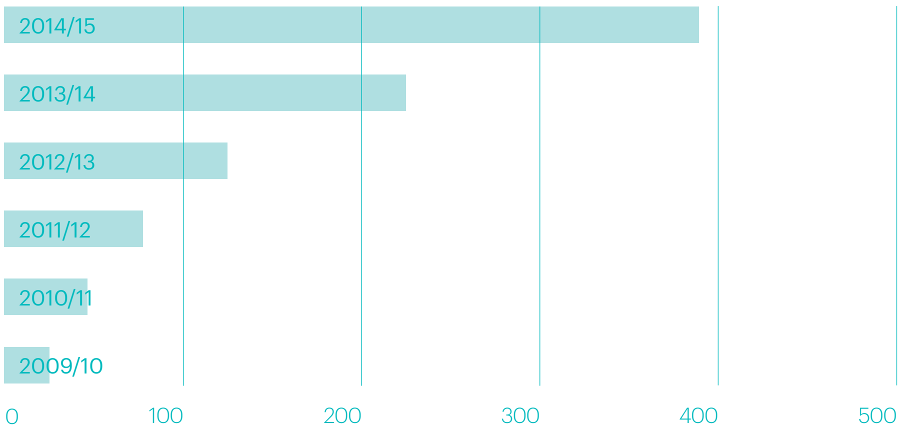
Data sourced from: Ovum 2015, company websites.

* Penetration as at May 2014 calculated as percentage of NZ households connected to a triple-play broadband package. Triple-play broadband package consists of fixed line broadband, fixed line voice and pay television services, where the package must be sold as a single offering.

5.

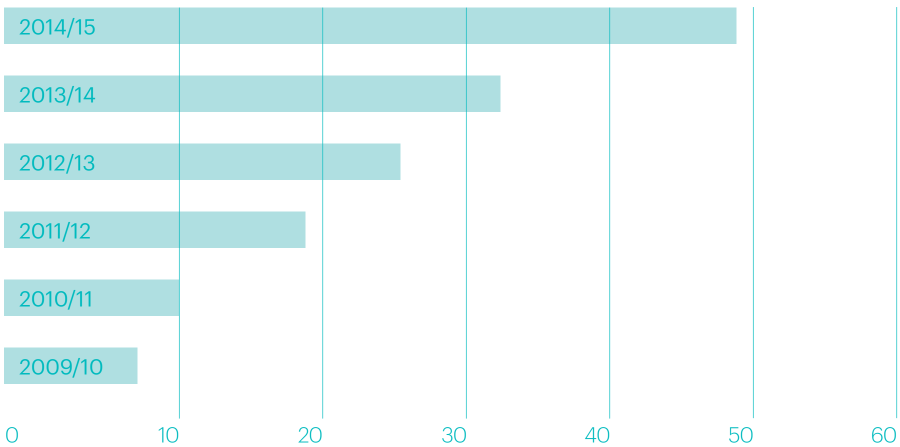
Driving accelerated data growth as well as utilisation of New Zealand's advanced high speed broadband infrastructure to accelerate the take-up of services.

NEW ZEALAND MONTHLY MOBILE DATA USAGE (MEGABYTES PER MONTH PER CONNECTION)



Data sourced from: New Zealand Commerce Commission Annual Telecommunications Monitoring Report 2015 (published 26 May 2016).

NEW ZEALAND FIXED LINE DATA USAGE (GIGABYTES PER MONTH PER CONNECTION)



Data sourced from: New Zealand Commerce Commission Annual Telecommunications Monitoring Report 2015 (published 26 May 2016).

6.

Leveraging Vodafone Group's global capabilities to provide the Combined Group with world-class products and services.

VODAFONE GROUP – GLOBAL SCALE, R&D AND BEST PRACTICES

MULTI-MARKET EXPERTISE

Mobile

>460M
CUSTOMERS

Vodafone Group sourced handset

Global connectivity

Fixed and TV

>13.4M
FIXED CUSTOMERS

>9.5M
TV CUSTOMERS

Roll out of new, transformational TV platform (including in NZ)

PURCHASING POWER

~$18.2BN
TOTAL CAPEX LAST YEAR*

Mobile Network

Fixed Network

Smartphone

Modem

Set Top Box

* Total CAPEX for Vodafone Group as per Annual Report 2016. CAPEX defined as aggregate of property, plant and equipment additions and capitalised software costs.

7.

Realising cost, capital expenditure and revenue synergies with an estimated post-tax NPV of approximately $850 million after integration costs* (equivalent to approximately $1.07 per Share after taking into account the Share Issue[8]).

ESTIMATED NPV OF SYNERGIES

Cost / capital expenditure synergies (net of integration costs)	Revenue synergies
$415 million	$435 million

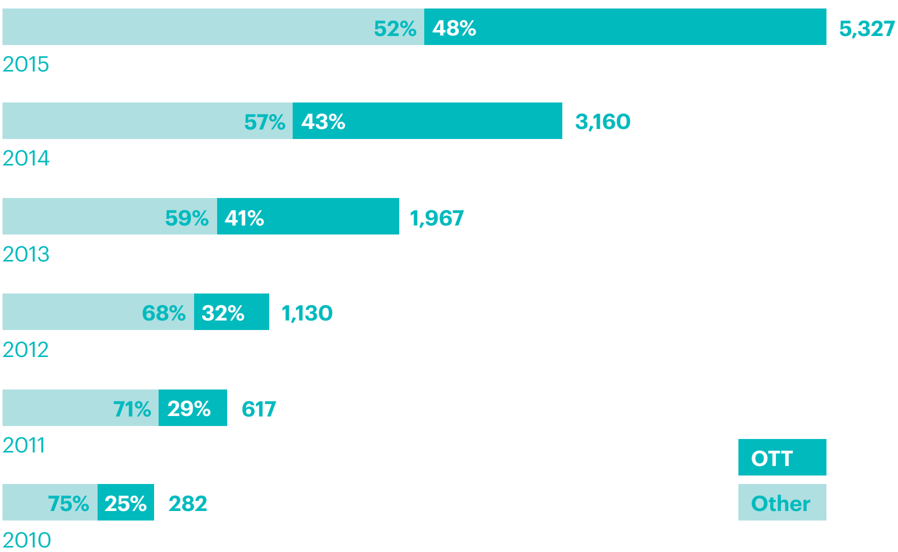
= **$850M**
TOTAL POTENTIAL SYNERGIES

* See the sections on pages 26 and 44 headed "Overview of the Combined Group" and "Key risks" for further information.

8.

Significant opportunities to generate additional revenue synergies via the monetisation of entertainment content on mobile devices (these have not been included in the estimated NPV of revenue synergies described above).

GROWING MOBILE DATA CONSUMPTION DRIVEN BY DIGITAL VIDEO CONSUMPTION*



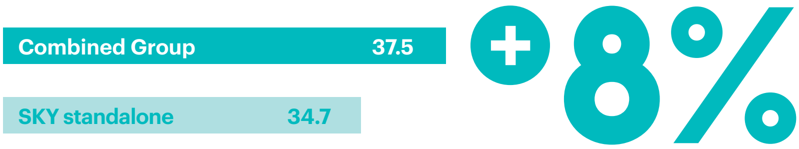
Data sourced from: Ericsson Mobility Report 2015.
* Global mobile data traffic by application, Total petabytes / month, % of total traffic. Other applications inclusive of audio, encrypted, file sharing, software download and update, social networking and web browsing.

[8] Note that this amount per Share solely represents the estimated aggregate post-tax NPV amount of the synergies (being approximately $850 million after integration costs) divided by 794.2 million Shares (being the expected number of Shares on issue following completion of the Proposed Transaction). <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>

9.

Stronger cash flow generation supports expectations of increased dividends to Shareholders. Assuming an illustrative 1 July 2016 Completion Date, the intended payout range would be equivalent to total declared dividends of between 31.9 cents and 37.5 cents per Share for the FY 2017 period.[9]

FY 2017 UNDERLYING FREE CASH FLOW PER SHARE (PRE-SYNERGIES) (cents)



TRANSACTION SUMMARY

Acquisition enterprise value of Vodafone NZ	**$3,437 million**
Value of cash consideration[10]	**$1,250 million**
Value of equity issued to Vodafone	**$2,187 million**
Issue price of Shares issued to Vodafone	**$5.40[11]**
Issue price premium to SKY last close[12]	**20.8%**
Number of Shares issued to Vodafone at Completion	**405,023,041[13]**
% of Shares on issue	**51.0%**
Number of Shares held by existing Shareholders	**389,139,785**
% of Shares on issue	**49.0%[14]**

IMPLIED TRANSACTION METRICS RELATING TO SKY'S ACQUISITION OF VODAFONE NZ

Implied Vodafone NZ Enterprise Value / FY 2017 EBITDA[15]	**7.1x**
Implied Vodafone NZ Enterprise Value / FY 2017 EBITDA less capital expenditure[16]	**12.5x**

[9] Based on Underlying Free Cash Flow per Share of 37.5 cents for the FY 2017 period. Note, however, that this dividend amount is hypothetical given the Completion Date is likely to be later than the assumed date of 1 July 2016.

[10] Value of cash consideration subject to adjustments to reflect Completion adjustments (relating to target Net Interest Bearing Debt (taking into account usual working capital amounts) and capital expenditure as at Completion).

[11] Based on 389,139,785 Shares on issue in SKY at the date of this document and 405,023,041 Shares issued in connection with the Proposed Transaction.

[12] Closing price of Shares as at 7 June 2016 on the NZX Main Board, being the last trading day prior to announcement of the Proposed Transaction.

[13] Based on 389,139,785 Shares on issue in SKY at the date of this document and 405,023,041 Shares issued in connection with the Proposed Transaction.

[14] Based on 389,139,785 Shares on issue in SKY at the date of this document and 405,023,041 Shares issued in connection with the Proposed Transaction.

[15] Based on Vodafone NZ FY 2017 Underlying EBITDA of $481 million.

[16] Based on Vodafone NZ FY 2017 Underlying EBITDA of $481 million less capital expenditure of $206 million.

SELECTED FINANCIAL INFORMATION

	SKY standalone		Combined Group	
$ million	FY 2016	FY 2017	FY 2016	FY 2017
Revenue	927	920	2,903	2,914
Underlying EBITDA	336	305	789	786
Underlying Operating Free Cash Flow	237	201	426	467
Underlying Free Cash Flow per Share	–	$0.347	–	$0.375
Net Interest Bearing Debt	325	295	1,575	1,544
Net Interest Bearing Debt / Underlying EBITDA	1.0x	1.0x	2.0x	2.0x

IMPORTANT DATES

ANNOUNCEMENT OF THE PROPOSED TRANSACTION	9 JUNE 2016
SKY SPECIAL MEETING OF SHAREHOLDERS	6 JULY 2016
ANTICIPATED REGULATORY APPROVAL PROCESS*	JUNE - DECEMBER 2016
ANTICIPATED COMPLETION OF THE PROPOSED TRANSACTION*	BY DECEMBER 2016
ANTICIPATED CHANGES TO BOARD TAKE EFFECT*	BY DECEMBER 2016

* Please note these dates are estimated dates only and are subject to change, including as a result of matters beyond SKY's control.

THE PROPOSED TRANSACTION AT A GLANCE WITH ANSWERS TO SOME KEY QUESTIONS

Question	Answer	Further information
What is the Proposed Transaction?	The Proposed Transaction involves the businesses of SKY and Vodafone NZ being merged and becoming part of a combined group. This involves SKY acquiring 100% of the shares in Vodafone NZ from Vodafone and new Shares being issued to Vodafone so that it owns 51% of the total Shares on issue in SKY. SKY will remain listed on the NZX Main Board and ASX.	"Details of the Proposed Transaction and transaction documents" on page 50
What is Vodafone NZ?	Vodafone NZ is a full service telecommunications company, offering mobile (voice, messaging and data) and fixed (voice and broadband) services, to consumer and enterprise customers. It is a wholly-owned subsidiary of Vodafone Plc.	"Overview of Vodafone NZ" on page 36
What are Vodafone Plc and the Vodafone Group?	Vodafone Plc is one of the world's largest telecommunications companies and is listed on the London Stock Exchange. It is the ultimate parent company of a multi-national group of companies, consisting of Vodafone Plc and its subsidiaries, including Vodafone, together referred to in this document as the Vodafone Group. The Vodafone Group has mobile operations in 26 countries, partners with mobile networks in a further 57 countries and has fixed broadband operations in 17 countries.	"Letter from the Regional CEO – Africa, Middle East and Asia Pacific, Vodafone Group" on page 5
How much will SKY pay for Vodafone NZ?	$3.44 billion in total, consisting of $1.25 billion in cash (subject to agreed adjustments) and $2.19 billion satisfied by issuing new Shares to Vodafone, equivalent to 51% of the total number of Shares that will be on issue immediately following Completion.	"Acquisition purchase price" on page 50 See also the Independent Report at Appendix One under the section on page 11 headed "Grant Samuel has valued Vodafone NZ in the range $3,400-3,700 million"
How will SKY fund the cash portion of the purchase price?	SKY intends to incur the New Debt to fund the cash portion of the purchase price, amongst other things. Initial facilities from Vodafone Overseas Finance Limited, a UK incorporated member of the Vodafone Group, are available to SKY on what the Board believes to be attractive terms, although SKY has the right to secure alternative facilities from third parties subject to certain conditions.	"Summary of Acquisition funding" on page 50
How many Consideration Shares will be issued to Vodafone and what price will they be issued for?	Vodafone will be issued with Shares representing 51% of the total number of Shares on issue immediately after Completion. On the basis of the current issued share capital of SKY, Vodafone would be issued 405,023,041 new Shares in total, giving an effective issue price of $5.40 per Share. At that effective issue price, the Shares would be issued at a premium of: • 20.8% to the last closing price of the Shares on the NZX Main Board on 7 June 2016, being the last trading day prior to announcement of the Proposed Transaction; and • 26.9% to the one month VWAP of the Shares on the NZX Main Board over the period from 8 May to 7 June 2016.	"Acquisition purchase price" on page 50 See also the Independent Report at Appendix One under the section on page 9 headed "Grant Samuel has valued Sky TV in the range $1,926-2,126 million, or $4.95-5.46 per Sky TV share"

Question	Answer	Further information
What rights will Vodafone have as a 51% shareholder in SKY?	As a 51% shareholder, Vodafone will have the ability to control the composition of the Board, subject to compliance with the independence requirements of the NZX Listing Rules and ASX Listing Rules. As a major shareholder in SKY, Vodafone will also have certain other rights agreed with SKY in the Sale and Purchase Agreement and other transaction documents as summarised in this document.	"Details of the Proposed Transaction and transaction documents" on page 50 and "Shareholding rights and restrictions on Vodafone" on page 52
What is the Sale and Purchase Agreement?	The Sale and Purchase Agreement is the agreement entered into between SKY and Vodafone to give effect to, and set out the terms and conditions of, the Acquisition. A summary of some of the key terms of the Sale and Purchase Agreement are set out in this document.	"Details of the Proposed Transaction and transaction documents" on page 50
Are there any conditions to the Proposed Transaction proceeding?	There are a number of conditions that will need to be satisfied or waived in order for the Proposed Transaction to proceed, namely: • Shareholders approving the Resolutions at the Special Meeting; • obtaining all OIO approvals required for the Acquisition and the Share Issue; • obtaining all Commerce Commission clearances required for the Acquisition and the Share Issue; • certain conditions precedent to the drawing of the Loan Facility Agreement in respect of the New Debt being satisfied or waived; and • no material adverse change or prescribed breach event occurring in respect of either SKY or Vodafone NZ. The last date for all of these conditions to be satisfied or waived is the long stop date of 28 February 2017 (unless extended by agreement between SKY and Vodafone).	"Conditions to the Sale and Purchase Agreement" on page 50
When will the Proposed Transaction happen?	It is currently expected that the required regulatory approvals will take several months to obtain so the current expectation is that the Proposed Transaction will complete in the last calendar quarter of 2016.	"Conditions to the Sale and Purchase Agreement" on page 50
What are the Vodafone Services Agreements?	As part of the Proposed Transaction, there will be a number of services agreements between various members of the Combined Group and the Vodafone Group. These agreements provide the Combined Group with continued access to a range of services necessary to the operation of the business following Completion and have been prepared following consultation with Vodafone NZ management and taking independent advice. These agreements, referred to in this document as the Vodafone Services Agreements, include four main agreements relating to group procurement arrangements for products and services from third party suppliers, international roaming arrangements, rights to use the Vodafone brand and access to a range of other products, services and expertise. An overview of the Vodafone Services Agreements and some of the key terms of the four main agreements are set out in this document.	"Services agreements between the Combined Group and Vodafone Group entities following Completion" on page 54

ASSESSMENT OF THE PROPOSED TRANSACTION

Question	Answer	Further information
What will be the benefits of the Proposed Transaction and why should I vote for it?	The Board believes that the Proposed Transaction will generate significant benefits for Shareholders, through the creation of a leading integrated telecommunications and media group in New Zealand and the realisation of material synergies. Management estimates the total expected synergies, expected to be realised over the medium term, to have an estimated post-tax NPV of approximately $850 million with approximately $415 million of these coming from cost and capital expenditure synergies (after gross pre-tax integration costs of approximately $80 million) and approximately $435 million coming from revenue synergies. As viewing behaviours continue to shift to mobile platforms the Board expects that there will be significant opportunities for the Combined Group to generate additional revenue synergies through the monetisation of entertainment content on mobile devices.	"Key reasons to vote in favour of the Proposed Transaction" at page 20 and "Business integration opportunities" at page 31
What is the recommendation of the Board?	The Board unanimously recommends that Shareholders vote in favour of the Resolutions.	"Recommendation of the Board" on page 23
What is the opinion of the Independent Adviser & Appraiser?	The Independent Adviser & Appraiser 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". Please note however that these are only some of the conclusions reached by the Independent Adviser & Appraiser and it is recommended that you read the Independent Report attached as Appendix One.	"Independent Report" at Appendix One
Are there any potential disadvantages to the Proposed Transaction?	While the Board unanimously recommends that you vote in favour of the Proposed Transaction, there are factors relating to the Proposed Transaction that Shareholders may consider potential disadvantages. These include that existing shareholdings will be diluted, there will be a controlling Shareholder and SKY's debt will be substantially increased.	"Reasons why you may consider voting against the Proposed Transaction" on page 23 and "Key risks" on page 44
Are there any risks associated with the Proposed Transaction?	There are risks associated with the Proposed Transaction, both specific to the Proposed Transaction itself and more broadly to the Combined Group going forward, most of which relate to the business of Vodafone NZ and are therefore risks not faced by SKY today.	"Reasons why you may consider voting against the Proposed Transaction" on page 23 and "Key risks" on page 44

IMPACT OF THE PROPOSED TRANSACTION ON SKY

Question	Answer	Further information
What will be the Combined Group's debt position?	As noted above, SKY intends to incur the New Debt and therefore SKY's existing debt will be substantially increased and the Combined Group will have, immediately after Completion, total leverage of 2.0x (based on ratio of Combined Group Net Interest Bearing Debt to Underlying EBITDA for FY 2016).	"Capital structure of the Combined Group" on page 32
What will be the Combined Group's dividend policy?	It is the Board's expectation that the Combined Group may be able to pay a higher dividend per Share than would have been paid by SKY as a standalone company. The Board's current intention going forward is to pay an annual dividend of 85-100% of Free Cash Flow, subject to the Board's assessment of 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 prudent balance sheet.	"Dividend policy" on page 34
Who will be the directors of the Combined Group?	The initial Board of the Combined Group following Completion will be comprised of nine directors, consisting of five Directors from the existing SKY Board (four of whom will be independent and John Fellet as an executive Director) and four Directors appointed by Vodafone Group, being Serpil Timuray, John Otty, Phil Patel and, as executive Director and CEO of the Combined Group, Russell Stanners. The present Chairman of SKY, Peter Macourt, will be the Chairman of the Board of the Combined Group.	"Board and management" on page 35
What happens to my Shares?	Nothing happens to your Shares but if the Proposed Transaction proceeds, existing shareholdings will be diluted down from having, in aggregate, a 100% shareholding in SKY, to having an aggregate 49% shareholding in SKY (although SKY will be a substantially larger company as a result of the Proposed Transaction).	"Reasons why you may consider voting against the Proposed Transaction" on page 23

SKY SHAREHOLDER APPROVAL OF THE PROPOSED TRANSACTION

Question	Answer	Further information
What am I being asked to vote on?	You are being asked to vote on three Resolutions relating to the Proposed Transaction. In summary: • Resolution 1 is a special resolution to approve the Acquisition; • Resolution 2 is a special resolution to approve the incurrence of the New Debt; and • Resolution 3 is an ordinary resolution to approve the Share Issue. The Proposed Transaction will not proceed unless all of the Resolutions are passed.	"Explanation of the Resolutions and additional information" on page 60
What level of Shareholder approval is required in order for the Resolutions to pass?	Resolutions 1 and 2, as special resolutions, require 75% of the votes of the Shareholders entitled to vote and voting on the resolutions to be voted in favour in order for those resolutions to pass. Resolution 3, as an ordinary resolution, requires a simple majority of the votes of the Shareholders entitled to vote and voting on the resolution to be voted in favour in order for the resolution to pass. Each of the Code, the NZX Listing Rules and the ASX Listing Rules prohibit certain parties associated with Vodafone from voting on certain of the Resolutions. Based on the information known to the Directors as at the date of this Notice of Meeting and Explanatory Memorandum, it is not currently expected that there will be any parties prohibited from voting on the Resolutions because of an association with Vodafone.	"Explanation of the Resolutions and additional information" on page 60
When and where will the vote take place?	The Resolutions will be voted on at a Special Meeting of Shareholders to be held at the Pullman Hotel (Regatta Room D), Corner Princes Street and Waterloo Quadrant, Auckland 1010 on Wednesday 6 July 2016 at 10:30 a.m.	"Notice of Meeting of Shareholders" on page 58
If I wish to vote on the Resolutions, how can I do so?	You can vote on the Resolutions: • in person at the Special Meeting; or • by appointing a proxy to attend the Special Meeting and vote in your place.	"Voting and Proxies" on page 59
What will happen if all of the Resolutions are not approved or the Proposed Transaction does not otherwise proceed?	If all of the Resolutions are not approved the Proposed Transaction will not proceed. If the Proposed Transaction does not proceed (either because the Resolutions are not approved or for other reasons including, for example, because a condition is not satisfied or waived): • SKY can be expected to operate in the same manner as it did before the Resolutions were put to Shareholders although SKY may consider alternative strategies to achieve some or all of the anticipated benefits of the Proposed Transaction; • SKY will have incurred Transaction Costs and in certain circumstances, SKY may incur a termination fee of up to $21.5 million; and • SKY and its Shareholders will continue to be exposed to the risks, and subject to the challenges, inherent in SKY's business.	"Other relevant considerations" on page 25

03

KEY CONSIDERATIONS RELEVANT TO YOUR VOTE

KEY REASONS TO VOTE IN FAVOUR OF THE PROPOSED TRANSACTION

The Proposed Transaction will create an integrated telecommunications and media group that is truly innovative in the New Zealand market and that embraces the digital future. The Combined Group will have significantly enhanced flexibility and will be better able to meet changing customer needs in the rapidly evolving telecommunications, media and entertainment markets compared to the status quo.

The Board 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.

(a) 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 platform in New Zealand. SKY is New Zealand's leading media and entertainment provider with a portfolio of premium content, and Vodafone NZ is New Zealand's leading mobile operator and is the second largest fixed line broadband and telephony services retailer in the country.[17]

The number and resources of new entrants now delivering content to consumers mean that SKY faces greater competition than ever. The merging of the Vodafone NZ and SKY businesses will give SKY access to a larger revenue and customer base across which to spread the cost of rights to premium content and allow for more efficient monetisation of content. The Combined Group will continue to sell wholesale telecommunications and content products, as each of Vodafone NZ and SKY does today, to take advantage of growth opportunities in wholesale markets.

The Combined Group will have over 0.83 million television Subscribers, together with over 2.35 million mobile and 0.51 million fixed line connections.[18] The Combined Group is expected to have around $2.9 billion of total revenue, $786 million of Underlying EBITDA and $467 million of Underlying Operating Free Cash Flow on a prospective basis for FY 2017.

(b) 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 digital products that embrace a digital future. The Combined Group will have the opportunity to tailor these products to both households and individuals in New Zealand, via its scaled positions, premium content and distribution assets.

The Combined Group will be well positioned to develop social and multi-screen television applications, together with new digital products and services for its expanded customer base. These may include additional services around the connected home, mobile applications, Internet of Things, loyalty rewards and real time, contextual retail promotions.

(c) Improving the 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.

The Combined Group is expected to be able to leverage Vodafone NZ's expertise in mobile and fixed line networks to improve the reliability and resilience of SKY's services.

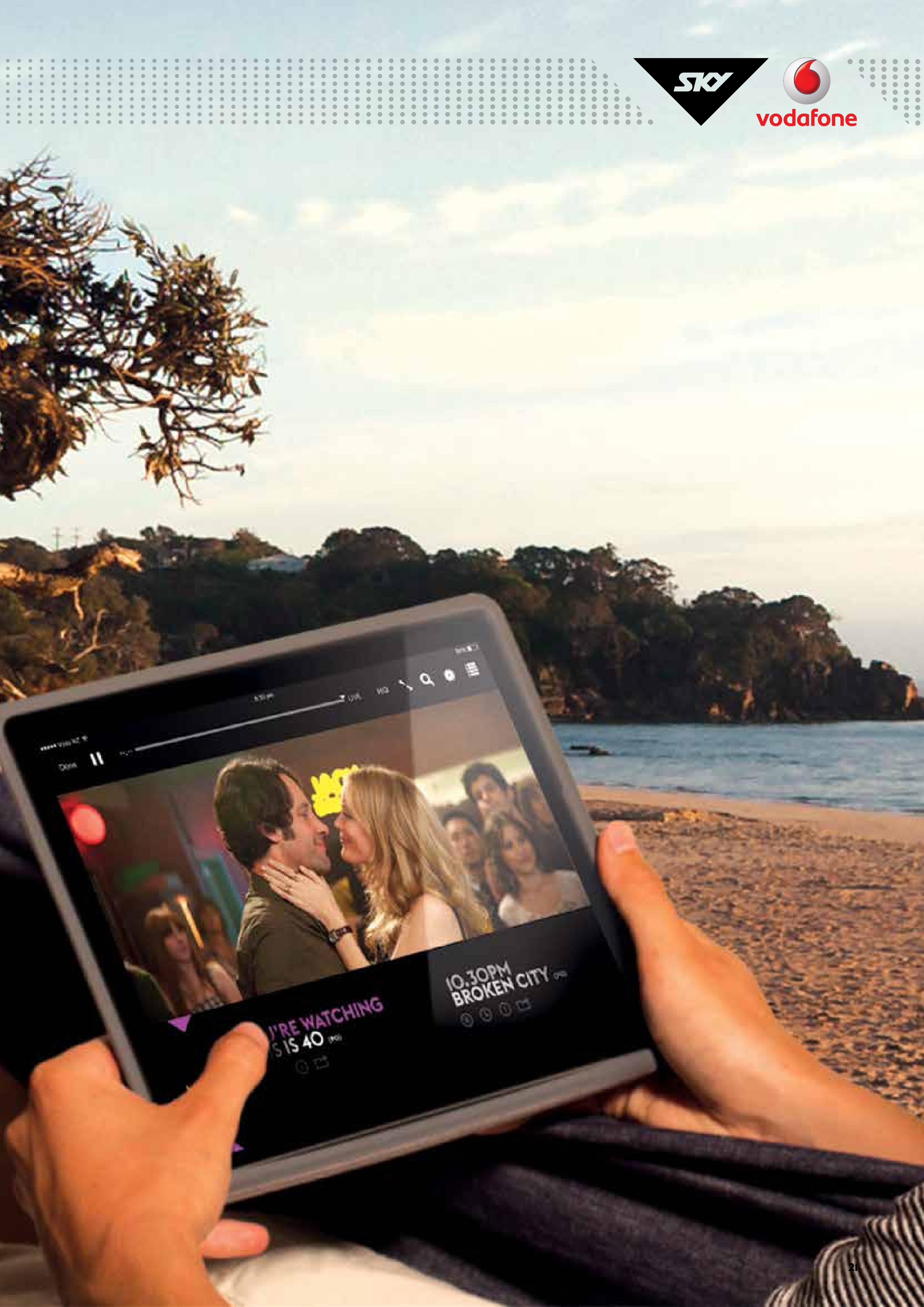
(d) Enhancing the ability to create attractive packages

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

---

[17] Market positions based on connection numbers as at 31 December 2015 and information in the New Zealand Commerce Commission Annual Telecommunications Monitoring Report 2015 (published 26 May 2016).

[18] As at 30 June 2016 based on a forecast number.


10.30PM
BROKEN CITY

While SKY and Vodafone NZ have existing commercial partnerships to enable the cross-marketing and joint marketing of services across their respective businesses, SKY does not consider that these initiatives are as effective as they will be in a single, integrated entity with a common ownership and strategic objectives. Traditional pay television operators throughout the world have sought to strengthen their core pay television business with wholly owned telecommunications services (e.g. Sky Plc in the UK; AT&T / DirectTV in the USA; Kable Deutschland (partially owned by Vodafone Group) in Germany).

In most mature markets, there is already approximately 30% or greater penetration in broadband and pay television convergence compared to approximately 13% in New Zealand,[19] and the Board has been advised that this allows the players in these markets to implement more effective strategies to drive subscriber growth, create value and drive superior margins relative to businesses which are standalone broadband or pay television providers.

(e) Driving accelerated data growth as well as 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, driving an accelerated take-up of services. New technologies are enhancing the ability of consumers to stay connected (e.g. voice calls, video calls, machine-to-machine data, etc.), be entertained (e.g. video streaming, audio streaming, etc.) and do business (e.g. video conferencing, cloud storage, remote desktops, etc.).

Over 75% of New Zealanders are expected to have a fibre fixed broadband connection available to them by 2019, offering the Combined Group an outstanding opportunity to deliver content and advanced data services to a growing customer base.

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. The Combined Group will benefit from a constantly growing demand for mobile data, driven by the proliferation of smartphones and the switch to fourth generation mobile telecommunications technology (commonly known as '4G').

(f) Leveraging Vodafone Group's capabilities

At Completion, Vodafone will become the majority shareholder of the Combined Group. The Vodafone Group will provide products and services to the Combined Group through the Vodafone Services Agreements. See the section on page 54 headed "Services agreements between the Combined Group and Vodafone Group entities following Completion" for further information. The Vodafone Services Agreements will allow the Combined Group to leverage Vodafone Group's know-how, expertise, global scale and brand for the benefit of SKY and all its Shareholders and enable the Combined Group to compete efficiently and effectively at a world-class level.

The Vodafone Group is one of the world's largest providers of mobile and fixed line services and has a wealth of experience in the provision of communication services including voice, messaging, data and fixed communications to consumer and enterprise customers.

Vodafone Group is at the forefront of the latest technologies both in the fixed line and mobile space and can provide access to the benefits of being part of a global group. Key areas of value include handset and set top box development as well as procurement, global enterprise services, global roaming arrangements and providing access to highly efficient centralised services.

(g) Significant cost and capital expenditure synergies

The Combined Group is expected to generate cost and capital expenditure synergies with a total estimated post-tax NPV of approximately $415 million after integration costs (equivalent to approximately $0.52 per Share after taking into account the Share Issue[20]).

The sources of these synergies will include rationalisation of spend in common functional areas, utilisation of Vodafone NZ's technical and network capabilities and improvement in the efficiency of sales and marketing. Over the medium term the Combined Group will also have the potential to access a lower cost set top box through Vodafone Group and the potential to reduce the amount of satellite capacity required through the use of internet-based delivery.

Please refer to the section on page 31 headed "Business integration opportunities" for further information on the cost and capital expenditure synergies, including the calculation of synergy values and estimated time period for delivery, and the section on page 44 headed "Key risks" for further information on the risks associated with their delivery.

(h) Significant opportunity to grow revenue through combination

The Combined Group is expected to generate expected revenue synergies with a total estimated post-tax NPV of approximately $435 million (equivalent to approximately $0.55 per Share after taking into account the Share Issue[21]).

Key target areas for revenue synergies include sales from cross-marketing of services, driving traditional pay television and OTT penetration and taking steps to reduce churn via sales through cross-marketing, making SKY's content available across more delivery platforms, and new product development to drive customer growth.

Please refer to the section on page 31 headed "Business integration opportunities" for further information on the revenue synergies, including calculation of synergy values, and the section on page 44 headed "Key risks" for further information on the calculation of synergy values and the risks associated with their delivery.

[19] Data sourced from: Ovum 2015, company websites. Penetration as at May 2014, calculated as percentage of NZ households connected to a triple-play broadband package. Triple-play broadband package consists of fixed line broadband, fixed line voice and pay television services, where the package must be sold as a single offering.

[20] Note that this amount per Share solely represents the estimated aggregate post-tax NPV amount of the synergies (being approximately $415 million after integration costs) divided by 794.2 million Shares (being the expected number of Shares on issue following completion of the Proposed Transaction). 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.

[21] Note that this amount per Share solely represents the estimated aggregate post-tax NPV amount of the synergies (being approximately $435 million) divided by 794.2 million Shares (being the expected number of Shares on issue following completion of the Proposed Transaction). 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.

(i) Additional revenue synergies from mobile content consumption

The Board also expects that there are significant opportunities to generate additional revenue synergies (in addition to the $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. Throughout the world, the increased penetration of smart-phone devices and higher mobile data speeds has resulted in a clear trend towards greater consumption of entertainment content on mobile devices, which is in turn resulting in increased mobile data usage and higher data spend by mobile users. This trend is expected to present revenue synergy opportunities for the Combined Group as viewing behaviours continue to shift to mobile platforms. There is evidence in other markets throughout the world that these opportunities are already being pursued by mobile and content providers. The Board believes these to be additional revenue opportunities for the Combined Group, but has not ascribed a specific NPV estimate to them as the quantum and potential timing of delivery of these opportunities are not yet able to be established with certainty due to their relatively early stage of development.

For further information on the synergies, please see the section on page 5 of the Independent Report at Appendix One headed "The combination of the Sky TV and Vodafone NZ businesses is expected to yield significant cost and revenue synergies".

(j) Stronger cash flow generation supports expectations of increase of dividends to Shareholders

The Combined Group's compelling integrated telecommunications and media offering is anticipated to contribute to enhanced earnings and cash flows.

The Proposed Transaction is also expected to be accretive (pre-synergies) to Shareholders on an Underlying Free Cash Flow basis in the 12 months after Completion. When combined with the cost and capital expenditure savings and potential revenue upside via the sales from cross-marketing of products and services across respective customer bases, the cash flow benefits are expected to increase over time.

The Combined Group is committed to a continuation of SKY's policy to deliver attractive returns to Shareholders supported by an expected increase in its dividend capacity from free cash generated. The Board's current intention is to pay an annual dividend of 85-100% of Free Cash Flow, subject to the Board's assessment of 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 prudent balance sheet. Assuming an illustrative 1 July 2016 Completion Date, the intended payout range would be equivalent to total declared dividends of between 31.9 cents and 37.5 cents per Share for the FY 2017 period (based on Underlying Free Cash Flow per Share of 37.5 cents for the FY 2017 period). Note, however, that this dividend amount is hypothetical given the Completion Date is likely to be later than the assumed date of 1 July 2016.

No guarantee can be given about payment of future dividends as they depend upon future events. For further information see the section on page 44 headed "Key risks".

RECOMMENDATION OF THE BOARD

The Board fully supports the Proposed Transaction and unanimously recommends that Shareholders vote in favour of the Resolutions.

Each Director has indicated that he or she will be voting the Shares they hold in favour of all of the Resolutions.

INDEPENDENT ADVISER & APPRAISER'S VIEWS

The Independent Adviser & Appraiser 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". Please note however that these are simply some of the conclusions reached by the Independent Adviser & Appraiser and it is recommended that you read the Independent Report attached as Appendix One.

REASONS WHY YOU MAY CONSIDER VOTING AGAINST THE PROPOSED TRANSACTION

While it is expected that the Proposed Transaction will deliver significant value for Shareholders, there are also factors relating to the Proposed Transaction that Shareholders may consider negatively impact SKY or its Shareholders, including the following.

(a) Dilution of shareholding in SKY

The aggregate percentage holding of an existing Shareholder will be diluted by the issue of new Shares to Vodafone, which will become a controlling Shareholder. If the Proposed Transaction proceeds, then existing Shareholders will be diluted down from holding, in aggregate, a 100% shareholding in SKY, to holding, in aggregate, a 49% shareholding, albeit in the much larger Combined Group. The Independent Adviser & Appraiser has observed in the Independent Report that the structure of the Proposed Transaction is such that Shareholders are potentially giving up the opportunity to receive a takeover premium through an actual takeover offer for SKY by the Vodafone Group or by some third party, but has also observed that, by way of compensation, Shareholders will benefit to the extent that Shares reflecting the Combined Group trade at higher prices than Shares reflecting a standalone SKY.

(b) Increased debt

The Combined Group Net Interest Bearing Debt as at FY 2016 of $1.575 billion is substantially more than SKY's standalone projected Net Interest Bearing Debt of $325 million as at FY 2016, in part reflecting the increased size of the Combined Group, relative to SKY on a standalone basis. The Combined Group's leverage ratio of 2.0x (based on ratio of Combined Group Net Interest Bearing Debt to Underlying EBITDA for FY 2016), compares to the standalone leverage ratio of 1.0x for SKY (based on ratio of SKY Net Interest Bearing Debt to Underlying EBITDA for FY 2016). As a result, there will be a substantial increase in the financial risk inherent in SKY's capital structure and a substantial increase in interest costs payable by SKY.

(c) Exposure to new sector and markets

While the Board believes diversification of SKY's business into a new sector to be an advantage, certain Shareholders may take the view that expansion of SKY's business into a new sector may be a disadvantage because SKY would no longer be mainly focused on pay television. Further, this diversification will expose SKY to new challenges and risks and will mean that pay television will cease to be the primary revenue driver of SKY.

(d) Forfeiture of imputation credits

Any imputation credits held by SKY (and Vodafone NZ) that have not been utilised prior to Completion will be forfeited as a result of the Proposed Transaction. Those imputation credits may otherwise have been available to be attached to dividends paid by SKY (and Vodafone NZ).

KEY RISKS

In addition to the potential disadvantages above, there are a number of risks associated with the Proposed Transaction and the Combined Group. See the section on page 44 headed "Key risks" for further information.

OTHER RELEVANT CONSIDERATIONS

Implications for SKY if the Proposed Transaction does not proceed

If the Proposed Transaction is not approved or does not otherwise proceed:

- SKY will continue to:
  - exist as an independent, standalone entity listed on the NZX Main Board and ASX and operate under the existing corporate structure with its Board and management in place;
  - focus on its current businesses and investments and implement its strategy as previously announced but may also consider alternative strategies to achieve some or all of the anticipated benefits of the Proposed Transaction, including strategies to broaden content distribution or to participate in other distribution networks; and
  - be exposed to the risks and subject to the challenges inherent in SKY's businesses, particularly as a standalone operator.
- SKY will incur Transaction Costs of approximately $13 million in connection with the Proposed Transaction.[22]
- SKY may, in certain circumstances, incur a termination fee of up to $21.5 million.
- The anticipated benefits of the Proposed Transaction will not be realised.

YOUR OPTIONS AS A SHAREHOLDER

In order for the Proposed Transaction to proceed, amongst other things, each of the Resolutions must be passed as set out in this document. As such, the Shareholders of SKY entitled to vote on those Resolutions have the opportunity to have their say on whether they think the Proposed Transaction should proceed.

See the sections on pages 58, 59 and 60 headed "Resolutions", "Voting and proxies" and "Explanation of the Resolutions and additional information" for further information regarding the Resolutions, how to vote and associated rights of Shareholders. Shareholders are not required to take any particular action and may choose to do nothing in response. If such Shareholders choose to do nothing, whether the Resolutions are passed or not and therefore whether the Proposed Transaction is able to continue to proceed or not will be determined according to the votes of those entitled to vote and voting on the Resolutions.

[22] Excluding the termination fee, if payable, described in further detail in the section on page 53 headed "Termination fee".

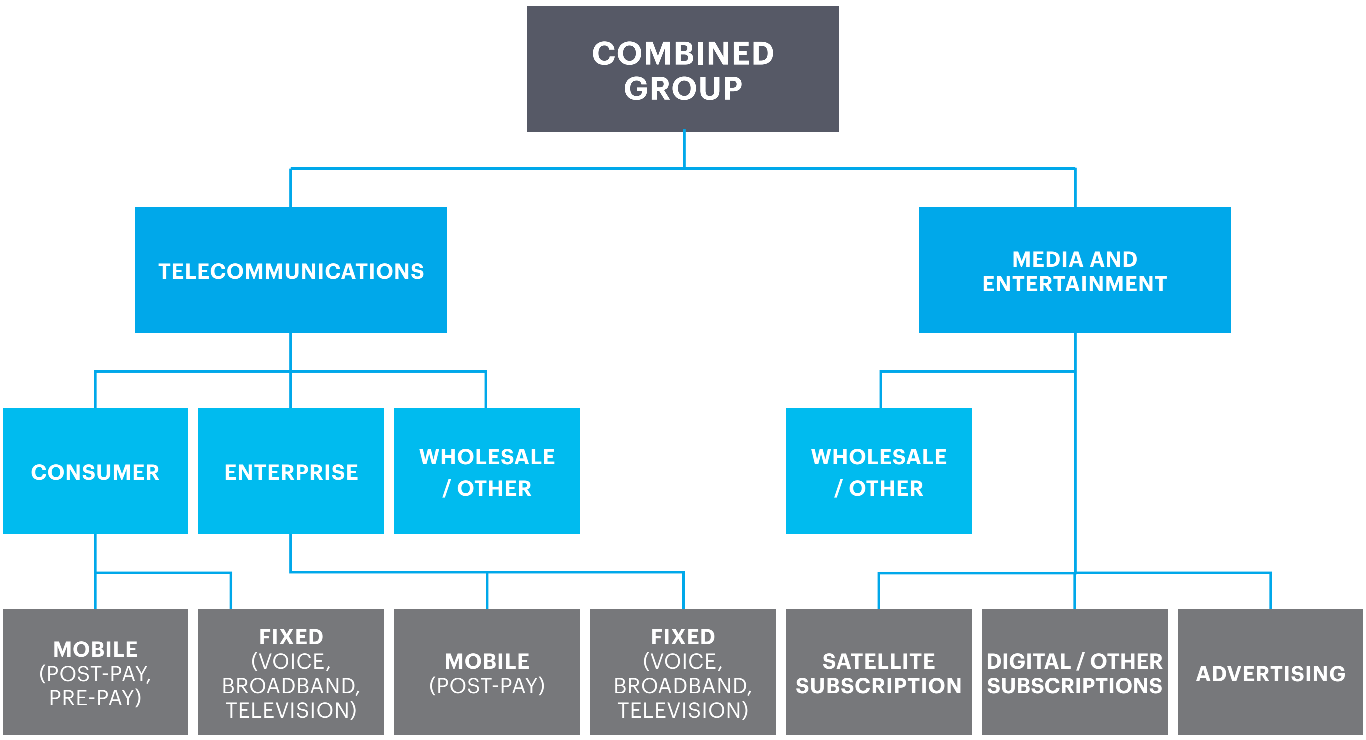
04

OVERVIEW OF THE COMBINED GROUP

The Proposed Transaction will create an integrated telecommunications and media group that is truly innovative in the New Zealand market and that embraces the digital future.

The Combined Group will comprise two strong brands – SKY, New Zealand's leading media and entertainment provider and Vodafone NZ, New Zealand's leading mobile operator and the second largest fixed line broadband and telephony services retailer in the country.[23] The Combined Group will have pro forma total revenue for FY 2016 of more than $2.9 billion, and provide an aggregate of more than 3.7 million separate mobile and fixed connections and television subscriptions.

To date SKY has enjoyed a successful and complementary working relationship with Vodafone NZ. Currently, Vodafone NZ resells SKY's pay television services, while SKY promotes Vodafone NZ's broadband products and refers customers to Vodafone NZ.
The Combined Group will build on this foundation to accelerate the growth in Vodafone NZ's and SKY's television, broadband, fixed and mobile businesses using their brands and existing extensive distribution capacities to deliver premium content and leading services to their respective customer bases and beyond.
The Proposed Transaction is also ideally timed to take advantage of the increasing demand for digital content and New Zealand's national roll-out of UFB.



[23] Market positions based on connection numbers as at 31 December 2015 and information in the New Zealand Commerce Commission Annual Telecommunications Monitoring Report 2015 (published 26 May 2016).

vodafone

COMBINED GROUP SNAPSHOT

	vodafone NZ (Telecommunications)					SKY (Media and Entertainment)			
	Mobile connections		Fixed connections		Wholesale / other	Satellite subscription	Other subscription	Advertising	Wholesale / other
	Consumer	Enterprise	Consumer	Enterprise					
Customers (FY 2016, 000's)	2,352 (Pre-pay mobile – 1,410) (Post-pay mobile – 942)		509		–	833		–	–
Revenue (FY 2016, $ million)	655	409	430	338	166	752	79	74	22
FY 2016 revenue as % of total [24]	22%	14%	15%	12%	6%	26%	3%	3%	1%

STRATEGIC PRIORITIES

The Combined Group will have the capabilities and know-how to be a leader in delivering innovative services and meeting the current and future needs of its customers.

The strategic priorities for the Combined Group will be to:

- deliver an excellent customer experience to consumers and businesses with a strategic focus on enabling sales and service through the digital platforms that customers will use in the future;
- be the leader in delivering innovative viewing and communications experiences across multiple networks and multiple screens;
- be the market innovator with deep customer insights, strong local capabilities and access to best practices in other markets;
- be the leader in the home as high speed communications and digital content transform the communications and entertainment experience of consumers and families;
- be the leader in digital product innovation, including mobile based applications, digital video media solutions and fibre delivered television;
- facilitate the customisation of digital products for Combined Group customers;
- secure the best and broadest premium content portfolio and have it available to the maximum number of customers, both its own and those of its competitors (through provision of wholesale services), in more formats and on more devices;
- be the leader in enterprise delivering cloud-based Unified Communications, mobility, Internet of Things and security solutions;
- build on the strong philanthropic, sponsorship and community programs of both businesses and thereby continue to be a strong contributor to New Zealand's economy and society; and
- continue to develop and retain a highly engaged, highly capable team of people that is driven to succeed for the benefit of our customers and Shareholders.

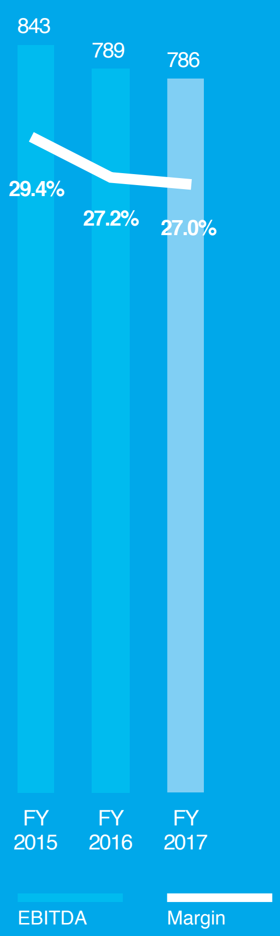
[24] Excludes eliminations.

COMBINED GROUP FINANCIAL INFORMATION

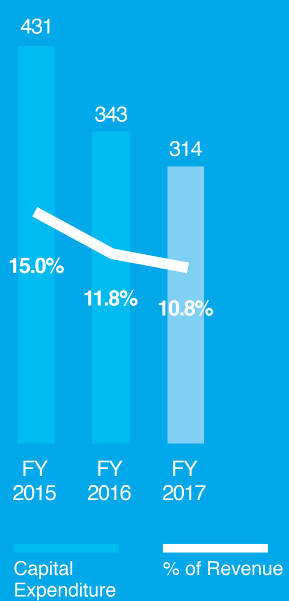
The charts and tables below illustrate the Combined Group's financial and operational trajectory from FY 2015 to FY 2017. The financials are presented on an underlying basis, which are based on reported financials adjusted to exclude the impact of certain one-off costs included in operating expenses (being costs associated with the Proposed Transaction, restructuring and net integration costs) and one-off capital expenditure (being integration capital expenditure and adjustment for additional decoders purchased by SKY during FY 2016 as part of a commercial renegotiation with Cisco).

REVENUE ($ million)

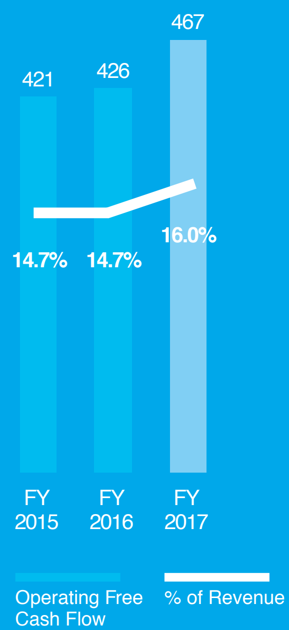
UNDERLYING EBITDA AND MARGIN ($ million)



UNDERLYING CAPITAL EXPENDITURE AND % OF REVENUE ($ million)



UNDERLYING OPERATING FREE CASH FLOW AND % OF REVENUE ($ million)



$ million	FY 2015	FY 2016	FY 2017
SKY Subscribers (000's)	852	833	845
Vodafone NZ post-pay mobile connections (000's)	875	942	1,003
Vodafone NZ pre-pay mobile connections (000's)	1,471	1,410	1,382
Vodafone NZ fixed line connections (000's)	507	509	523
SKY ARPU ($/month)	79.5	78.7	78.6
Vodafone NZ post-pay mobile ARPU ($/month)	60.5	55.4	51.4
Vodafone NZ pre-pay mobile ARPU ($/month)	12.9	12.6	12.8
SKY revenue	928	927	920
Vodafone NZ revenue	1,960	1,999	2,024
Eliminations	-20	-22	-30
Combined Group revenue	**2,868**	**2,903**	**2,914**
SKY Underlying EBITDA	380	336	305
Vodafone NZ Underlying EBITDA	463	453	481
Combined Group Underlying EBITDA	**843**	**789**	**786**
% margin	*29.4%*	*27.2%*	*27.0%*
SKY Underlying Capital Expenditure	116	105	108
Vodafone NZ Underlying Capital Expenditure	316	238	206
Combined Group Underlying Capital Expenditure	**431**	**343**	**314**
% of revenue	*15.0%*	*11.8%*	*10.8%*
SKY Underlying Operating Free Cash Flow	254	237	201
Vodafone NZ Underlying Operating Free Cash Flow	167	189	266
Combined Group Underlying Operating Free Cash Flow	**421**	**426**	**467**
% of revenue	*14.7%*	*14.7%*	*16.0%*
SKY Underlying Free Cash Flow per Share			$0.347
Combined Group Underlying Free Cash Flow per Share			**$0.375**
SKY Net Interest Bearing Debt		325	295
SKY Net Interest Bearing Debt / Underlying EBITDA		1.0x	1.0x
Combined Group Net Interest Bearing Debt		**1,575**	**1,544**
Combined Group Net Interest Bearing Debt / Underlying EBITDA		**2.0x**	**2.0x**

The financial profile of the Combined Group will be driven by the underlying trends within its two divisions; "telecommunications", reflective of the current Vodafone NZ business, and "media and entertainment", reflective of the current SKY business.

As further outlined in the section on pages 42 and 43 headed "Selected financial information", Vodafone NZ's mobile business has in recent years experienced a challenging competitive environment that was defined by some of its competitors aggressively pursuing market share, which has subsided recently. Similar to fixed line trends globally, Vodafone NZ's fixed line business is experiencing a shift from traditional voice services to advanced broadband and value added data services, which are supported by a compelling fibre-to-the-home network in New Zealand. As a consequence, Vodafone NZ related revenue has returned to growth with further growth expected over the medium term.

SKY has recently been experiencing increased churn in its traditional pay television customer base following the Rugby World Cup 2015 and as the pay television market globally is affected by increasing segmentation through the emergence of OTT players and changing consumer preferences. While these changes in the marketplace are expected to affect the revenue and EBITDA in the near-term including in the financial year to June 2017, SKY continues to see its premium content portfolio as a key differentiating factor for the consumer, supporting its business model in the medium and longer-term.

Vodafone NZ related capital expenditure is expected to gradually ease after a period of increased investments into advanced infrastructure, while SKY related capital expenditure is expected to reduce to a more normalised level after the financial year to June 2016, as a key set top box replacement cycle is expected to complete.

BUSINESS INTEGRATION OPPORTUNITIES

The Board expects the Combined Group to generate significant benefits to Shareholders through exposure to a larger, more diversified asset base with an improved risk profile and enhanced capability for growth and value creation.

The Proposed Transaction will create an integrated telecommunications and media group that is truly innovative in the New Zealand market, and in doing so is expected to deliver cost, capital expenditure and revenue synergies across the Combined Group.

The synergy assessment has been prepared collaboratively by the Vodafone NZ and SKY management teams based on their existing respective standalone business plans, adjusted for cost saving benefits and revenue optimisation opportunities that may in the future arise across the combined portfolio. The assessments have been reviewed by independent third party consultants.

Estimates of future synergies vary materially from year to year depending on, amongst other things, the success of strategies to optimise the cost base and cross-marketing potential across the Combined Group. Accordingly, the Board considers it appropriate to provide an estimated NPV of the synergy benefits. The NPV figures quoted below represent the net present value of the post-tax cash flows from future benefits expected to be captured after deducting any costs associated with achieving those benefits and assume that such benefits will continue to be delivered on an ongoing basis.

Cost and capital expenditure synergies

The Combined Group is expected to generate significant efficiencies, with cost and capital expenditure synergies progressively growing to approximately $30 million per annum (pre-tax) by the fourth full year post Completion, with further incremental opportunities of approximately $25 million per annum (pre-tax) materialising progressively over the subsequent three to four years, delivering a total estimated post-tax NPV of approximately $415 million (equivalent to approximately $0.52 per Share after taking into account the Share Issue[25]) net of approximately $80 million of gross pre-tax integration costs to be incurred in the first three years. The cost and capital expenditure synergy initiatives are expected to be introduced during the first year post Completion, with the benefits expected to commence from the second year onwards. The key expected sources of these cost and capital expenditure synergies include:

- rationalisation of spend in common functional areas (administration, subscription management, payments, billings, collections, etc.);
- utilisation of Vodafone NZ's technical and network capabilities to avoid costs that SKY currently incurs;
- improvement in the efficiency of sales and marketing by rationalising spend and cross-marketing to the existing customer bases of SKY and Vodafone NZ;
- the potential to access a feature rich and lower cost set top box developed by the Vodafone Group; and
- reduction in the amount of satellite capacity required on SKY's next satellite renewal through the use of internet-based delivery as an alternative for additional content.

The NPV estimates of the future annual synergies have been calculated assuming a post-tax weighted average cost of capital of 8.0%, tax rate of 28.0% and terminal value based on a terminal growth rate of 1.0%.

Revenue synergies

The Combined Group is also expected to generate significant revenue synergy opportunities to be progressively delivered by the fifth full year following Completion, with a total post-tax NPV of approximately $435 million (equivalent to approximately $0.55 per Share after taking into account the Share Issue[26]). The revenue synergy initiatives are expected to be introduced during the first year post Completion, with the benefits expected to commence from the second year onwards. Key areas for targeted revenue synergies include:

- sales from cross-marketing of services between Vodafone NZ and SKY;
- driving increased penetration of pay television and OTT and taking steps to reduce customer churn via sales through cross-marketing to Vodafone NZ's subscriber base and offering combinations of media and entertainment and telecommunications services packages across the platforms;
- lifting fixed revenue by making SKY's content available across more delivery platforms and devices in the home and on the go; and
- allowing the Combined Group to develop new products that appeal more to customers and differentiate its services, for example, giving subscribers access to seamless multi-screen video technology.

The NPV estimates of the future annual synergies have been calculated assuming a post-tax weighted average cost of capital of 8.0%, tax rate of 28.0% and terminal value based on a terminal growth rate of 1.0%.

Additional revenue synergies

The Board also expects that there are significant opportunities to generate additional revenue synergies via the monetisation of entertainment content on mobile devices that have not been included in the estimated NPV of revenue synergies described above. See the section on page 23 headed "Additional revenue synergies from mobile content consumption" for further information.

Execution risks and uncertainties

The long-term success of the Combined Group and the realisation of the estimated synergies will depend, amongst other things, on the success of management in integrating the respective businesses. The Combined Group has a highly experienced management team and Vodafone NZ, and the broader Vodafone Group, have a track record of successfully integrating assets and extracting synergies. In addition, the existing strategic relationship between SKY and

[25] Note that this amount per Share solely represents the estimated aggregate post-tax NPV amount of the synergies (being approximately $415 million after integration costs) divided by 794.2 million Shares (being the expected number of Shares on issue following completion of the Proposed Transaction). 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.

[26] Note that this amount per Share solely represents the estimated aggregate post-tax NPV amount of the synergies (being approximately $435 million after integration costs) divided by 794.2 million Shares (being the expected number of Shares on issue following completion of the Proposed Transaction). 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.

Vodafone NZ is expected to reduce the execution risk on the delivery of synergies.

Notwithstanding this, the delivery of synergies is uncertain. There is no guarantee that the businesses of the Combined Group will be able to be integrated successfully, or over the expected time period, or at the implementation cost estimated, or that expected revenue synergies will be realised. There are risks that any integration of the Combined Group may take longer than expected and that the expected efficiencies and benefits of that integration may be less than estimated.

Differences in management cultures, an inability to achieve synergy benefits and cost savings and the potential loss of key management personnel may all contribute to actual synergies being lower than estimated. For further information see the section on page 44 headed "Key risks".

CAPITAL STRUCTURE OF THE COMBINED GROUP

Borrowings

Existing debt

As at the date of this document, SKY has existing revolving credit bank debt facilities with facility limits of $250 million and a maturity date of 17 July 2020, with approximately $100 million of these revolving credit facilities drawn. SKY also has outstanding bonds in a principal amount of $300 million, of which $200 million is due to be repaid on 16 October 2016.

In the context of the Proposed Transaction, SKY intends to discuss with its existing lenders its continued ability to use its revolving credit facilities, including to meet its obligations to repay $200 million of bonds in October 2016. SKY expects to be able to continue to use the revolving credit facilities, including to repay the bonds. However, execution of the Sale and Purchase Agreement gives rise to a potential event of default under the revolving credit facilities and given confidentiality considerations, SKY has not yet had the opportunity to seek and gain consent from the existing lenders under these facilities. As a result, SKY has entered into a new $350 million facility with Citibank N.A., New Zealand Branch, to provide an effective backstop to the existing revolving credit bank facilities should those consents not be forthcoming.

New Debt

In order to fund its obligation to pay $1.25 billion in cash to Vodafone on Completion, in partial satisfaction of the purchase price for the Acquisition, to pay Transaction Costs, to repay its existing bank debt facilities at Completion if required (but excluding the $100 million of bonds which will remain outstanding at and following Completion), and to fund the Combined Group's ongoing working capital needs following Completion, SKY will, subject to Completion occurring contemporaneously, incur the New Debt. The New Debt will replace all of SKY's existing debt facilities at Completion other than bonds outstanding at that time. SKY has entered into a facility agreement with Vodafone Overseas Finance Limited for the New Debt, being an amount not exceeding $1.8 billion. The Board considers that the terms of the New Debt offered by Vodafone Overseas Finance Limited are attractive, but have retained the right to replace this debt, or the revolving credit facility portion of it, from one or more third parties subject to certain conditions. For more details of the New Debt see the section on page 50 headed "Summary of Acquisition funding".

At Completion, the Combined Group will have a leverage ratio of 2.0x (based on ratio of Combined Group Net Interest Bearing Debt to Underlying EBITDA for FY 2016). The Board intends to maintain a leverage level consistent with an investment grade rating.

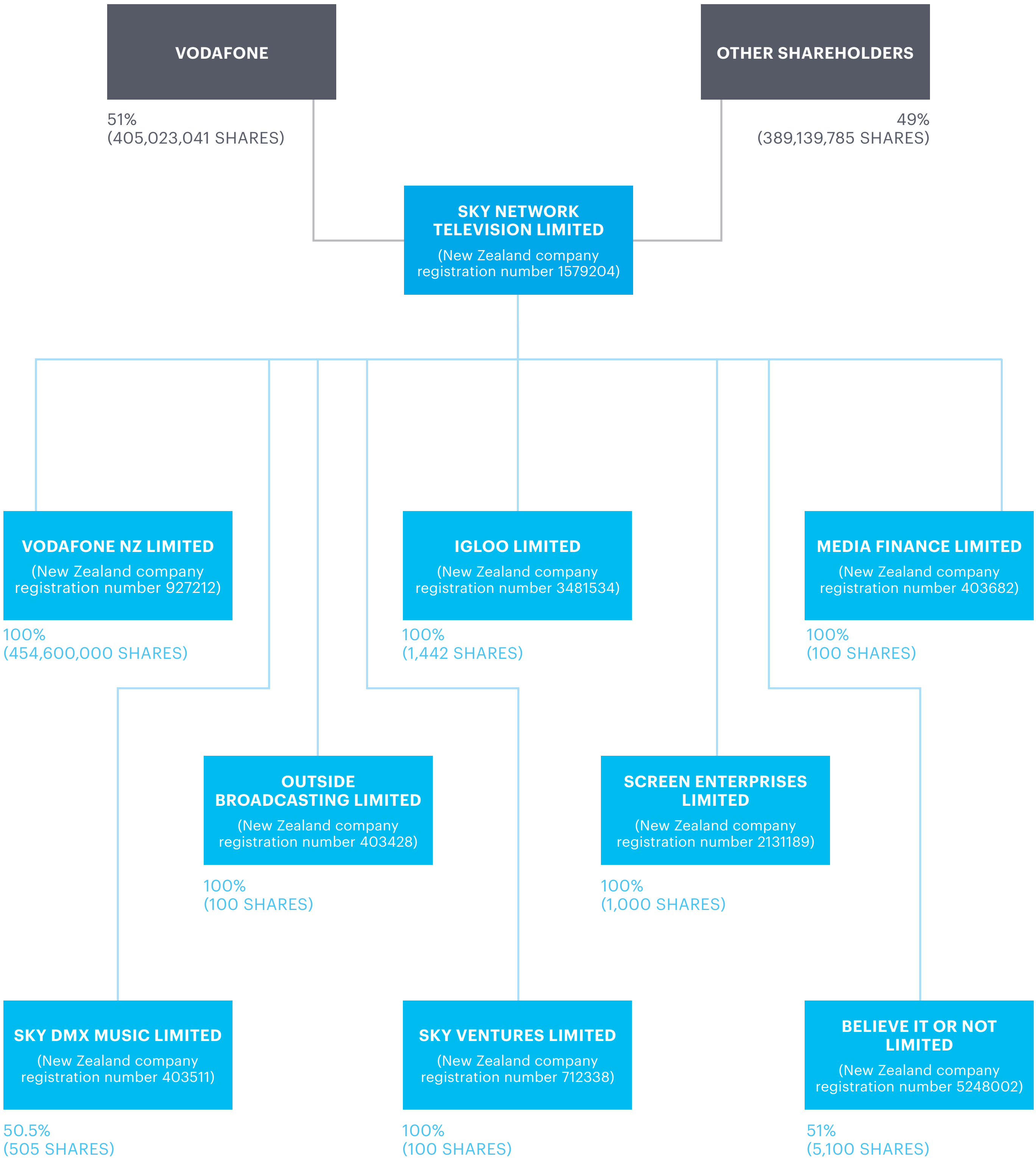
Ownership structure

As at the date of this document, SKY has a total of 389,139,785 Shares on issue.

Pursuant to the Share Issue, assuming that the total number of Shares on issue immediately prior to Completion is the same total number of Shares on issue as at the date of this document, Vodafone will be issued 405,023,041 new Shares so that Vodafone will own 51% of the total number of 794,162,826 Shares on issue immediately following Completion.

SKY GROUP STRUCTURE CHART

As a result of the Proposed Transaction, based on the information known as at the date of this document, SKY's corporate structure at a simple level will be as follows:



DIVIDEND POLICY

Recent and near term dividends

SKY has a track record of paying meaningful dividends to Shareholders. Having paid an interim dividend of $0.15 per Share (fully imputed) for FY 2016, the Board is expressly entitled, under the terms of the Sale and Purchase Agreement, to pay a final dividend (fully imputed) for FY 2016 of up to $0.15 per Share in or around September 2016. A decision regarding a final dividend for 2016 is likely to be made by the Board in late August 2016. The Consideration Shares to be issued to Vodafone will not participate in this dividend.

In addition to permitting the payment of a final dividend for FY 2016 as set out above, the Sale and Purchase Agreement also regulates the payment of other dividends by SKY during the six month period ending 31 March 2017. Subject to the performance of SKY or the Combined Group (as applicable) and the Board's assessment of the current and future capital needs of the business and maintenance of an appropriate and prudent balance sheet, the Board may declare interim dividends during that period in an aggregate amount of up to $0.15 per Share (or up to $0.025 per Share per month). Any such interim dividends declared may be paid to Shareholders in two tranches as summarised below:

- **Dividends from 1 October 2016 to Completion:** A dividend, paid to Shareholders prior to Completion, of up to $0.025 per Share per month for each whole calendar month commencing on 1 October 2016 and ending on Completion (see the section on page 53 headed "Right to pay SKY dividend and make a taxable bonus issue" for further information). The Consideration Shares to be issued to Vodafone will not participate in this dividend; and
- **Dividends from Completion to 31 March 2017**: In the event that a dividend paid prior to Completion as contemplated in the point above is less than $0.15 per Share, the Combined Group may pay a further dividend, after Completion but prior to the end of the six month period ending 31 March 2017, to take the total amount of dividends per Share paid during that period to an aggregate amount of up to $0.15 per Share. The Consideration Shares to be issued to Vodafone will participate in this dividend.

Future dividends

Given the expected increase in Underlying Free Cash Flow per Share as a result of the Proposed Transaction, it is the Board's expectation that the Combined Group may be able to pay a higher dividend per Share than would have been paid by SKY as a standalone company.

The Board's current intention, which is aligned with Vodafone's expectations, is to pay an annual dividend of 85-100% of Free Cash Flow subject to the Board's assessment of 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 prudent balance sheet. Assuming an illustrative 1 July 2016 Completion Date, the intended payout range would be equivalent to total declared dividends of between 31.9 cents and 37.5 cents per Share for the FY 2017 period (based on Underlying Free Cash Flow per Share of 37.5 cents for the FY 2017 period). Note, however, that this dividend amount is hypothetical given the Completion Date is likely to be later than the assumed date of 1 July 2016.

Dividends are expected to be fully imputed.

No guarantee can be given about payment of future dividends, or the level of imputation of such dividends, as these matters will depend upon future events. For further information see the section on page 44 headed "Key risks".

BOARD AND MANAGEMENT

The initial Board of the Combined Group following Completion will be comprised of nine directors, consisting of five Directors from the existing SKY Board (being four Independent Directors chosen from the existing Independent Directors on the SKY Board and John Fellet as an executive Director) and four Directors appointed by Vodafone Group (being the three directors appointed to represent Vodafone noted below and Russell Stanners as an executive Director). The present Chairman of SKY, Peter Macourt, will be one of the four existing Independent Directors that remains on the Board and will be the Chairman of the Board of the Combined Group.

Russell Stanners, present CEO of Vodafone NZ, will be appointed CEO of the Combined Group, while John Fellet will be appointed CEO of Media and Content. As noted above, Russell and John will both be executive Directors on the Board of the Combined Group. Russell and John have already developed a successful working relationship over the past decade as a result of the various arrangements between SKY and Vodafone NZ. It is intended that the remainder of the management team will be drawn from the existing teams at SKY and Vodafone NZ.

The directors appointed to represent 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

Background information on each of the Vodafone director representatives is contained below.

Russell Stanners

Russell was appointed Chief Executive Officer of Vodafone NZ in April 2005. During his time as CEO he has led Vodafone NZ's efforts to expand into the total communications market, securing the acquisition of TelstraClear, thereby repositioning the business from a mobile operator to a full service communications company with a strong focus on innovation, customer service and value.

Russell joined Vodafone NZ in 2002 as Director of Enterprise Markets to lead its entry into the business market. He led this division for two years, materially growing revenues and market share before becoming Chief Executive Officer.

Prior to joining Vodafone NZ Russell was Managing Director of Unisys New Zealand Limited for two years after having worked for IBM New Zealand for 15 years. At IBM Russell held a number of senior roles across sales, marketing, service and system integration, working in New Zealand, Asia Pacific and the US, and progressed to become Global Director, Telecommunications Services, based in New York.

Russell has a Bachelor of Commerce degree from The University of Auckland.

Serpil Timuray

Serpil Timuray was appointed Executive Committee member of Vodafone Plc and Regional CEO – Africa, Middle East and Asia Pacific in January, 2014.

Prior to this role, she was CEO of Vodafone Turkey from January 2009. She has also served as a non-executive board member to Vodacom Group, a leading listed African telecoms group headquartered in South Africa, since September 2012.

She was appointed to the boards of Vodafone India, Vodafone Hutchison Australia, Safaricom Kenya in November 2013 and Vodafone Qatar in June 2014. Serpil joined Vodafone Group from Danone Group, where she was the General Manager of Danone Turkey from 2002 to 2008.

She began her career in marketing in 1991 at Procter & Gamble (P&G) where she was later appointed to the Executive Committee of P&G Turkey. Serpil also sits on the board of Trustees at Koç University. Serpil was ranked 15th among the "Most powerful women of Europe, Middle East and Africa" by Fortune in 2014, 79th among the "World's 125 Women of Impact" by Newsweek in 2013 and selected as a "Young Global Leader" by World Economic Forum in 2009. She was elected as "The Professional of the Year" in Turkey for 2013, 2011 and 2010 by the Turkish Economist. She is a Business Administration graduate of Bogazici University.

John Otty

John Otty joined Vodafone Group in December 1992 and was appointed Regional CFO – Africa, Middle East and Asia Pacific in September 2012.

Prior to this role, he held a number of senior executive positions in Vodafone Group including that of Group Technology Financial Director of Vodafone Plc, Interim CFO of Vodafone India and Group Internal Audit Director of Vodafone Plc as well as senior operational finance roles in UK, Australia and Netherlands.

He also serves as a non-executive board member to Vodacom Group, a leading listed African telecoms group headquartered in South Africa, since September 2012. He was appointed to the boards of Vodafone Hutchison Australia in January 2009; Vodafone India in October 2012; Ghana Telecommunications in September 2012; Vodafone Egypt in November 2012; Safaricom Kenya in August 2013; Vodafone Turkey in June 2014 and Vodafone Qatar in January 2015, and continues in these positions.

John joined Vodafone Group from KPMG in London where he was the Manager in general practice. He is a graduate of Cambridge, Trinity Hall, where he attained an Electronic Engineering degree and he is a member of the Institute of Chartered Accountants in England and Wales.

Phil Patel

Phil Patel is Regional Commercial Director – Africa, Middle East and Asia Pacific with Vodafone Group. He joined Vodafone Group in March 2003 and led marketing and commercial operations in New Zealand, Turkey and most recently in South Africa as Chief Commercial Officer and non-executive board member for Vodacom Mozambique. Phil joined Vodafone Group from Dell Computer Asia where he was Regional Enterprise Marketing Director based in Singapore.

05

OVERVIEW OF VODAFONE NZ

Vodafone NZ is a full service telecommunications company with market leadership in mobile (voice, messaging and data) and the clear number two position in fixed line (broadband and home phone), serving consumer and enterprise customers.[27] Vodafone NZ also offers television services by reselling SKY's content packages. Vodafone NZ is a wholly-owned subsidiary of Vodafone Plc, one of the world's largest telecommunications companies.

At the end of March 2016, Vodafone NZ had over 2.35 million mobile connections contributing 56% of revenue, and over 500,000 fixed line connections contributing 44% of revenue. During the last 12 months to March 2016 54% of Vodafone NZ's revenue came from consumers, 38% came from enterprise customers with the remaining 8% from wholesale customers.

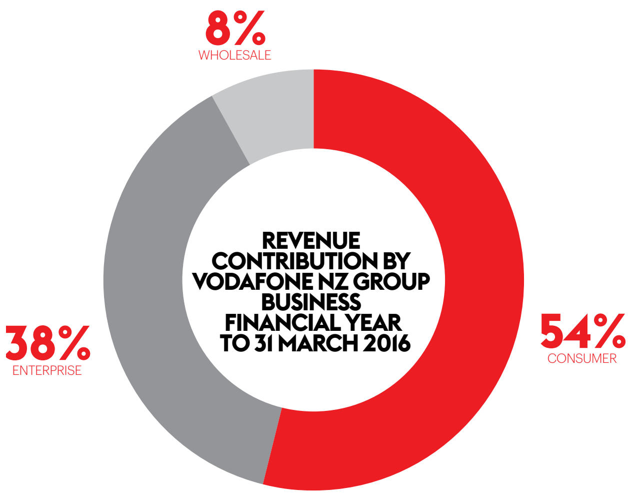
Vodafone NZ's mobile network, which can be accessed by 98% of New Zealanders, delivers 2G, 3G, and 4G services, with 4G available to 90%. Vodafone NZ also owns a more extensive fixed access network throughout New Zealand than any other retail telecommunications provider, offering ADSL, VDSL, fibre and HFC Network services. The company operates its own nationwide fibre optic backbone network and also accesses international connectivity.

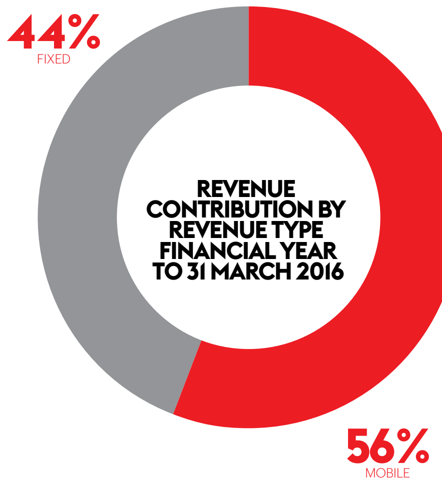
HISTORY OF VODAFONE NZ

Vodafone NZ began operations in New Zealand in 1998 through the acquisition of BellSouth New Zealand, a mobile-only provider with 130,000 customers. Vodafone NZ's customer numbers grew rapidly so that it became the leader in mobile by 2003. Vodafone NZ expanded into mobile for enterprise customers, and in 2006 began providing consumer fixed services with the acquisition of ihug Limited, a consumer broadband internet service provider.

The opportunity to grow its fixed line business, particularly through meeting demand from enterprise customers, led to the 2012 acquisition of TelstraClear. This significantly strengthened Vodafone NZ's capabilities to serve large enterprise and Government customers, and further increased its presence in the consumer fixed line segment.

Vodafone NZ expanded its ability to offer innovative solutions with the 2015 acquisition of WorldxChange, a leader in Unified Communications services for enterprise customers.





[27] Market positions based on connection numbers as at 31 December 2015 and information contained in the New Zealand Commerce Commission Annual Telecommunications Monitoring Report 2015 (published 26 May 2016).

OVERVIEW OF THE NEW ZEALAND TELECOMMUNICATIONS INDUSTRY

Vodafone NZ operates in the New Zealand telecommunications industry, which was estimated by the Commerce Commission in its Annual Telecommunications Monitoring Report 2015 (published 26 May 2016) (the "NZCC Report") to have total retail revenue of $5.11 billion in 2014/2015. The industry consists of two key segments, each providing consumers and businesses with a range of services:

- the mobile segment, including voice, data and messaging, estimated in the NZCC Report to have total retail revenue of $2.54 billion in 2014/2015; and
- the fixed line segment, including fixed broadband and traditional fixed line voice, estimated in the NZCC Report to have total retail revenue of $2.58 billion in the same period.

The telecommunications industry is highly competitive, with four major integrated providers: Vodafone NZ, Spark, 2degrees and Vocus Communications. There are many other smaller providers, including Trustpower (offering fixed line broadband) and The Warehouse (offering pre-pay mobile).

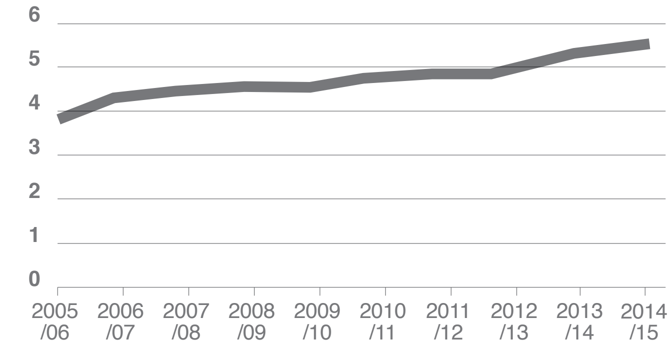
Mobile

The uptake of smartphones and advanced data networks is driving a change in the way New Zealanders stay connected to friends and family, and do business. This is resulting in growing consumption of mobile data services, with smartphones increasingly being seen by consumers as an essential tool of modern life.

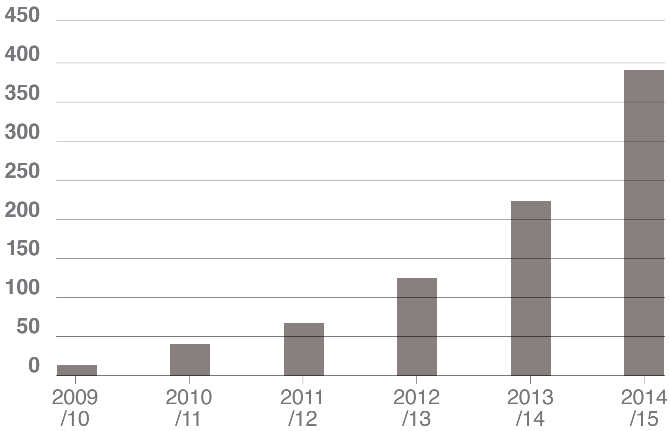
The quality of service and speed delivered by mobile operators in New Zealand are amongst the best in the world based on global benchmarks.[28]

Retail mobile in New Zealand can be split into two broad service categories, commonly known as pre-pay and post-pay. Pre-pay customers purchase credit for voice, text and data services in advance and tend to be lower spending customers. According to the NZCC Report, approximately 60% of mobile subscribers are pre-pay customers. Post-pay customers often sign 12 or 24 month contracts for their voice, text and data services and typically spend more on these services. Post-pay continues to grow with subscribers growing 9% in the year ending 30 June 2015.[29]

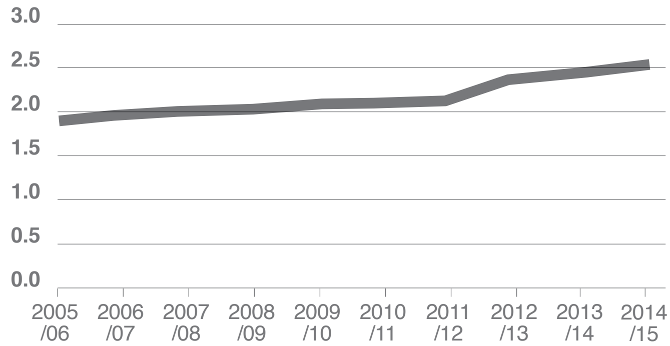
Total New Zealand mobile connections
(million)



New Zealand mobile data usage
(megabytes per month per connection)



Total New Zealand mobile retail revenue
($ billion)



Data sourced from: New Zealand Commerce Commission Annual Telecommunications Monitoring Report 2015 (published 26 May 2016)

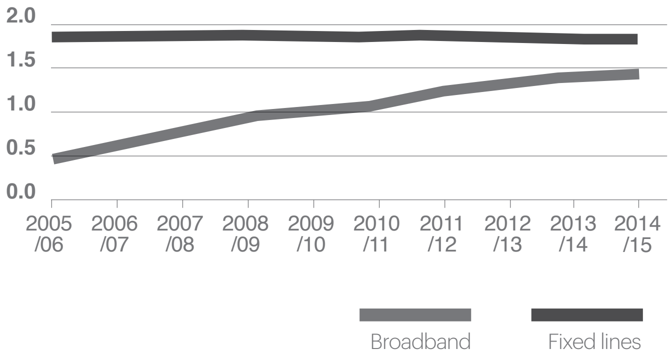
[28] Based on Vodafone Group data and testing undertaken by P3 Communications GmbH in April 2016 in relation to New Zealand mobile operators.
[29] Data derived from the New Zealand Commerce Commission Annual Telecommunications Monitoring Report 2015 (published 26 May 2016).

Fixed line

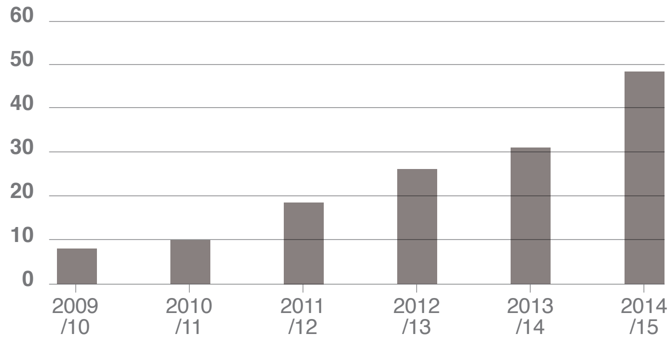
The New Zealand fixed line segment has been built on a legacy copper network that is owned by Chorus. As a result of the Government's UFB initiative, the segment is shifting to high speed fibre services, which are also largely delivered by a network provided by Chorus. New Zealand has become one of the fastest-growing fibre markets among developed countries, with approximately 75% of New Zealanders planned to have access to fibre-to-the-home by 2019. The Government's aspirational target is for 99% of New Zealanders to have access to peak broadband speeds of at least 50 Mbps by 2025. Retail service providers like Vodafone NZ resell services provided by Chorus and others under a regulated open access model.

High speed fixed line broadband uptake is growing, with a sustained increase in the number of connections and data usage. However, fixed line voice is in decline, resulting in overall fixed line revenue reduction. Vodafone NZ believes it is less exposed to this trend compared to certain of its competitors, due to its more recent entry into the fixed line segment, its focus on broadband (illustrated by its introduction of 'naked broadband'[30] packages to New Zealand customers), and its strength in mobile voice services.

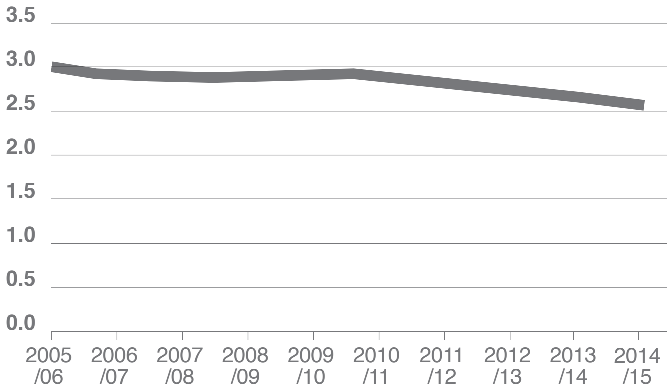
Total New Zealand fixed line and broadband connections
(million)



New Zealand monthly broadband data usage
(gigabytes per month per connection)



Total New Zealand fixed line retail revenue
($ billion)



Data sourced from: New Zealand Commerce Commission Annual Telecommunications Monitoring Report 2015 (published 26 May 2016)

[30] Naked broadband is a standalone broadband connection without a fixed line voice connection.

VODAFONE NZ'S BUSINESS ACTIVITIES

Vodafone NZ's organisational structure is based on the customers that it provides services to: consumer, enterprise and wholesale customers.

Vodafone NZ's consumer business unit

Vodafone NZ serves approximately 2.2 million consumer customers, namely individuals and households, with mobile and fixed line products and services. Key features of Vodafone NZ's consumer business include:

- leading brand, recognised for a strong history in innovation and global strength, plus providing customer benefits such as the Fantastic Fridays loyalty program;
- strong focus on developing innovative products, including leadership to market with 4G, popular Vodafone-branded devices that, as at April 2016, Vodafone NZ's 2nd best-selling device brand, high levels of digital service adoption around the My Vodafone app, and the ability to deploy Vodafone Group generated products and partnerships (for example Vodafone NZ's $5 a day roaming offer);
- customer-focused marketing, particularly in serving important segments such as families, youth, travellers and rural customers;
- converged services (packaged mobile and fixed line offerings) with a number of customers already taking mobile, fixed line and television services together resulting in higher per customer spend with Vodafone NZ and lower churn rates; and
- significant share of high-using and high-spending customers, particularly mobile customers that have smartphones and 4G services with growing consumption of mobile data together with, in Vodafone NZ's view, lower exposure to the declining fixed line voice segment relative to certain of its competitors.

Vodafone NZ's enterprise business unit

Vodafone NZ's enterprise business unit serves over 125,000 customers, from owner-operator small enterprises, small-to-medium sized enterprises, through to large corporate and Government customers. It also encompasses domestic and global customers. Key features of Vodafone NZ's enterprise business include:

- leading brand, recognised for a strong history in innovation and global strength;
- leading networks offering business-critical communications, including a connection to a global network, unmatched roaming capability, and intercity fibre network connections and central business district fibre networks (around 50% of Vodafone NZ's large fixed line customers connect to Vodafone NZ's fibre network);
- Unified Communications, providing capability in voice-over-internet-protocol products and next generation collaboration services, plus a range of products to serve small, medium and large enterprises;
- leader in Internet of Things services with over 1 million connections as at 31 March 2016 – for example, providing an automated communication process for electricity smart meters that provide meter readings from the customer's premises to the retail electricity provider; and
- well positioned for significant growth in the Government sector as a result of having been appointed to five 'towers' in the Government's TaaS framework.

Vodafone NZ's wholesale business unit

Vodafone NZ's wholesale business unit provides fixed line and mobile services to other New Zealand and overseas telecommunications providers, including:

- data, internet and voice services to approximately 120 wholesale customers;
- rural fixed wireless broadband services and mobile services;
- national roaming and international roaming services; and
- domestic and international voice and text messaging interconnect services.

Reliable Coverage

Our mobile network covers 98% of Kiwis, with 4G to over 90%

4G roaming to over 70 destinations

Reliable Data

Fastest mobile download speeds in NZ*

200Mbps High speed fibre broadband – up to 200Mbps

Reliable Connection

HD CALLING Enjoy crystal clear sound with HD calling^^

Fewer call drop outs than any other network*

* Based on independent testing undertaken by P3 communications GmbH in April 2016.

^^ On Vodafone to Vodafone calling with HD calling compatible handsets.

VODAFONE NZ'S NETWORK INFRASTRUCTURE

Vodafone NZ's network infrastructure comprises leading mobile and fixed line networks. The advantages of these networks are actively promoted to customers.

Mobile network

Vodafone NZ's mobile network is made up of approximately 1,550 mobile cell sites, delivering 2G, 3G and 4G services providing coverage to 98% of the New Zealand population (with 4G available to 90% of that population). The network is built with overlapping coverage designed to deliver seamless mobility.

In April 2016, to enable remote rural customers to stay connected, Vodafone NZ launched the first 'off grid' cell site built on mainland New Zealand under the Rural Broadband Initiative. Powered by solar panels and wind turbines, the new cell site means remote rural customers can now gain access to wireless broadband capable of delivering VDSL-like speeds.

Independent testing undertaken by P3 Communications GmbH in April 2016 across the three network operators of mobile services in New Zealand certified Vodafone NZ as "Best in Test" in the mobile benchmark in New Zealand. The testing covered both voice and data services and included measures such as data download speeds, voice call quality and call drop frequency.

Vodafone NZ has extensive radio frequency Spectrum holdings that are key to enabling mobile network services, particularly in providing capacity as mobile data services continue to grow. Vodafone NZ's Spectrum rights run across multiple bands, and are available for a variety of uses, five of which bands are used for mobile coverage. Vodafone NZ is currently deploying technology on its mobile network that combines bands of Spectrum together to enhance its 4G performance and also lay the framework for the deployment of 5G in the early part of the next decade.

Fixed network

Vodafone NZ has an extensive fixed line network throughout New Zealand with over 10,000 kilometres of cabling connecting consumer and enterprise customers.

The network comprises a fibre backbone that carries fixed and mobile traffic nationally. The benefits of this network include connecting the main cities with diverse routes that provide resiliency, local central business district loops in Auckland, Wellington and Christchurch to serve those cities, and connecting many of Vodafone NZ's mobile cell sites enabling high speed data services.

In addition, Vodafone NZ operates an HFC Network that passes approximately 200,000 homes in Wellington, the Kapiti Coast and Christchurch. This network provides high speed broadband and cable television services currently, and during 2016 is being upgraded to enable it to offer speeds comparable to UFB, with speeds up to 1 GigaBit per second targeted to be available later this calendar year.[31]

Vodafone NZ has also installed equipment in 111 exchanges owned by Chorus providing the ability to connect and rent network access from Chorus where Vodafone NZ's fibre and cable networks do not reach.

Vodafone NZ's networks allow it to provide a leading broadband experience to its customers. Vodafone NZ was ranked number one on the Netflix ISP Speed Index for April 2016, and has been independently verified by Google for high definition services.

[31] The current HFC Network provides 100 Mbps services (this speed is commonly provisioned on UFB).

SELECTED FINANCIAL INFORMATION

The tables below illustrate Vodafone NZ's financial and operational trajectory from FY 2015 to FY 2017. The financials are presented on an underlying basis, which are based on reported financials adjusted to exclude the impact of certain one-off costs included in operating expenses. For further information please refer to Appendix Two – Financial Information attached to this Notice of Meeting and Explanatory Memorandum.

	FY 2015	FY 2016	FY 2017
Revenue ($ million)[32]	1,960	1,999	2,024
Underlying EBITDA ($ million)	463	453	481
Underlying Capital Expenditure ($ million)	316	238	206
Underlying Operating Free Cash Flow ($ million)[33]	167	189	266
Pre-pay mobile connections	1,471	1,410	1,382
Post-pay mobile connections	875	942	1,003
Total mobile connections (000's)	**2,346**	**2,352**	**2,385**
Pre-pay mobile ARPU ($/month)	**12.9**	**12.6**	**12.8**
Post-pay mobile ARPU ($/month)	**60.5**	**55.4**	**51.4**
Fixed line connections (000's)	**507**	**509**	**523**

[32] Prior to adjustments and eliminations.
[33] Calculated as difference between Combined Group Underlying Operating Free Cash Flow and SKY Underlying Operating Free Cash Flow.

Over the past years Vodafone NZ has experienced a challenging competitive environment that was defined by some of its competitors aggressively pursuing market share, particularly in mobile and in contract-based enterprise services. Increased promotional activities led to a decrease of the average price point for telecommunications services and also affected Vodafone NZ's revenue.

However, Vodafone NZ believes that pricing has recently become more reflective of the requirement to deliver a high quality service as well as of the customers' desire to consume increasing amounts of data at higher speeds both on fixed line and mobile networks. As a consequence Vodafone NZ has seen a return to revenue growth as the strong underlying trends in the telecommunications sector are captured in its financial profile.

In mobile Vodafone NZ expects to see revenue growth from increasing demand for its high bandwidth 4G services, further pre-pay to post-pay migration and opportunities for additional data monetisation. In line with Vodafone Group policies and reflective of the trends in the sector, in November 2015 Vodafone NZ also moved to a model of interest free handset financing, where proceeds from handset sales are recognised upfront, which is expected to contribute to Vodafone NZ's revenue growth over the 24 months post introduction.

In fixed line an increase in the regulated cost of the Chorus wholesale prices from December 2015 has been passed on to consumers leading to positive revenue growth contribution in the financials to FY 2017. The decline in traditional fixed line voice revenue remains, but is expected to bottom out over time. Upselling customers to higher data plans on the growing UFB network as well as increasing convergence penetration are expected to result in a positive revenue development. In enterprise, Vodafone NZ has launched additional service initiatives such as Unified Communications, which will support the transformation of the revenue base to a next generation higher margin base. Vodafone NZ has recently won a number of important Government contracts which will enhance the revenue base going forward.

As a consequence Vodafone NZ expects a return to low single digit growth of its revenue line for the period to FY 2016 and the subsequent period to FY 2017.

Due to having its own mobile infrastructure Vodafone NZ's mobile related direct cost base is driven by interconnection costs with other operators. For parts of its fixed line services Vodafone NZ is dependent on the UFB network providers' wholesale products, the cost of which has been regulatorily set until the end of 2019 and hence provides planning certainty.

Vodafone NZ's indirect cost base is subject to inflationary pressures. The company has, however, been embarking on its own Fit4Growth cost reduction initiative across the business which is expected to generate significant savings in coming years.

Given the challenges outlined, EBITDA has been under pressure in recent years. However as a result of improving revenue and cost developments, Underlying EBITDA is now forecast to grow by 6.2% in FY 2017 (compared to 2016).

Vodafone NZ has invested heavily into the development of its fixed line and mobile networks over the last couple of years, bringing fibre to the base stations and launching 4G in New Zealand's major centres ahead of its competitors. Vodafone NZ has therefore already built the network capability required to deal with the anticipated growth in data related services. Further capital expenditure initiatives will focus on 4G expansion, further capacity for its fixed line networks (for UFB and the HFC Network), rationalising its business support systems, digital and online features and development of next generation services, such as the cloud.

Due to its elevated past investments (over 14% capital expenditure to sales invested in the 12 months to June 2014) and resulting strong infrastructure base, Vodafone NZ anticipates capital intensity[34] to reduce from approximately 16.1% for FY 2015 to approximately 11.9% for FY 2016 and 10.2% in FY 2017.

Following the commercial and financial trends discussed, Vodafone NZ expects its Underlying Operating Cash Flow to grow significantly from $167 million for FY 2015 to $266 million by FY 2017, a 59% increase.

[34] Capital Expenditure / revenue.

06

KEY RISKS

Neither the Proposed Transaction itself, nor the business of the Combined Group going forward, is without risk. As with any transaction and any business, there is a risk that the Proposed Transaction might not proceed as expected and/or that the Combined Group may not perform as expected.

The following sections, under the headings "Combined Group risks" and "Specific risks relating to the Proposed Transaction", set out what SKY considers to be the more significant risks relating to the business of the Combined Group and to the Proposed Transaction respectively.

Under each of those headings, the applicable risks are laid out in what SKY, in consultation with Vodafone NZ, considers to be the order of significance based on an assessment of the likelihood of the circumstance occurring balanced against the severity of the impact on the business and plans if it were to occur, with the most significant risks appearing first.

However, there is no guarantee that the significance of different risks will not change, or other risks will not emerge. Although the Combined Group may implement risk mitigation strategies to reduce the potential impact of some of the risks outlined below, any such strategies may not remove the risks altogether and may only reduce the impact of a risk if it materialised.

It is also important to note that the following lists exclude (i) risks which are currently faced by SKY irrespective of the Proposed Transaction, unless such risks have been materially amplified or compounded by the Proposed Transaction, and (ii) risks of a general nature (including things like reliance on key personnel, economic uncertainty, access to capital when needed, reliance on suppliers and the risk of litigation). As such, the Combined Group risks focus largely on the risks relating to the Vodafone NZ business, which Shareholders are not already exposed to as Shareholders today.

COMBINED GROUP RISKS

Competition

Vodafone NZ operates in a highly competitive market (across both consumer and enterprise segments). Its ability to deliver profitable growth depends upon it meeting its strategic priorities around market leadership in certain areas. Vodafone NZ strives to deliver a differentiated and superior customer experience.

Aggressive competition, entry by players into the New Zealand market, including new mobile virtual network operators, or a failure to deliver a differentiated and superior experience to customers could lead to revenue and profitability targets not being achieved. Competitors could reduce prices or introduce new products and marketing initiatives which could adversely impact Vodafone NZ's market share or ARPU.

Regulatory

Telecommunications

Telecommunications is a regulated industry in New Zealand, with the Commerce Commission undertaking significant monitoring of telecommunications markets under the Telecommunications Act 2001. Vodafone NZ and its business is exposed to changes in, or new, legislation or regulations which could adversely impact Vodafone NZ's operations, market share, competitiveness and/or financial performance.

Vodafone NZ purchases fibre network and copper network-based products and services from wholesalers, such as Chorus, for resale to its customers. Increases in the prices of such products and services could adversely affect Vodafone NZ's profitability to the extent such increases cannot be effectively passed on to customers without adverse effects.

On 15 December 2015 the Commerce Commission released its final determination setting the prices for Chorus' unbundled copper local loop and unbundled bitstream access services for the next five years. As such, the prices payable by Vodafone NZ for most copper-based network products and services are likely to be regulated for the foreseeable future.

The prices payable for most fibre-based products and services are capped until 31 December 2019 as they are subject to agreements between Chorus and other Local Fibre Companies and Crown Fibre Holdings Limited.

There is no certainty regarding the pricing framework that will apply to fibre-based products and services after 31 December 2019. The Government is currently undertaking a review of the future of telecommunications regulation from 2020, including the pricing of fibre-based products and services. There can be no assurance that this review will not result in regulation that increases the prices that can be charged, removes pricing caps entirely, or imposes other requirements.

The review is also considering mobile access issues, which may have an impact on Vodafone NZ. Decisions are expected later in 2016.

Broadcasting

Along with general legislation such as the Commerce Act 1986 and other consumer protection legislation, SKY and other broadcasters are subject to sector-specific regulation under the Broadcasting Act 1989, largely related to cultural and social regulation.


SKY
vodafone

Changes in the converging telecommunications and broadcasting regulatory environment (including changes in response to industry developments) could adversely impact SKY's operations, market share, competitiveness and/or financial performance.

Tax

The Combined Group, by virtue of the Proposed Transaction, will be majority owned by a non-resident shareholder. As a result it will be subject to certain tax rules that are applicable to foreign controlled groups. These include, for example, thin capitalisation restrictions that may limit interest deductions in the Combined Group, and transfer pricing rules governing transactions between associated persons (i.e. the Combined Group and Vodafone Group entities) to ensure they occur on arm's length terms.

Changes in local or international tax law and regulations, or new challenges by tax authorities, for example prompted by the Organisation for Economic Co-operation and Development's emerging recommendations on Base Erosion and Profit Shifting (a global initiative to improve the fairness and integrity of tax systems), may expose the Combined Group to additional tax liabilities, which could adversely affect the Combined Group's future financial position and performance and/or could cause it to incur additional costs.

The Proposed Transaction will result in the forfeiture of any imputation credit balances of both SKY and Vodafone NZ as at the Completion Date. Depending on the date of completion of the Proposed Transaction, there is a risk that the Combined Group may not have sufficient imputation credits to allow it to fully impute future dividends if it chooses to do so, or that it may need to pre-pay tax in order to generate sufficient imputation credits to fully impute such dividends.

Capital investment

Vodafone NZ invests significant amounts of capital into its business in order to operate and grow.

This investment is planned for on a regular basis through Vodafone NZ's usual budgeting and forecasting process. However, competitive, customer or regulatory factors or changes may increase the amount of capital investment required beyond that forecasted by Vodafone NZ or accelerate the timing for making capital investment in some areas.

In that case, Vodafone NZ's capital investment requirements may exceed its forecasts overall, or for a particular period. That could negatively impact Vodafone NZ's return on investment, future profitability and the Combined Group's ability to raise future capital funds on acceptable terms.

Reliance on Vodafone Services Agreements

Vodafone NZ's business is currently supported by the Vodafone Group's corporate and shared services infrastructure (including accounting, finance operations, HR and purchasing services), and relies on access to Vodafone Group intellectual property (including the 'Vodafone' brand), technology and network infrastructure, product sets and best practice. The corporate and shared services considered necessary for the Combined Group will continue through the Vodafone Services Agreements, which are to be entered into at Completion. Please see the description of the Vodafone Services Agreements and the key commercial terms of the four main agreements (including termination rights) in the section on page 54 headed "Services agreements between the Combined Group and Vodafone Group entities following Completion".

Accordingly, on implementation of the Proposed Transaction, Vodafone NZ, as part of the Combined Group, will continue to be reliant on the Vodafone Group for certain products and services under the terms of the Vodafone Services Agreements.

If one or more of those Vodafone Services Agreements were terminated (for example, where the Vodafone Group reduces its shareholding in SKY below 35%, the three year minimum term of the relevant agreement has expired and a party has elected to terminate the agreement) then:

- The Combined Group could incur additional costs: (i) procuring and implementing replacement products and services; and (ii) through lack of access to the purchasing power of the Vodafone Group.
- Vodafone NZ may lose access to the relevant services entirely where they are not replicable. For example, if the Branding Agreement were terminated, the 'Vodafone' brand will no longer be available to Vodafone NZ and cannot be replicated. Similarly, there is a risk that other replacement products and services (e.g. centralised payment of invoices) would either not be available or would only be available on less favourable terms, including as to price.
- Implementation of replacement products and/or services may take time and/or cause disruption to the Combined Group's business. However, this "transition" risk is mitigated, to a degree, by the requirements on the relevant Vodafone Group entities to provide disengagement services and the disengagement periods during which services are to continue.

In addition, some of the synergies expected from the Proposed Transaction are also reliant on access by the SKY business to certain products and services under the Vodafone Services Agreements. Therefore, if those agreements were terminated, such synergies may not be able to be achieved or may cease to exist (although the circumstances in which the agreements can be terminated in the first three years other than for breach are limited).

System integrity

Network

The provision of Vodafone NZ's services depends on the quality, stability, resilience and robustness of its networks. Vodafone NZ's network and information technology infrastructure is vulnerable to damage or interruption from a range of risks, including end of life failure, equipment failure, cable cuts, software installation, configuration errors, power failures, weather, natural disasters and fire. Serious service failures may result in voice, video and/or data transmissions or support services being significantly interrupted. This could cause product and service failures and damage to Vodafone NZ's reputation which would result in customer and revenue loss, as well as the potential for damages claims.

Security

The threat of cyber-attacks to Vodafone NZ's network is escalating, in both sophistication and volume. This means that complete protection of an organisation's systems and data can never be guaranteed. Vodafone NZ's network is also susceptible to interruption due to a physical attack and theft of network components. A successful attack on Vodafone NZ's networks or information technology infrastructure by a malicious individual or organised group could impact the availability of critical systems, resulting in Vodafone NZ not being able to deliver services to its customers. If this occurs Vodafone NZ's reputation could be harmed resulting in customer and revenue loss, or financial penalties or damages claims from legal or regulatory breaches. The combination of the SKY and Vodafone NZ businesses could lead to an increase in the risk of attacks, including on SKY's systems and infrastructure, and as such these types of security risks and potential adverse consequences also apply to the Combined Group generally.

Privacy and data protection

Vodafone NZ's networks carry and store large volumes of confidential personal and business data, including voice traffic. Failure to protect or correctly use this data could result in unintentional loss of, or unauthorised access to, that data. If this occurs Vodafone NZ's reputation could be harmed resulting in customer and revenue loss, or financial penalties or damages claims from legal or regulatory breaches.

Internet services substituting Vodafone NZ's core services

The ongoing adoption of messaging and voice applications, which make use of the internet as a substitute for some of Vodafone NZ's more traditional services, may erode Vodafone NZ's revenue. Both reduced demand for Vodafone NZ's core services of voice and text messaging and increased competition from providers of OTT services (such as Facebook, WhatsApp and Viber, which provide the same core services for free via a user's mobile data allowance or WiFi connection) have the potential for some adverse impact on future service revenue.

Increased borrowings of the Combined Group

The Combined Group Net Interest Bearing Debt at 1 July 2016 is expected to be $1.575 billion, substantially more than SKY's expected standalone projected Net Interest Bearing Debt of $325 million on 30 June 2016, in part reflecting the increased size of the Combined Group business, relative to SKY as a standalone business. The Combined Group's leverage ratio of 2.0x (based on ratio of Combined Group Net Interest Bearing Debt to Underlying EBITDA for FY 2016), compares to the standalone leverage ratio of 1.0x for SKY (based on ratio of SKY Net Interest Bearing Debt to Underlying EBITDA for FY 2016). Accordingly, there will be a substantial increase in the financial risk inherent in SKY's capital structure and a substantial increase in SKY's interest costs.

Refinancing risk

Given the Combined Group's increased debt position, it is exposed to a heightened risk in relation to the refinancing of its debt facilities. It may be difficult for the Combined Group to refinance all or some of these debt facilities. An inability to secure new debt facilities at a similar quantum and cost to existing debt facilities may adversely affect the financial performance of the Combined Group. In addition, in the event that the New Debt is provided under the Loan Facility Agreement and Vodafone reduces its shareholding in SKY below 50% (which Vodafone may do subject to the terms of the Escrow Deed), Vodafone Overseas Finance Limited will have the ability to demand repayment after 180 days in respect of the tranches of the New Debt provided under the Loan Facility Agreement having a three year term, and after 90 days in respect of the tranches of the New Debt provided under the Loan Facility Agreement having a five year term, if SKY has not refinanced the relevant debt within that 180 or 90 day period as applicable. It may be difficult for the Combined Group to refinance all or some of these debt facilities on short notice and the terms of any replacement debt facilities may be less favourable and may result in increased interest costs and interest margins.

Health and safety

Concerns have been expressed that electromagnetic signals emitted by mobile telephone handsets and base stations may pose health risks. The World Health Organization has acknowledged that there is no evidence that convinces experts that exposure to radio frequency fields from mobile devices and base stations operated within guideline limits has any adverse health effects. A change to this view could result in a range of impacts, from a change to legislation or regulation, to a major reduction in mobile phone usage, to major litigation. While this is an unlikely risk, if it materialised, it would have a major impact on services used by Vodafone NZ's customers and on Vodafone NZ's business generally.

Insurance

As noted in the description of the Vodafone Services Agreements, under the Co-operation Agreement SKY and Vodafone NZ may arrange their required insurance through a Vodafone Group company. The relevant Vodafone Group company has a right to provide insurance provided that SKY and Vodafone NZ may obtain insurance from a third party if the terms offered, taken as a whole, are more favourable to SKY or Vodafone NZ than those offered by the relevant Vodafone Group company. If SKY and Vodafone NZ choose to do this, this means that the Vodafone Group will effectively be self-insuring the risks insured against by Vodafone NZ and SKY and therefore the ability of the relevant Vodafone Group company acting as insurer to meet a claim will be dependent on the financial position and resources available to that Vodafone Group company, as well as the financial position and resources of its reinsurers, if any. The ability of Vodafone NZ or SKY to adequately assess, or be assured of, the financial position of the relevant Vodafone Group company acting as insurer may be limited and there is a risk that if the financial position of the insurer deteriorates, or the insurer becomes insolvent, it may be unable to meet any claims.

SPECIFIC RISKS RELATING TO THE PROPOSED TRANSACTION

In addition to the risks described above, a number of other transaction-related risks exist which:

- could prevent the Proposed Transaction from proceeding even if the Resolutions are approved by Shareholders;
- could prevent the Combined Group from realising the benefits anticipated from the Proposed Transaction; or
- could cause the Combined Group to suffer adverse impacts as a result of the Proposed Transaction.

Completion risk

Completion of the Proposed Transaction relies on satisfaction or waiver of a number of material conditions precedent including, amongst other things, Shareholder approval of the Acquisition, the incurrence of the New Debt and the Share Issue pursuant to the Resolutions, as contemplated by this document. In addition to Shareholder approval of the Resolutions, the nature of the Proposed Transaction also means that each of SKY and Vodafone are required to obtain approvals under the Overseas Investment Act 2005 from the OIO and will be seeking Commerce Commission clearance in connection with the Proposed Transaction. Accordingly, it is a condition precedent under the Sale and Purchase Agreement that all necessary OIO approvals and Commerce Commission clearances required for the Acquisition and the Share Issue have been obtained. See the section on page 50 headed "Conditions to the Sale and Purchase Agreement" for further information on the conditions precedent to the Proposed Transaction. If the conditions are not satisfied (or, if permitted, waived) prior to the long stop date of 28 February 2017, the Proposed Transaction may not proceed on the terms outlined in this document (or at all). If the Proposed Transaction did not proceed, there would likely be an impact on SKY's financial performance due to Transaction Costs having been incurred. There would also be other potential implications for SKY if the Proposed Transaction did not proceed. See the section on page 25 headed "Implications for SKY if the Proposed Transaction does not proceed" for further information. Vodafone has incurred significant costs in relation to the Proposed Transaction and SKY has agreed to pay a termination fee of up to $21.5 million to

Vodafone if the Proposed Transaction is not implemented in certain limited circumstances that are specified in the Sale and Purchase Agreement. See the section on page 53 headed "Termination Fee" for further information.

Integration risks

The financial success of the Proposed Transaction will partially depend on the extent to which SKY is able to realise costs synergies and revenue synergies.

SKY and Vodafone NZ have identified cost, capital expenditure and revenue synergies estimated to have a NPV of approximately $850 million after integration costs. See the section on page 31 headed "Business integration opportunities" for further information.

The extent to which cost, capital expenditure and revenue synergies are realised will depend on, among other things, the two businesses being combined at an operational level, without material interruption and in a timely manner.

There is a risk that unforeseen issues, difficulties or costs may arise that may result in integration benefits and synergies for the Combined Group being delayed, or being achieved only in part, or not at all. Areas of particular risk include:

- difficulties or unexpected costs in reducing corporate and administration costs, property rationalisation and rationalising duplicated operating infrastructure and corporate support services;
- difficulties or unexpected costs relating to integration of management and technology systems and platforms;
- difficulties in realising satellite capacity savings given the relevant time horizon (beyond four years) for delivery of the satellite synergies;
- obtaining new content rights, which are required to give effect to some of the synergies, on terms that are acceptable to SKY;
- the extent to which cost savings are offset by any unforeseen integration costs or increased operating costs or expenses; and
- the process of realising synergies requiring senior management of the Combined Group to devote significant time and resources to this task, which needs to be balanced with management of the Combined Group's businesses.

As such, delivery of synergies is uncertain and a wide range of factors may contribute to actual synergies being lower than estimated or not being achieved at all.

Uncertainty about the market value of Shares

The Board is of the view that the Proposed Transaction will maximise long term value for Shareholders. However, it is not possible to predict the market value of the Shares following the Special Meeting or the completion of the Proposed Transaction, if it proceeds.

There can be no assurance that the Shares will trade subsequent to the Special Meeting or the completion of the Proposed Transaction, if it proceeds, at any particular price. There is a risk that the market value of the Shares after the Special Meeting and/or the Completion, if it proceeds, will be less than the market value of the Shares immediately prior to the Special Meeting or the Completion, as applicable, particularly as some Shareholders may adjust their holdings in SKY following, or in anticipation of, these events.

Shareholders should also note that whether the Resolutions are passed at the Special Meeting or not, or the Proposed Transaction proceeds or not, there can be no assurance about the market value of the Shares generally and, as a result, the prices at which the Shares will trade.

Risk relating to loss of contracts

Some of the contracts that each of SKY and Vodafone NZ, and/or their respective subsidiaries, are party to contain change of control clauses which enable a counterparty to terminate its contract upon Completion as a consequence of the changes in ownership of SKY or Vodafone NZ, or their respective subsidiaries, resulting from the Proposed Transaction. In some of these circumstances, the relevant SKY or Vodafone NZ entities must obtain prior approval from the contract counterparty to the applicable changes resulting from the Proposed Transaction. There is no assurance that the relevant counterparties to these contracts will approve the applicable changes resulting from the Proposed Transaction, or will do so without seeking to impose onerous or unacceptable conditions on their approval. Each of SKY and Vodafone NZ has a programme in place to contact a number of the relevant counterparties, particularly to significant contracts, to discuss the changes of control arising from the Proposed Transaction.

Even if no contractual right to terminate exists, the applicable changes in ownership of both SKY and Vodafone NZ, and/or their respective subsidiaries, as a result of the Proposed Transaction may otherwise result in counterparties to different contracts seeking to terminate or renegotiate, or failing to renew on expiry, their arrangements with the relevant members of the Combined Group or decreasing their levels of business with the Combined Group. Failure to retain contracts and levels of business with key customers, suppliers and other counterparties in line with SKY's current expectations, or material adverse changes in the Combined Group's contractual arrangements or relationships with them, may adversely affect the Combined Group's performance.

Based on their relationships with the relevant counterparties and their extensive experience in dealing with counterparties or dealing with similar issues previously and, based on their knowledge as at the date of this document, neither SKY nor Vodafone NZ currently expect that there will be a material impact on the business of the Combined Group as a result of the need to obtain any approvals as a result of the Proposed Transaction.

Reliance on information provided

SKY has undertaken a due diligence process of the Vodafone NZ business in connection with the Proposed Transaction. That process has necessarily relied in part on review of financial, legal, technical and other information provided by or on behalf of Vodafone NZ Group and other members of the Vodafone Group. While SKY has made reasonable efforts to do so and has obtained certain confirmations, representations and warranties from Vodafone and Vodafone NZ regarding information provided, SKY has not been, and is not, able to independently verify the accuracy, completeness or reliability of all information provided to it as part of that due diligence process.

Under the Sale and Purchase Agreement, SKY may, subject to and in accordance with the terms of the Sale and Purchase Agreement, have a contractual right to make a claim against Vodafone for losses arising as a result of a breach of warranty in relation to certain information provided by Vodafone.

Similarly, in reliance on financial information and other information provided by or on behalf of Vodafone NZ Group and other members of the Vodafone Group in respect of the Vodafone NZ business, SKY has also included (and made assumptions in the preparation of) the financial information relating to the Vodafone NZ business on a standalone basis, and also the financial information relating to the Combined Group included in this document. SKY is unable to verify the accuracy or completeness of all of that information. If any of the data or information provided to and relied upon by SKY in its due diligence process and its preparation of this document proves to be incomplete, incorrect, inaccurate or misleading, there is a risk that the actual financial position and performance of the Vodafone NZ business and the Combined Group may be materially different to the financial position and performance expected by SKY and reflected in this document.

There can also be no assurance that the due diligence conducted was conclusive and that all material issues and risks in respect of the Proposed Transaction have been identified and as such there is a risk that unforeseen issues and risks may arise which may have a material impact on the Combined Group.

Management of Vodafone NZ before Completion

During the period between signing of the Sale and Purchase Agreement and Completion, Vodafone NZ will remain governed by, and managed as part of, the Vodafone Group.

Although the Sale and Purchase Agreement requires Vodafone to ensure that the Vodafone NZ business continues to be managed in the ordinary course during that period (and in any event given SKY's knowledge of and relationship with Vodafone NZ generally, SKY expects that will be the case), SKY will not have any ability to actively direct the management of Vodafone NZ during that period.

Assumption of Vodafone NZ liabilities

From Completion, SKY will assume the liabilities of Vodafone NZ and its subsidiaries, including tax, legal and regulatory liabilities, for which it may not be adequately indemnified. Although the Sale and Purchase Agreement contains a number of representations, warranties and indemnities in relation to pre-Completion periods, as with any acquisition, there is the risk that in acquiring Vodafone NZ, SKY becomes directly or indirectly liable for previously unidentified historical liabilities for which the warranties and indemnities in the Sale and Purchase Agreement turn out to be inadequate or that the warranties and indemnities may not be sufficient to cover the actual liabilities incurred in connection with any identified categories of liabilities and SKY may not be able to claim or recover funds from Vodafone sufficient to address such liabilities. Any material unsatisfied warranty or indemnity claims could adversely affect the Combined Group's business or financial condition or performance.

Risks associated with Vodafone Group's holding in the Combined Group

Vodafone Group's shareholding in SKY following Completion will give it control over SKY, including over the Combined Group's financial and operating policies, and the composition of the Combined Group's board. Vodafone Group may exert that control in ways that are not consistent with the interests of other Shareholders.

Impairment of goodwill and other intangibles

The financial statements of the Combined Group will be prepared in accordance with SKY's current accounting standards. To the extent goodwill or other intangibles that have an indefinite life are not subject to amortisation, they are reviewed annually for impairment. Individual assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an individual asset may not be recoverable. Changes to the carrying amounts of the intangible assets of the Combined Group could have an adverse impact on the reported financial performance of the Combined Group. The Combined Group total intangible assets as at FY 2016 is expected to be $2.752 billion, substantially more than SKY's expected total intangible assets of $1.458 billion on the same date. Accordingly, there will be an increased risk of a potential write-down of SKY's intangible assets in the event of a potential decline in the value of the intangible assets such that the assessed value of the intangible assets is less than their book value.

07

DETAILS OF THE PROPOSED TRANSACTION AND TRANSACTION DOCUMENTS

The Proposed Transaction involves the businesses of SKY and Vodafone NZ being merged and operating as a combined group. This involves SKY acquiring all of the shares in Vodafone NZ for a total purchase price of $3.44 billion subject to the terms of the Sale and Purchase Agreement, to be satisfied partly by a payment in cash of $1.25 billion, funded by the New Debt, and partly through an issue of Shares to Vodafone to satisfy the remaining $2.19 billion, which will result in Vodafone owning 51% of the total number of SKY Shares on issue immediately following Completion.

CONDITIONS TO THE SALE AND PURCHASE AGREEMENT

Under the terms of the Sale and Purchase Agreement, Completion is subject to a number of conditions, including:

- Shareholder approval of the Acquisition, the incurrence of the New Debt and the Share Issue;
- SKY and Vodafone each receiving all OIO approvals required for the Acquisition and the Share Issue;
- SKY and Vodafone each receiving all Commerce Commission clearances required for the Acquisition and the Share Issue; and
- all conditions precedent to the drawing of the Loan Facility Agreement in respect of the New Debt, other than those which are outside of SKY's control, being satisfied or waived.

The agreement contains a long stop date of 28 February 2017, by which date the conditions under the Sale and Purchase Agreement must be satisfied or waived. The long stop date can only be extended by agreement between SKY and Vodafone. If the conditions are not satisfied (or, if permitted, waived) by the long stop date or if a material adverse change or prescribed breach event occurs in relation to Vodafone NZ or SKY prior to Completion, the Proposed Transaction may not proceed.

ACQUISITION PURCHASE PRICE

Share Issue to Vodafone as part satisfaction of purchase price

SKY will issue the Consideration Shares to Vodafone to satisfy $2.19 billion of the $3.44 billion purchase price payable for the Acquisition, and so that immediately following Completion, taking into account the Share Issue, Vodafone holds 51% of the Shares then on issue in SKY. Assuming that the number of Shares on issue on the Completion Date is the same number of Shares on issue as at the date of this document, that will mean that Vodafone will be issued 405,023,041 Shares. The Consideration Shares will be new fully paid Shares of the same class as SKY's existing Shares.

Since the Consideration Shares will be issued to satisfy $2.19 billion of the overall purchase price, the effective issue price per Share will be determined by dividing $2.19 billion by the number of Shares to be issued. Assuming that Vodafone will be issued 405,023,041 new Shares in total (as explained above), the effective issue price will therefore be $5.40 per Share. The Consideration Shares will be issued fully paid. At that effective issue price, the Shares will be issued at a premium of:

- 20.8% to the last closing price of the Shares on the NZX Main Board on 7 June 2016, being the last trading day prior to announcement of the Proposed Transaction, which was $4.47 per Share; and
- 26.9% to the one month VWAP of the Shares on the NZX Main Board over the period from 8 May 2016 to 7 June 2016, which was $4.25 per Share.

Vodafone will have certain rights and be subject to certain restrictions in respect of its shareholding in SKY. For further information see the section on page 52 headed "Shareholding rights and restrictions on Vodafone".

Cash payment as part satisfaction of the purchase price

In addition to the Share Issue, SKY will pay Vodafone $1.25 billion in cash as part of the purchase price payable for the Acquisition. This cash amount is subject to adjustment based on each party's net debt (taking into account respective usual working capital amounts) and capital expenditure positions at Completion. See the section on page 54 headed "Purchase price adjustment" for further information.

SUMMARY OF ACQUISITION FUNDING

The $1.25 billion cash payment to be made by SKY to Vodafone as part payment of the purchase price payable for the Acquisition will be funded through the incurrence of the New Debt, involving new debt facilities of an amount not exceeding $1.8 billion (which will also be used to pay Transaction Costs, repay SKY's bank debt existing at Completion if required (but excluding the $100 million of bonds which will remain outstanding at and following Completion) and fund the working capital requirements of the Combined Group following Completion).

In summary, the funding for the Acquisition is effectively as follows:

Sources	$ million
Equity issued to Vodafone	$2,187
Incurrence of the portion of the New Debt necessary to pay the portion of the purchase price payable to Vodafone in cash for the acquisition of Vodafone NZ	$1,250
Total sources	**$3,437**
Uses	
Equity payable for the acquisition of Vodafone NZ	$2,187
Cash payable for acquisition of Vodafone NZ	$1,250
Total uses	**$3,437**

Key terms of New Debt funding from Vodafone Overseas Finance Limited as lender

To ensure that cash is available to SKY to fund the cash portion of the purchase price payable to Vodafone for the Acquisition, the Transaction Costs, the repayment of SKY's bank debt existing at Completion if required (but excluding the $100 million of bonds which will remain outstanding at and following Completion) and the Combined Group's ongoing working capital needs following Completion, SKY has entered into the Loan Facility Agreement with Vodafone Overseas Finance Limited as lender to provide the New Debt. Under this facility Vodafone Overseas Finance Limited has, subject to Completion occurring contemporaneously, agreed to make available to SKY:

(a) a term loan facility, split into three and five year tranches; and

(b) a revolving credit facility, with a three year term,

to fund the cash portion of the purchase price payable by SKY under the Sale and Purchase Agreement, repayment of SKY's bank debt then existing at Completion if required (but excluding the $100 million of bonds which will remain outstanding at and following Completion), Transaction Costs and the working capital requirements of the Combined Group following Completion.

The facilities are (subject to the satisfaction or waiver of conditions) available to SKY on and from the Completion Date under the Sale and Purchase Agreement. No repayments of the term loan are required until the expiry of the respective tranches. The revolving credit facility drawings are required to be repaid at the end of each interest period but are capable of being re-drawn. The facilities are unsecured and the lender will have the benefit of the covenants in SKY's existing Negative Pledge Deed dated 29 June 2005 (as amended from time to time).

The terms of the Loan Facility Agreement have been negotiated on an arm's length basis. In particular, the terms include restrictions on the ability of SKY to:

- create security interests;
- dispose of assets;
- incur additional indebtedness;
- pay distributions if an event of default or potential event of default has occurred;
- enter into material acquisitions;
- merge with other entities; or
- change its business or enter into transactions with related parties outside the ordinary course of business.

The terms of the Loan Facility Agreement also provide that if Vodafone reduces its shareholding in SKY below 50% (which Vodafone may do subject to the terms of the Escrow Deed), Vodafone Overseas Finance Limited will have the ability to demand repayment after 180 days in respect of the tranches of the New Debt provided under the Loan Facility Agreement having a three year term and after 90 days in respect of the tranches of the New Debt provided under the Loan Facility Agreement having a five year term, if SKY has not refinanced the relevant debt within that 180 or 90 day period as applicable.

The Sale and Purchase Agreement permits SKY, in consultation with Vodafone, to endeavour to obtain all of the New Debt or the revolving credit facility portion of the debt from third parties subject to certain conditions.

SHAREHOLDING RIGHTS AND RESTRICTIONS ON VODAFONE

Upon Completion, Vodafone will be SKY's largest Shareholder, with 51% of the total number of Shares on issue. Vodafone's shareholding will result in it having effective control over the direction of SKY going forward.

All of the Consideration Shares to be issued to Vodafone in connection with the Proposed Transaction will rank equally with SKY's existing Shares.

For so long as it continues to hold more than 50% of the Shares, Vodafone will have the ability to control the election of Directors to the Board subject to compliance with the independence requirements of the NZX Listing Rules and ASX Listing Rules. For so long as it holds or controls more than 25% of the Shares, Vodafone will have the ability to block the passage of special resolutions of Shareholders (which require 75% approval of the votes of those Shareholders entitled to vote and voting on the resolution). However often these control thresholds can be exercised at lower shareholding levels when less than 100% of all votes are cast on a resolution.

In recognition of the significance of Vodafone's shareholding in SKY following Completion, Vodafone will have certain rights and has agreed to certain restrictions in respect of its shareholding, as explained below.

Appointment of Directors to the SKY Board by Vodafone

Upon Completion, Serpil Timuray, John Otty and Phil Patel will be appointed as Directors as Vodafone nominees. Russell Stanners will be appointed CEO of the Combined Group at Completion and will also be an executive Director. Following this initial appointment, Vodafone will not have a contractual right to appoint or remove any Directors but to the extent it remains a majority Shareholder it will have, as noted above, the ability to control the election of Directors to the Board.

Restriction on Vodafone going above a 51% shareholding

The Sale and Purchase Agreement restricts the ability of Vodafone and its related parties (which include Vodafone's subsidiaries and other members of the Vodafone Group that control, are controlled by or are under common control by the same party that controls, Vodafone) to acquire or obtain a Relevant Interest in Shares, if it would result in Vodafone and its related parties holding a Relevant Interest in more than 51% of the total number of Shares on issue. However, the Sale and Purchase Agreement does not restrict Vodafone and its related parties from acquiring further Shares and taking a Relevant Interest in more than 51% of the total number of Shares on issue pursuant to a full offer or partial offer as defined in the Code, or where the acquisition of further Shares is approved by Shareholders in accordance with the Code and applicable laws, or pursuant to a scheme of arrangement.

There are some further limited exceptions to protect Vodafone's ability to participate in any future capital management initiatives (including a pro-rata rights issue, dividend reinvestment plan, bonus share issue or buy-back transaction).

Right to maintain shareholding

The Sale and Purchase Agreement provides anti-dilution protection for Vodafone for so long as Vodafone holds not less than 35% of the total number of Shares on issue. These protective measures ensure that Vodafone is given the opportunity to participate in any future share issues or share buy-back transactions, so as to enable Vodafone to maintain its proportionate shareholding.

Assistance with selling

SKY has agreed to assist Vodafone if Vodafone decided to sell any or all of its Shares in the future (after expiry of the escrow arrangements in the Escrow Deed summarised below). The assistance can be requested by Vodafone for so long as Vodafone or its related parties holds or controls 20% or more of the total number of Shares on issue, and includes providing reasonable cooperation, issuing "cleansing notices", providing information reasonably required by Vodafone and its advisers in connection with the sale, and providing reasonable support of and access to SKY's senior executives to assist with the sale other than in limited circumstances.

Information access protocol and Confidentiality Deed

SKY has agreed a specific information access protocol that sets out the basis on which certain information relating to SKY can be shared between Directors on the Board who represent Vodafone, and Vodafone and the broader Vodafone Group (subject to appropriate confidentiality deeds being signed). The Sale and Purchase Agreement imposes a requirement for a Confidentiality Deed to be signed by Vodafone to protect SKY's interests, and specifies the permitted uses for which Vodafone and the broader Vodafone Group is able to use the information that it receives relating to SKY.

Escrow arrangements

Both SKY and Vodafone have acknowledged and agreed in connection with the Proposed Transaction that it is important that Vodafone maintain its 51% shareholding in SKY for a specified period, subject to certain limited exceptions. Accordingly, SKY will enter into the Escrow Deed with Vodafone on Completion, pursuant to which Vodafone will unconditionally and irrevocably agree that, from Completion until the date in which SKY announces to NZX and ASX its preliminary financial results in respect of FY 2017, it will not dispose of its interest in its Shares other than with the approval of the non-interested Directors, SKY and NZX, or in other very limited circumstances, such as, for example, to accept a takeover offer.

OTHER MATERIAL TERMS OF THE SALE AND PURCHASE AGREEMENT

In addition to the matters noted above, set out below is a summary of other material terms of the Sale and Purchase Agreement.

Right to pay SKY dividend and make a taxable bonus issue

Under the terms of the Sale and Purchase Agreement, SKY is expressly entitled to pay, prior to Completion, a final dividend for FY 2016 of up to $0.15 per Share. A decision regarding a final dividend for 2016 is likely to be made by the Board in late August 2016.

SKY is also entitled, under the terms of the Sale and Purchase Agreement, to pay a further dividend to Shareholders prior to Completion of up to $0.025 per Share per month for each whole calendar month commencing on 1 October 2016 and ending on Completion. In the event that any such further dividend paid prior to Completion is less than $0.15 per Share, Vodafone has also agreed that the Combined Group may pay, subject to the Board's assessment of the current and future capital needs of the business and maintenance of an appropriate and prudent balance sheet, an additional dividend after Completion but prior to the end of the six month period ending 31 March 2017 to take the total amount of dividends per Share paid during that period to an aggregate amount of up to $0.15 per Share. If Completion has occurred in this period Vodafone will participate in this additional dividend through the Consideration Shares.

If, before Completion, SKY's payment of dividends (or other business activities) result in SKY's net debt at Completion exceeding $330 million, the purchase price SKY is to pay for the Acquisition increases by such excess multiplied by a factor of 51 divided by 49 to maintain the value of the total consideration to Vodafone.

Under the Sale and Purchase Agreement, SKY is permitted (but not obliged) to declare a taxable bonus issue prior to Completion. The amount of any such taxable bonus issue is restricted under the Sale and Purchase Agreement by reference to the quantum of imputation credits that it is expected SKY will hold prior to Completion.

Ordinary course of business covenants

The Sale and Purchase Agreement includes obligations on both SKY and Vodafone, requiring that up until Completion, SKY's business and the Vodafone NZ business are operated in accordance with business practices that have been followed by each of SKY and Vodafone NZ in the ordinary course of business as at the date the Sale and Purchase Agreement was signed. These obligations are largely mutual, and the protections are designed to ensure that both businesses continue to operate in an ordinary course manner until Completion.

Exclusivity

SKY and Vodafone have agreed to a range of exclusivity protections that apply from the date of the Sale and Purchase Agreement until the long stop date of 28 February 2017. During this exclusivity period, SKY has agreed to only deal with Vodafone with a view to both parties satisfying all of the conditions to, and effecting completion of, the Proposed Transaction. SKY has agreed to inform Vodafone of any approach from any third party or of any proposal that could impact on Completion. SKY has also granted Vodafone a matching right to give Vodafone the time and ability to respond and safeguard the Proposed Transaction in the event that any third party has made a proposal.

Termination fee

Vodafone has incurred significant costs in relation to the Proposed Transaction. SKY has agreed to pay a termination fee of up to $21.5 million to Vodafone if the Proposed Transaction is not implemented in certain limited circumstances that are specified in the Sale and Purchase Agreement. A termination fee of $21.5 million is payable by SKY to Vodafone if one or more of the SKY Directors changes, withdraws or modifies their recommendation for the Proposed Transaction, makes any public statement that is inconsistent with the recommendation, or recommends a competing proposal to Shareholders and the Proposed Transaction with Vodafone is not implemented.

Other triggers for the payment of a termination fee include circumstances where a competing proposal is received or announced by SKY and the Shareholders accept or support the competing proposal and the Proposed Transaction is not implemented. In the circumstances where the competing proposal results in another party acquiring more than 50% of the Shares (and the Proposed Transaction is not implemented), the termination fee payable by SKY to Vodafone is $21.5 million. If the competing proposal results in another party acquiring more than 20% but not more than 50% of the Shares (and the Proposed Transaction is not implemented), the termination fee payable by SKY to Vodafone is $10 million.

Warranties and tax indemnities

The Sale and Purchase Agreement contains a number of broadly standard warranties and tax indemnities both from Vodafone (as seller in favour of SKY) to SKY and from SKY (as buyer, and issuer of the Consideration Shares in favour of Vodafone) to Vodafone. The warranties and tax indemnities are, in the majority of cases, effectively reciprocal and are subject to certain time, monetary and other customary limitations.

Purchase price adjustment

The purchase price for Vodafone NZ will be subject to adjustment based on each party's net debt (taking into account usual respective working capital amounts) and capital expenditure positions at Completion. Vodafone NZ is to be acquired by SKY cash and debt free at Completion. SKY's net debt target is $330 million. Accordingly, the cash portion of the purchase price payable by SKY for Vodafone NZ will be decreased (or increased) by any net debt (or net cash) Vodafone NZ has at Completion and will be increased by the amount of SKY's net debt at Completion above the net debt target (with the SKY adjustment multiplied by a factor of 51 divided by 49 to maintain the value of the total consideration to Vodafone).

SERVICES AGREEMENTS BETWEEN THE COMBINED GROUP AND VODAFONE GROUP ENTITIES FOLLOWING COMPLETION

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. In conjunction with the negotiation and agreement of the Sale and Purchase Agreement, SKY has, with input from Vodafone NZ, negotiated and agreed, on an arm's length basis, the terms of a number of services agreements between various members of the Combined Group and the Vodafone Group, pursuant to which the Combined Group will have access to certain of these services which are important to the operation of the Vodafone NZ business following Completion. SKY will also be able to obtain the benefit of a range of these services. SKY believes that certain of these services will also become important to the SKY business following Completion.

These services agreements, referred to in this document as the Vodafone Services Agreements, are comprised of various agreements between Vodafone NZ and/or SKY and certain Vodafone Group entities, with four main agreements:

- the VPC Inter-company Procurement Agreement (also referred to as the "VIPA"), which will be varied by the Procurement Accession and Amendment Agreement;
- the Vodafone International Roaming Agreement (also referred to as the "VIRA"), which will be varied by the Roaming Amendment Agreement;
- the Branding Agreement (together with the related Branding Sub-Licence); and
- the Co-operation Agreement.

These four main Vodafone Services Agreements are required to be executed and delivered on Completion.

SKY, after consulting with Vodafone NZ management and taking independent advice, is satisfied that the range and level of products and services to be supplied under the four main Vodafone Services Agreements will allow the Combined Group to continue to operate the Vodafone NZ business without disruption and that the charges payable for those products and services are reasonable. All charges payable under the four main Vodafone Services Agreements (other than the VIRA, under which fees are variable depending on the value of roaming traffic but are anticipated to be equivalent to a net payment from Vodafone NZ to Vodafone Roaming Services of approximately $1.6 million in FY 2017) are payable in New Zealand dollars.

Key Commercial Terms

The key commercial terms of the four main Vodafone Services Agreements can be summarised as follows:

Agreement	Initial term	Disengagement period (in addition to term)	Termination for change of control	Termination where third party becomes a shareholder of SKY
VIPA	5 years	18 months.	Either party may terminate if Vodafone ceases to hold 35% of the total Shares on issue, but, in such circumstances only, the agreement will have a minimum term of three years, plus the disengagement period.	The Vodafone Group entity may terminate if: (a) another Shareholder has a shareholding equal to or greater than that of Vodafone; and (b) that Shareholder's shareholding is greater than 20%, provided that Vodafone Group terminates all four Vodafone Services Agreements.
VIRA				
Co-operation Agreement				
Branding Agreement	10 years	18 months but may be reduced to any period between 12 and 18 months if Vodafone NZ has ceased to use the brand.	Either party may terminate if Vodafone ceases to hold 15% of the total Shares on issue, or if SKY ceases to hold 50% of the shares in Vodafone NZ.	

- After the initial term of each agreement, the agreement is terminable "for convenience" by either party giving notice to the other party. Such termination will only take effect after the relevant disengagement period. There are also mutual termination rights under certain breach scenarios.
- During any disengagement period, the relevant Vodafone Group entity will have to continue providing the relevant services (and Vodafone NZ will have to continue paying for them in accordance with the terms of the relevant Vodafone Services Agreement). In addition, certain transitional assistance may be provided by the Vodafone Group entity.
- The disengagement period will be reduced in certain circumstances, primarily where the relevant agreement is terminated due to material breach of the Branding Agreement or insolvency.

VPC Inter-company Procurement Agreement (VIPA) and the Procurement Accession and Amendment Agreement

The Procurement Accession and Amendment Agreement amends, and joins SKY as a party to, the existing VIPA between Vodafone NZ and Vodafone Procurement Company (a Vodafone Group company).

In general terms, the VIPA, as amended, provides Vodafone NZ and SKY with access to Vodafone Group's procurement functions and receive goods and services procured by Vodafone Procurement Company from third party suppliers. The key benefit of this agreement is allowing Vodafone NZ and SKY to benefit from the purchasing power of the entire Vodafone Group.

Vodafone NZ pays to Vodafone Procurement Company:

- the cost of the products and services which are procured by Vodafone Procurement Company under the VIPA; and
- a fee for Vodafone Procurement Company's services. That fee is variable depending on the amount of activity performed by Vodafone Procurement Company but is anticipated to be approximately $13.8 million in FY 2017.

Vodafone International Roaming Agreement (VIRA) and the Roaming Amendment Agreement

The VIRA is the agreement under which Vodafone NZ accesses Vodafone Group's centralised wholesale commercial and technical enablement of international roaming services. These services facilitate the provision of international roaming services to Vodafone NZ's customers who are travelling overseas, and the provision of roaming services in New Zealand to customers of other members of the Vodafone Group and other offshore telecommunications providers who have entered into certain arrangements with Vodafone Group.

In addition to fees paid to other network operations in respect of inbound and outbound roaming traffic, Vodafone NZ pays to Vodafone Roaming Services an intermediation fee for its services. In addition, Vodafone NZ receives payment for roaming services it provides in New Zealand. The fees are variable depending on the value of roaming traffic but are anticipated to be equivalent to a net payment from Vodafone NZ to Vodafone Roaming Services of approximately $1.6 million in FY 2017.

Branding Agreement and Branding Sub-Licence

The Branding Agreement grants Vodafone NZ a licence to use the Vodafone brand name, associated trade marks and domain names. Accordingly, it sets out the terms and conditions relevant to Vodafone NZ's use of those brands, trade marks and domain names. While the Branding Agreement is a new agreement (as opposed to an amendment to an existing agreement), Vodafone NZ's right to use the Vodafone brand, and the terms and conditions applicable to its use of the Vodafone brand, are broadly the same as have historically applied prior to the Proposed Transaction. Vodafone NZ has historically paid for the use of the Vodafone brand.

In return for the right to continue to use the Vodafone brand, associated trade marks and domain names, Vodafone NZ agrees to pay a brand royalty to Vodafone Sales & Services of $31.4 million per year. The amount of that brand royalty is fixed for the first 10 years, and thereafter will be subject to a periodic review. If the parties cannot agree any such revised price, then either party may terminate the Branding Agreement.

The Branding Sub-Licence sets the terms on which SKY will be licensed by Vodafone NZ to use the Vodafone brand name, associated trade marks and domain names on a royalty-free basis for the purposes of promoting Vodafone NZ's products and services, and on terms which, in general terms, reflect those set out in the principal Branding Agreement. The Branding Sub-Licence terminates when the Branding Agreement terminates.

Co-operation Agreement

This agreement provides a framework set of terms and conditions on which Vodafone NZ and SKY will have access to a range of products, services and expertise from and via other members of the Vodafone Group. The Co-operation Agreement replaces an intercompany agreement to which Vodafone NZ was a party.

The majority of charges payable under the Co-operation Agreement are variable based on the volume of products and services supplied. A summary of the types of products and services supplied is set out below:

Service name	Service description
Group Commercial	Product management, purchasing and process supports relating to terminals, and assistance relating to Vodafone NZ's Unified Communications service offerings
Group Enterprise	Group Enterprise product sets and best practice, account management and access to sales and solution design support, and sales and marketing support specific to machine-to-machine services offerings
Group Technology	Technology and network infrastructure, research and development and IT security tools and best practice
Vodafone Technology Information Systems	Access to personal and enterprise-wide computing services and support
Corporate Functions	Use of the Vodafone Group Enterprise Resource Planning Tool, finance operations and HR services and support
Vodafone Shared Service Centre	Use of Vodafone Group's Shared Services Centres in India and Budapest, providing technical support, financial operations services and supply chain management support
Insurance	Insurance cover across a range of areas

Based on the currently anticipated range and volume of products and services to be supplied under annexes and statements of work to the Co-operation Agreement, Vodafone NZ would pay to Vodafone Group Services Limited charges of approximately $40.8 million in FY 2017.

In the case of Vodafone Group's insurance arrangements, following Completion both SKY and Vodafone NZ may arrange their required insurance through Vodafone Group under the Co-operation Agreement. The relevant Vodafone Group company has a right to provide insurance, provided that SKY and Vodafone NZ may obtain insurance from a third party if the terms offered, taken as a whole, are more favourable to SKY or Vodafone NZ than those offered by the relevant Vodafone Group company. The arranging of insurance through Vodafone Group in this way ultimately involves a member of the Vodafone Group, rather than a third party, acting as the insurer. This means that the Vodafone Group will effectively be self-insuring the risks insured against by Vodafone NZ and SKY. This is the way that the Vodafone Group addresses a significant portion of the global insurance requirements of members of the Vodafone Group.

Other operational arrangements between Vodafone NZ and Vodafone Group

In the ordinary course of Vodafone NZ's business and as part of the everyday operation of Vodafone NZ, personnel from Vodafone NZ and personnel from various members of the Vodafone Group are in regular contact and put in place regular operating arrangements that are ancillary, or in addition, to the arrangements provided for under the four main Vodafone Services Agreements described above (which are the most important agreements of this type). Examples of those other operating arrangements include:

- arrangements to be entered into relating to the development and use of the Tasman Global Access submarine cable system, including terrestrial backhaul, cable landing station and access to capacity by Vodafone NZ;
- agreements for the management and tracking of certain assets (the "VAMS Agreement");
- agreements for the management of international machine to machine traffic (the "VIMMS Agreement");
- international traffic agreements with various members of the Vodafone Group for the exchange of international voice traffic (including, for example, with Vodafone UK, Vodafone India and Vodafone Hutchison Australia);
- agreements relating to international SMS traffic;
- entry into and amendment of partner agreements by which Vodafone NZ connects its network to the networks of other Vodafone Group operating companies;
- entry into and amendment of services schedules relating to services provided under the Vodafone Services Agreements as and when needed; and
- certain employees of the Vodafone NZ business providing services to Vodafone Group.

It is expected that the VAMS Agreement and the VIMMS Agreement will be amended to reflect the same termination and disengagement provisions as apply to the four main Vodafone Services Agreements. Aside from those two, these arrangements and dealings (and other similar arrangements) are not expected to be impacted by the Proposed Transaction and will continue on their existing terms.

08

NOTICE OF MEETING OF SHAREHOLDERS

Notice is given that a special meeting of the shareholders of Sky Network Television Limited (SKY) will be held at the Pullman Hotel (Regatta Room D), Corner Princes Street and Waterloo Quadrant, Auckland 1010 on Wednesday 6 July 2016 at 10:30 a.m.

BUSINESS

The business of the meeting will be to consider and, if thought fit, pass the following Resolutions. Resolutions 1, 2 and 3 are cross-conditional, to the effect that all Resolutions must be passed in order for any of them to be effective. This reflects the fact that each of these Resolutions being passed is a condition precedent to the Acquisition.

RESOLUTIONS

RESOLUTION #1
APPROVAL OF THE ACQUISITION

As a special resolution (being a major transaction in terms of section 129 of the Companies Act):

"That, subject to the passing of Resolutions 2 and 3, the Shareholders ratify, confirm and approve, including for the purposes of section 129(1) of the Companies Act, NZX Listing Rule 9.1.1, and ASX Listing Rule 11.1.2, and for all other purposes, the acquisition by SKY of all the shares of Vodafone NZ (the Acquisition), on the terms and subject to the conditions set out in the Sale and Purchase Agreement including the entry into the Vodafone Services Agreements and all other documents and agreements contemplated by the Sale and Purchase Agreement, as more particularly described in the Notice of Meeting and Explanatory Memorandum, and that the Directors be authorised to take all actions, do all things and execute all documents and agreements contemplated by the Sale and Purchase Agreement or otherwise considered by the Directors to be necessary or desirable in connection with the Acquisition."

RESOLUTION #2
APPROVAL OF THE INCURRENCE OF THE NEW DEBT

As a special resolution (being a major transaction in terms of section 129 of the Companies Act):

"That, subject to the passing of Resolutions 1 and 3, the Shareholders ratify, confirm and approve, including for the purposes of section 129(1) of the Companies Act, NZX Listing Rule 9.1.1, and for all other purposes, the incurrence by SKY of debt in an amount not exceeding $1.8 billion (the New Debt), to be provided by:

(a) Vodafone Overseas Finance Limited, on the terms contained in the Loan Facility Agreement; and/or

(b) one or more third party banks or financial institutions, on arm's length commercial terms,

for the purposes of funding the cash portion of the purchase price payable in connection with the Acquisition, Transaction Costs, repayment of SKY's bank debt existing at Completion and the Combined Group's working capital needs, as more particularly described in the Notice of Meeting and Explanatory Memorandum, and that the Directors be authorised to take all actions, do all things and execute all documents and agreements considered by the Directors to be necessary or desirable in connection with the New Debt."

RESOLUTION #3
APPROVAL OF THE SHARE ISSUE

As an ordinary resolution:

"That, subject to the passing of Resolutions 1 and 2, the Shareholders ratify, confirm and approve, including for the purposes of Rule 7(d) of the Takeovers Code, NZX Listing Rule 7.3.1(a), ASX Listing Rule 7.1 and all relevant provisions of SKY's constitution, and for all other purposes, the issue to Vodafone at Completion of the Acquisition described in Resolution 1, to partially satisfy the purchase price payable by SKY in connection with the Acquisition, of that number of new fully paid, ordinary shares in SKY equal to 51% of the total number of SKY shares that will be on issue immediately following Completion of the Acquisition, taking into account the issue of such new shares (the Share Issue), with (assuming in each case that the total number of shares on issue in SKY immediately prior to Completion is the same total number of shares on issue as at the date of the Notice of Meeting and Explanatory Memorandum) such number of shares to be issued to be 405,023,041 and the effective issue price per share to be $5.40 as more particularly described in the Notice of Meeting and Explanatory Memorandum, and that the Directors be authorised to take all actions, do all things and execute all documents and agreements considered by the Directors to be necessary or desirable in connection with such Share Issue."

DIRECTORS' RECOMMENDATION TO APPROVE THE RESOLUTIONS

The Board fully supports the Proposed Transaction and unanimously recommends that Shareholders vote in favour of the Resolutions.

Each Director has indicated that he or she will be voting the Shares they hold in favour of all of the Resolutions.

CONCLUSION FROM INDEPENDENT REPORT

SKY has commissioned Grant Samuel, the Independent Adviser & Appraiser, to prepare the Independent Report on the merits of, amongst other things, the Share Issue for the purposes of NZX Listing Rule 6.2.2(b) and Rule 18 of the Code and the Proposed Transaction generally.

In the Independent Report 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". Please note however that these are simply some of the conclusions reached by the Independent Adviser & Appraiser and it is recommended that you read the Independent Report attached as Appendix One.

This conclusion should be read in the context of the Independent Report as a whole. A copy of the Independent Report accompanies this Notice of Meeting and Explanatory Memorandum as Appendix One.

VOTING AND PROXIES

You can exercise your right to vote at the meeting in two ways. Namely, by being present and voting in person or by appointing a proxy to attend and vote in your place. A voting/proxy form is enclosed with this Notice of Meeting and Explanatory Memorandum. If you wish to vote by proxy you must complete the voting/proxy form and ensure it is received by SKY no later than 10:00 a.m. on Monday 4 July 2016. You can also lodge your proxy online, see the voting/proxy form for more details.

If you wish to appoint a proxy:

(a) The proxy does not need to be a Shareholder.

(b) You may direct your proxy how to vote, or give your proxy discretion to vote as they see fit. If you wish to give your proxy that discretion, you should mark the appropriate box on the voting/proxy form. If you do not mark any appropriate box on the voting/proxy form then your proxy may vote or abstain from voting as they see fit.

(c) The Chair of the meeting is willing to act as proxy. If you appoint the Chair of the meeting as proxy but do not direct the Chair how to vote on a particular Resolution then the Chair of the meeting will vote your Shares in favour of each of the Resolutions.

By order of the Board

Peter Macourt

Peter Macourt
Chairman

13 June 2016

Notes:

1. Resolutions 1 and 2 are both special resolutions, each requiring a 75% majority of the votes of the Shareholders entitled to vote and voting on that Resolution to be voted in favour in order for those resolutions to be passed. Resolution 3 is an ordinary resolution, requiring a simple majority of the votes of the Shareholders entitled to vote and voting on that resolution to be voted in favour in order for that resolution to be passed.
2. Associates (as defined in the Code) and Associated Persons (as defined in the NZX Listing Rules) of Vodafone may not vote on Resolution 3. However, each such person may be appointed as a proxy by another person who is not disqualified from voting, to vote in accordance with the express instructions of that other person.
3. For the purposes of the ASX Listing Rules, voting exclusions apply to Resolutions 1 and 3.

   SKY will disregard any votes cast on Resolution 1 by any person who might obtain a benefit, except a benefit solely in the capacity of a holder of Shares, if the Resolution is passed or any associate (as defined in the ASX Listing Rules) of any such person.

   SKY will disregard any votes cast on Resolution 3 by Vodafone and any other person who may participate in the proposed Share Issue, and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of Shares, if the Resolution is passed or any associate (as defined in the ASX Listing Rules) of any such person.

   However, SKY need not disregard a vote for ASX Listing Rules purposes on Resolutions 1 or 3 if:

   (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with directions on the proxy form; or

   (b) it is cast by the Chair of the meeting as a proxy (expressly or by default) for a person who is entitled to vote, without being directed how to vote.

   At the date of this Notice of Meeting and Explanatory Memorandum, Vodafone does not hold or control any Shares.
4. The approved maximum number of Shares that could be issued and allotted to Vodafone pursuant to Resolution 3 would be a greater number than 405,023,041 if the total number of Shares on issue immediately prior to Completion is more than the total number of Shares on issue at the date of this Notice of Meeting and Explanatory Memorandum, but the maximum percentage of all voting securities that could be held or controlled by Vodafone after completion of the allotment is in all cases 51%.

09

EXPLANATION OF THE RESOLUTIONS AND ADDITIONAL INFORMATION

BACKGROUND

The purpose of the meeting is to consider and, if thought fit, to approve resolutions:

(a) approving the Acquisition;

(b) approving the incurrence of the New Debt; and

(c) approving the Share Issue.

Summaries of the Acquisition, the incurrence of the New Debt and the Share Issue are set out in the earlier sections of this document. You will also find set out in the earlier sections of this document the Board's views on the merits of the Proposed Transaction, which are relevant to each of the Resolutions which Shareholders are being asked to vote on.

WHY ARE THE RESOLUTIONS REQUIRED?

Resolution 1: Approval of the Acquisition

The Acquisition is a major transaction for the purposes of section 129 of the Companies Act, and accordingly requires Shareholder approval by special resolution under the Companies Act, as well as under NZX Listing Rule 9.1.1. Shareholder approval of the Acquisition is also required (by ordinary resolution (although by special resolution also satisfies this requirement)) under ASX Listing Rule 11.1.2. A special resolution is passed if 75% of the votes of Shareholders entitled to vote and voting on the resolution are voted in favour of that resolution.

Companies Act

For the purposes of the Companies Act, a major transaction includes the acquisition of, or an agreement to acquire, assets the value of which is more than half the value of the company's assets before the acquisition. A major transaction also includes a transaction that has, or is likely to have, the effect of the company incurring obligations or liabilities the value of which is more than half the value of the company's assets before the transaction.

In SKY's view, the market value of the assets it is to acquire pursuant to the Acquisition (being the shares in Vodafone NZ) and the value of the purchase price obligation which SKY is incurring for the Acquisition (being $3.44 billion), are each clearly more than half the market value of SKY's assets, meaning approval under section 129 of the Companies Act is required.

NZX Listing Rules

Under NZX Listing Rule 9.1.1 a listed issuer must obtain shareholder approval for an acquisition of assets in respect of which the gross value exceeds 50% of the issuer's "Average Market Capitalisation" (as defined in the NZX Listing Rules), or where an acquisition of assets would change the essential nature of the business of SKY. As at the close of business on 7 June 2016 (which was the last NZX Main Board trading day prior to the date of announcement of the Proposed Transaction) SKY's Average Market Capitalisation was $1.65 billion. The gross value of the assets being acquired is $3.44 billion. As such, the gross value of the assets being acquired exceeds 50% of SKY's Average Market Capitalisation and therefore Shareholder approval for the acquisition of Vodafone NZ is also required under NZX Listing Rule 9.1.1. It is arguable that SKY's acquisition of Vodafone NZ would change the essential nature of SKY's business. The approval by Shareholders under NZX Listing Rule 9.1.1 will address the requirement for an approval under NZX Listing Rule 9.1.1 if that were the case also.

ASX Listing Rules

ASX Listing Rule 11.1.2 allows ASX to require Shareholder approval for a transaction which involves a significant change to the nature or scale of SKY's activities.

SKY considers that the change to its activities as a result of the Acquisition will constitute a significant change in the nature and/or scale of SKY. For this reason, SKY is seeking Shareholder approval with respect to the Acquisition under ASX Listing Rule 11.1.2.

Resolution 2: Approval of the incurrence of the New Debt

The incurrence of the New Debt by SKY is also a major transaction for the purposes of section 129 of the Companies Act, and accordingly requires Shareholder approval (by special resolution) under the Companies Act.

Companies Act

As noted above, for the purposes of the Companies Act, a major transaction includes a transaction that has, or is likely to have, the effect of the company incurring obligations or liabilities the value of which is more than half the value of the company's assets before the transaction. The value of the New Debt SKY is incurring (being $1.8 billion) is more than half the market value of SKY's assets before incurring that debt, meaning approval under section 129 of the Companies Act is required.

NZX Listing Rules

As noted above, under NZX Listing Rule 9.1.1 a listed issuer must obtain shareholder approval for an acquisition of assets in respect of which the gross value exceeds 50% of the issuer's "Average Market Capitalisation" (as defined in the NZX Listing Rules). It is arguable that the incurrence of the New Debt amounts to the acquisition of assets. As at the close of business on 7 June 2016 (which was the last NZX Main Board trading day prior to the date of announcement of the Proposed Transaction) SKY's Average Market Capitalisation was $1.65 billion. The gross value of the New Debt is approximately $1.8 billion. Accordingly, the gross value of the New Debt (as the asset being acquired for this purpose) exceeds 50% of SKY's Average Market Capitalisation. Therefore Shareholder approval for the acquisition of Vodafone NZ is also being sought under NZX Listing Rule 9.1.1.

Resolution 3: Approval of the Share Issue

NZX Listing Rules

NZX Listing Rule 7.3.1 prohibits SKY from issuing equity securities (including Shares) unless the precise terms and conditions of the specific proposal to issue those equity securities have been approved by separate resolutions (passed by a simple majority of votes) of holders of each class of quoted equity securities (in this context being only the Shares) whose rights or entitlements could be affected by that issue, and, in this context, that issue is completed within 12 months after the passing of those resolutions. Such a resolution must be passed by a simple majority of votes.

Under NZX Listing Rule 6.2.2(b), an issue of equity securities pursuant to Rule 7.3.1 must be accompanied by an appraisal report if the issue is intended or is likely to result in more than 50% of the securities to be issued being acquired by directors or "Associated Persons" (as defined in the NZX Listing Rules) of directors of the issuer. Due to the expansive nature of the definition of Associated Persons Vodafone may technically be an Associated Person of the Directors by virtue of the Proposed Transaction, and Vodafone will be acquiring all of the securities being issued pursuant to NZX Listing Rule 7.3.1. Notwithstanding this possible technical position, SKY and Vodafone consider themselves to be fully arm's length, independent parties which have negotiated the Proposed Transaction on that basis. The Independent Report constitutes a summary appraisal report for this purpose and has been prepared in accordance with the NZX Listing Rules by Grant Samuel and therefore reports on the fairness to Shareholders of the terms and conditions of the Proposed Transaction and the sufficiency of the information provided to Shareholders. The Independent Report accompanies this document. Shareholders should carefully review and consider the Independent Report, including in relation to its discussion of the Share Issue.

ASX Listing Rules

ASX Listing Rule 7.1 provides that SKY must not (subject to specified exceptions which do not apply to the Share Issue) issue or agree to issue during any 12 month period any equity securities (including Shares) if the number of those securities exceeds 15% of (in this context) the number of ordinary shares on issue at the commencement of that 12 month period, unless the issue has been approved (by a simple majority) of holders of ordinary securities in SKY (being the Shares).

In addition, ASX Listing Rule 7.3.2 provides that, where shareholder approval has been sought for an issue of securities (or an agreement to issue) under ASX Listing Rule 7.1 (as is contemplated by Resolution 3), then the Notice of Meeting must contain (among other things) the date by which the issue of those securities will occur, which must not be more than three months after the date of the meeting.

Subject to the approval by Shareholders of Resolutions 1 to 3, Completion under the Sale and Purchase Agreement (which includes the Share Issue) is unlikely to occur within three months of the date of this meeting. Accordingly, SKY has received a waiver from the ASX from the timing restrictions imposed by ASX Listing Rule 7.3.2, so that the Share Issue may occur in accordance with, and only when, all of the relevant conditions under the Sale and Purchase Agreement have been satisfied or otherwise waived. However, it is a condition of the waiver from ASX that the Share Issue occur within 12 months of the date of this meeting.

FMCA and Corporations Act

The Share Issue is expected to be undertaken as an issue of a financial product exempt from certain disclosure requirements based on exclusions that apply under both the FMCA regime in New Zealand and the Corporations Act regime in Australia relating to issuances of financial products (being the Consideration Shares) that are of the same class as an existing quoted financial product of SKY (being the Shares). In order to issue the Consideration Shares under, and comply with, these exclusions, SKY will amongst other things be required to issue "cleansing notices" under which it is required to confirm it is in compliance with its continuous disclosure obligations under the NZX Listing Rules and the ASX Listing Rules. It must also disclose to the market any information to which a continuous disclosure obligation would apply at the relevant time but which has not been disclosed under such an obligation as a result of an exclusion in, or a waiver given under, the relevant listing rules (excluded information). The requirement to disclose excluded information may mean that SKY is required to disclose information at a time or in a manner that SKY might otherwise prefer not to or that may be disadvantageous to SKY.

The Takeovers Code

SKY is a "code company" as defined in the Code. Rule 6 of the Code contains the fundamental rule, part of which provides that a person (including its associates) who holds less than 20% of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights resulting in that person and its associates holding or controlling more than 20% of the voting rights (the "Fundamental Rule") unless that person does so under an exception contained in Rule 7 of the Code.

The Share Issue will, if approved, result in Vodafone and its associates holding or controlling 51% of the voting rights in SKY.

Rule 7 of the Code sets out the exceptions to the Fundamental Rule. The exception in Rule 7(d) permits the allotment of Shares that would otherwise breach the Fundamental Rule if the allotment is approved by an ordinary resolution of SKY. Accordingly, SKY is seeking approval of SKY's Shareholders for the Share Issue by ordinary resolution, in accordance with Rule 7(d) of the Code. Rule 17 of the Code prohibits Vodafone or any of its "associates" as defined in the Code from voting on this Resolution. As at the date of this Notice of Meeting and Explanatory Memorandum, Vodafone does not hold or control any Shares.

In accordance with Rule 18 of the Code, the Directors have obtained the Independent Report (being a summary independent adviser's report for the purposes of the Code) from Grant Samuel on the merits of the proposed Share Issue, having regard to the interests of the Shareholders (other than any Shareholders that are associates of Vodafone). The Independent Report accompanies this Notice of Meeting and Explanatory Memorandum as Appendix One.

Takeovers Code disclosures

In accordance with Rule 16 of the Code, SKY notes the following (where: (i) for the purposes of Rule 16, the Consideration Shares are the relevant voting securities proposed to be allotted referred to in Rule 7(d) and SKY is the relevant code company; and (ii) sub-paragraphs (a)-(i) below correspond to the equivalent sub-paragraphs in Rule 16):

(a) Vodafone is the proposed allottee of the Consideration Shares and Vodafone Plc (as the ultimate controller of Vodafone) and each of the intermediate subsidiaries in the Vodafone Group sitting between Vodafone Plc and Vodafone will each become controllers of an increased percentage of voting securities in SKY as a result of the proposed allotment.

(b) As not all of the particulars relating to the Consideration Shares required by Schedule 4 of the Code are ascertainable with complete certainty (specifically the final number of Consideration Shares), SKY notes the following particulars required by Schedule 5 of the Code:

  (i) the maximum number of Consideration Shares that could be allotted (the approved maximum number) to Vodafone is 405,023,041;[35]

  (ii) the percentage of the aggregate of all existing voting securities and all Consideration Shares that could be allotted that the approved maximum number represents is 51%;

  (iii) the maximum percentage of all voting securities that could be held or controlled by Vodafone after completion of the allotment is 51%;

  (iv) the maximum aggregate of the percentages of all voting securities that could be held or controlled by Vodafone and Vodafone's associates (not including voting securities of any of Vodafone's associates who are also relying on Rule 7(d) in relation to the allotment (relying associates), noting that there are no such relying associates) after completion of the allotment is 51%;

  (v) as noted above, there are no relying associates of Vodafone and therefore paragraph (e) of Schedule 5 of the Code is not applicable;

  (vi) the date used to determine the information referred to in this paragraph (b) is 13 June 2016 (calculation date); and

  (vii) the assumptions on which the particulars set out in paragraphs (i) to (vi) above are calculated are as follows:

    - that the number of voting securities is the number of voting securities on issue on the calculation date;
    - that there is no change in the total number of voting securities on issue between the calculation date and the end of the allotment period (other than as a result of the allotment);
    - that, in relation to paragraphs (i) to (iii), Vodafone is allotted the approved maximum number of Consideration Shares under the allotment;
    - that, in relation to paragraphs (iii) and (iv), as at the calculation date none of Vodafone or any of Vodafone's associates hold or control any voting securities, and there is no change in the number of voting securities held or controlled by Vodafone or any of Vodafone's associates between the calculation date and the end of the allotment period (other than as a result of the allotment); and
    - that, in relation to paragraph (iv), Vodafone and each of Vodafone's associates (not including relying associates but noting that there are none) are allotted the maximum number of Consideration Shares.

(c) Not applicable as the Consideration Shares are voting securities of SKY, not voting securities of a body corporate other than SKY.

(d) The Consideration Shares are proposed to be allotted on the Completion Date. When the Completion Date occurs is dependent on the timing of satisfaction or waiver of the applicable conditions precedent to the Proposed Transaction. The issue price of the Consideration Shares (assuming that the number of Consideration Shares allotted is 405,023,041) is deemed to be $5.40 per Share.

(e) The reason for the proposed allotment of the Consideration Shares is, as noted above, part satisfaction of the purchase price payable by SKY to Vodafone in connection with the Acquisition.

(f) The allotment of the Consideration Shares to Vodafone pursuant to the Share Issue, if approved, will be permitted under Rule 7(d) of the Code as an exception to Rule 6 of the Code.

(g) SKY has been advised by Vodafone that there is no agreement or arrangement (whether legally enforceable or not) that has been, or is intended to be, entered into between Vodafone (as allottee), and any other person (other than the Sale and Purchase Agreement and the Escrow Deed) relating to the allotment, holding or control of the Consideration Shares, or to the exercise of voting rights in SKY. A summary of the material terms of the Sale and Purchase Agreement pursuant to which the Share Issue will be made, and the Escrow Deed, are set out in the section on page 50 headed "Details of the Proposed Transaction and transaction documents".

(h) This document is accompanied by the Independent Report from Grant Samuel on the merits of the proposed allotment of the Consideration Shares to Vodafone pursuant to the Share Issue. The Independent Report is required by Rule 18 of the Code and Rule 6.2.2(b) of the NZX Listing Rules.

(i) The Board unanimously recommends approval of the proposed allotment of the Consideration Shares to Vodafone pursuant to the Share Issue, on the basis that they believe the Share Issue, as part of the Proposed Transaction, is in the best interests of SKY and its Shareholders, for the reasons outlined in this document (particularly in the section on page 20 headed "Key reasons to vote in favour of the Proposed Transaction").

MINORITY BUY-OUT RIGHTS

Section 110 of the Companies Act may confer minority buy-out rights on Shareholders who vote against either or both of the special resolutions to (i) approve the Acquisition (Resolution 1) and (ii) approve the incurrence of the New Debt (Resolution 2) (each a "Special Resolution" and together, the "Special Resolutions").

For a Shareholder to exercise those minority buy-out rights, the Shareholder must cast all the votes attached to Shares registered in the Shareholder's name and having the same beneficial owner against a Special Resolution. If that Special Resolution is nevertheless passed, a Shareholder who wishes to exercise minority buy-out rights must, within 10 working days of the passing of the Special Resolution, give written notice to SKY that the Shareholder requires SKY to purchase the Shareholder's Shares.

Within 20 working days of receipt of the notice the Board must:

(a) agree to the purchase of the relevant Shares by SKY; or

(b) arrange for some other person to agree to purchase the relevant Shares; or

[35] The approved maximum number of Consideration Shares that could be allotted to Vodafone would be a greater number if the total number of Shares on issue immediately prior to Completion is more than the total number of Shares on issue at the date of this Notice of Meeting and Explanatory Memorandum, but the maximum percentage of all voting securities that could be held or controlled by Vodafone after completion of the allotment is in all cases 51%.

(c) apply to the court for an order exempting SKY from the obligation to purchase the relevant Shares on the grounds that the purchase would be disproportionately damaging to SKY or that SKY cannot reasonably be required to finance the purchase or it would not be just and equitable to require SKY to purchase the relevant Shares or on the grounds that the Board has resolved that the purchase of the relevant Shares by SKY would result in it failing to satisfy the solvency test and SKY has, having made reasonable efforts to do so, been unable to arrange for the relevant Shares to be purchased by another person; or

(d) arrange for the Special Resolution to be rescinded by special resolution of Shareholders, or decide in the appropriate manner not to take the action concerned, as the case may be; and

(e) give written notice to the Shareholder of the Board's decision as to which of the above actions it will take.

Where the Board agrees to the purchase of the relevant Shares by SKY, it must give notice to the relevant Shareholder within five working days after the written notice of the Board's decision referred to in the preceding paragraph, setting out the price the Board offers to pay for those Shares and certain information relating to how that price was calculated. That price must be a fair and reasonable price (as at the close of business on the day before the Special Resolution was passed) for the relevant Shares held by the Shareholder, calculated (subject to the following two sentences) using a default methodology described in the Companies Act designed to allocate to the relevant Shares held by the Shareholder a pro rata portion of the fair and reasonable value of all Shares in SKY adjusted to exclude any fluctuation in the value of all Shares that occurred and that was due to, or in expectation of, the Proposed Transaction. The Board may use a different methodology to calculate the fair and reasonable price if using the default methodology would be clearly unfair to the Shareholder or SKY (and in that case the Board must also state in the notice that a different methodology has been used and why calculating the price under the default methodology would be clearly unfair).

A Shareholder may object to the price offered by the Board by giving written notice to SKY no later than 10 working days after the date the Board gave written notice to the Shareholder of the price offered by the Board. If, within that 10 working day period, no objection to the price offered by the Board has been received by SKY, it must purchase the relevant Shareholder's Shares at the nominated price. If, within that 10 working day period, an objection to the price has been received by SKY, the fair and reasonable price offered by the Board must be submitted to arbitration. SKY must within five working days of receiving the objection pay to the Shareholder on a provisional basis the price offered by the Board. The arbitration is to be conducted in accordance with the Arbitration Act 1996. If the price determined by the arbitrator:

(a) exceeds the provisional price paid by SKY, then the arbitrator must order SKY to pay the balance owing to the Shareholder; or

(b) is less than the provisional price paid by SKY, then the arbitrator must order the Shareholder to pay the excess to SKY.

Except in exceptional circumstances, the arbitrator must award interest on any balance payable or excess to be repaid.

If a balance is owing to the Shareholder the arbitrator may award to the Shareholder, in addition to or instead of interest, damages for loss attributable to the shortfall in the initial payment.

Where the Board agrees to the purchase of the relevant Shares by SKY, on the day on which the Board gives written notice of the Board's decision to the purchase of the relevant Shares by SKY, the legal title to those Shares passes to SKY and the rights of the relevant Shareholder in relation to those Shares end.

If the Board arranges for some other person to agree to purchase the Shares, the process and terms set out in the paragraphs above apply (with such modifications as may be necessary) to the purchase of Shares by such person. In addition, SKY must indemnify the Shareholder in respect of any losses suffered by the Shareholder by reason of the failure by the person to purchase the Shares at the price nominated or fixed by arbitration, as the case may be.

Under the Sale and Purchase Agreement, SKY is required to consult with Vodafone in relation to actions it takes in response to Shareholders exercising their buy-out rights as described above. Any Shares acquired by SKY from Shareholders exercising minority buy-out rights that remain as treasury stock immediately prior to Completion must be cancelled before Completion. If SKY acquires and disposes of (or cancels) Shares as a result of Shareholders exercising minority buy out rights and Completion does not occur, Vodafone and SKY have agreed to share the profit or loss from those transactions, except where a termination fee is payable by SKY to Vodafone under the Sale and Purchase Agreement.

10

GLOSSARY

2degrees	Two Degrees Mobile Limited
2G	second generation mobile telecommunications technology which uses digital (rather than analogue) transmissions and provides the capabilities defined by a standard developed by the European Telecommunications Standards Institute enabling voice calls, short message service (SMS) and other limited data services
3G	third generation mobile telecommunications technology which provides the capabilities defined by the International Telecommunications Union in the International Mobile Telecommunications – 2000 specifications including better bandwidth and increased speed than 2G, enabling the use of global positioning system (GPS) services, mobile television and video calling
4G	fourth generation mobile telecommunications technology which provides the capabilities defined by the International Telecommunications Union in the International Mobile Telecommunications Advanced Standard, including significantly faster (broadband-like) internet speeds than 3G enabling faster web access, downloads and streaming services
5G	fifth generation mobile telecommunications technology which is the next major phase of mobile telecommunications standards beyond the current 4G, the standards of which are currently not defined
Acquisition	the purchase by SKY of all the shares in Vodafone NZ from Vodafone on terms, and subject to the conditions, set out in the Sale and Purchase Agreement
ADSL	asymmetric digital subscriber line
ARPU	average revenue per user and, when used in relation to SKY, is based on average monthly revenue per residential subscriber and for the purposes of pro forma PFI for 30 June 2016 and PFI for 30 June 2017 includes (but for the purposes of pro forma HFI for 30 June 2015 does not include) NEON, FAN PASS and IGLOO
ASX	ASX Limited or the Australian Securities Exchange which it operates, as the context requires
ASX Listing Rules	the official listing rules of ASX, as affected by any applicable waivers
AUD	Australian Dollar
BN	billion

Board	the board of Directors of SKY
Branding Agreement	the branding agreement to be entered into between Vodafone Sales and Services and Vodafone NZ on Completion
Branding Sub-Licence	the branding sub-licence to be entered into between Vodafone NZ and SKY on Completion
Chairman	the Chairman of the Board, Peter Macourt
Chorus	Chorus Limited
Code	the New Zealand Takeovers Code approved by Takeovers Code Approval Order 2000 (SR2000/210), as may be varied by any exemption granted by the Takeovers Panel in New Zealand
Combined Group	SKY following the Acquisition, reflecting the inclusion of the Vodafone NZ business
Commerce Commission	the New Zealand Commerce Commission
Companies Act	the Companies Act 1993
Completion	completion of the Acquisition under the Sale and Purchase Agreement
Completion Date	the date of Completion
Confidentiality Deed	the confidentiality deed to be entered into between Vodafone and SKY on Completion
Consideration Shares	that number of new Shares equal to 51% of the total number of Shares that will be on issue immediately following Completion, taking into account the issue of such new Shares, to be issued to Vodafone on the Completion Date pursuant to the Sale and Purchase Agreement in part satisfaction of the purchase price payable in connection with the Acquisition (such number of Shares to be 405,023,041 Shares, assuming that the total number of Shares on issue immediately prior to Completion is the same total number of Shares on issue as at the date of this Notice of Meeting and Explanatory Memorandum)
Co-operation Agreement	the co-operation agreement to be entered into between Vodafone Group Services Limited, Vodafone NZ and SKY on Completion
Corporations Act	Corporations Act 2001 (Commonwealth of Australia)
Director	a director of SKY
Dollars or $ or NZD	NZ dollars (unless indicated otherwise)
EBIT	earnings before interest and tax (a non-GAAP earnings measure)
EBITDA	earnings before interest and tax, and depreciation, amortisation and impairments (a non-GAAP earnings measure)

Escrow Deed	the escrow deed to be entered into between Vodafone and SKY on Completion
FMCA	the Financial Markets Conduct Act 2013
Free Cash Flow	cash generated from operations less capital expenditure less cash used to pay interest and tax
FY 2015	where data relates to income statement and cash flow disclosure, FY 2015 means actual standalone or Combined Group pro forma financial information for the year ended 30 June 2015. Where data relates to balance sheet disclosure, FY 2015 means actual standalone or Combined Group pro forma balance sheet as at 30 June 2015. Where data relates to SKY, Vodafone NZ and Combined Group connections, Subscribers and ARPU, FY 2015 is data for the historical period as at 30 June 2015
FY 2016	where data relates to income statement and cash flow disclosure, FY 2016 means standalone prospective or Combined Group pro forma prospective financial information for the year ending 30 June 2016. Where data relates to SKY's balance sheet disclosure, FY 2016 means standalone prospective balance sheet as at 30 June 2016. Where data relates to Combined Group's balance sheet disclosure, FY 2016 means pro forma prospective balance sheet as at 1 July 2016. Where data relates to SKY, Vodafone NZ and Combined Group connections, Subscribers and ARPU, FY 2016 is data for the prospective period as at 30 June 2016
FY 2017	where data relates to income statement and cash flow disclosure, FY 2017 means standalone prospective or Combined Group prospective financial information for the year ending 30 June 2017. Where data relates to balance sheet disclosure, FY 2017 means standalone or Combined Group prospective balance sheet as at 30 June 2017. Where data relates to SKY, Vodafone NZ and Combined Group connections, Subscribers and ARPU, FY 2017 is data for the prospective period as at 30 June 2017
GAAP	generally accepted accounting practice in New Zealand
GBP or £	Great British pounds
Government	the New Zealand Government
HFC Network	the Vodafone NZ owned and operated Hybrid Fibre Coaxial network in Christchurch, Wellington and the Kapiti Coast
HFI	historical financial information relating to a specified historical period
Independent Adviser & Appraiser	Grant Samuel
Independent Directors	the Directors who are "Independent Directors" of SKY for the purposes of the NZX Listing Rules
Independent Report	the combined summary independent adviser's report and summary independent appraisal report by the Independent Adviser & Appraiser, which accompanies this Notice of Meeting and Explanatory Memorandum as Appendix One. That report is a summary of the full independent adviser's report and appraisal report by the Independent Adviser & Appraiser, a copy of which can be downloaded from the investor relations page on SKY's website at www.sky.co.nz/investor-relations. A hard copy of that full report can also be requested by calling 0800 378 300 (freephone within New Zealand), 1800 501 366 (freephone within Australia) or +64 9 488 8777

Internet of Things	a system of interrelated computing devices, mechanical and digital machines, objects, animals or people that are provided with unique identifiers and the ability to transfer data over a network without requiring human-to-human or human-to-computer interaction
ISP	internet service provider
Loan Facility Agreement	the loan facility agreement relating to the New Debt between SKY as borrower and Vodafone Overseas Finance Limited as lender
Local Fibre Companies	the local fibre companies Enable Networks Limited, Northpower Fibre Limited and UltraFast Fibre Limited, which operate fibre networks in certain parts of New Zealand
M	million
Mbps	megabits per second
Net Interest Bearing Debt	bank borrowings, bonds and finance leases less cash and cash equivalents (a non-GAAP measure)
New Debt	an amount not exceeding $1.8 billion, incurred as additional debt by SKY to fund (i) the cash portion of the purchase price payable in connection with the Acquisition, (ii) Transaction Costs, (iii) repayment of SKY's bank debt existing at Completion and (iv) the Combined Group's ongoing working capital needs
Notice of Meeting	the notice set out in section 8 of this document in respect of the Special Meeting
NPV	net present value, being the difference between the present value of cash inflows and the present value of cash outflows, where the present value of the expected cash flows is computed by discounting the future cash flow at the required rate of return
NZ IFRS	New Zealand International Financial Reporting Standards
NZX	NZX Limited
NZX Listing Rules	the official NZX listing rules that govern the NZX Main Board
NZX Main Board	the main board equity securities market operated by NZX
OIO	the New Zealand Overseas Investment Office
Operating Free Cash Flow	cash generated from operations less capital expenditure
OTT	"over the top" which describes a service that provides content over the internet, usually without needing an arrangement with a local telecommunications company and without needing to use a set top box
PFI	prospective financial information
Procurement Accession and Amendment Agreement	the procurement accession and amendment agreement to be entered into between Vodafone Procurement Company, Vodafone NZ and SKY on Completion

Proposed Transaction	the Acquisition, the incurrence of the New Debt, the Share Issue, and all ancillary and related transactions referred to in this Notice of Meeting and Explanatory Memorandum
Relevant Interest	a relevant interest, as that term is defined in sections 235 to 238 of the FMCA
Resolutions	the Resolutions set out in the Notice of Meeting in section 8 of this document
Roaming Amendment Agreement	the roaming amendment agreement to be entered into between Vodafone Roaming Services and Vodafone NZ on Completion
Sale and Purchase Agreement	the Sale and Purchase Agreement between SKY and Vodafone dated 9 June 2016 relating to the sale and purchase of all of the shares in Vodafone NZ
Share Issue	the issue and allotment of the Consideration Shares to Vodafone
Shareholder	each person who is registered as a holder of Shares in SKY
Share(s)	fully paid ordinary shares in SKY of the class quoted on the NZX Main Board and the ASX
SKY	SKY Network Television Limited
SKY Group	SKY and its subsidiaries
Spark	Spark New Zealand Limited
Special Meeting	the special meeting of Shareholders convened by the Notice of Meeting, to be held on Wednesday 6 July 2016 at 10:30 a.m. at the Pullman Hotel (Regatta Room D), Corner Princes Street and Waterloo Quadrant, Auckland 1010
Spectrum	radio frequency over which a wireless communication signal is transmitted and which is used by telecommunications service operators to provide mobile wireless networks
Subscriber	when used in relation to SKY, includes commercial subscribers, subscribers to OTT and other services such as NEON, FAN PASS and IGLOO and subscribers to programmed music and online DVD rentals
SVOD	Subscription Video on Demand
TaaS	Telecommunications as a Service
TelstraClear	TelstraClear Limited (later re-named Vodafone Fixed Limited, and amalgamated with Vodafone NZ in March 2013)
Transaction Costs	costs incurred by SKY in relation to the Proposed Transaction
UFB	ultra fast broadband

Unified Communications	communication over any medium, enabling business collaboration, with its deployment integrating a number of endpoints and networks in order to provide a seamless user experience
Underlying Capital Expenditure	capital expenditure adjusted for certain one-off capital expenditure items (and excluding integration capital expenditure) (a non-GAAP measure)
Underlying Cash Generated From Operations	cash generated from operations excluding the cash impact of the one-off costs included in total operating expenses (a non-GAAP cash flow measure)
Underlying EBITDA	EBITDA excluding certain one-off operating expenses (a non-GAAP earnings measure)
Underlying Free Cash Flow	Underlying Operating Free Cash Flow less cash used relating to interest and tax (a non-GAAP cash flow measure)
Underlying Operating Free Cash Flow	Underlying Cash Generated From Operations less Underlying Capital Expenditure (a non-GAAP cash flow measure)
USD	United States Dollar
VDSL	very-high-bit-rate digital subscriber line
Vodafone	Vodafone Europe B.V.
Vodafone Group	Vodafone Plc and its subsidiaries
Vodafone International Roaming Agreement or **VIRA**	the Vodafone International Roaming Agreement between Vodafone Roaming Services and Vodafone NZ (to be varied by the Roaming Amendment Agreement)
VPC Inter-company Procurement Agreement or **VIPA**	the VPC Inter-company Procurement Agreement between Vodafone Procurement Company and Vodafone NZ (to be varied by the Procurement Accession and Amendment Agreement)
Vodafone NZ	Vodafone New Zealand Limited
Vodafone NZ Group	Vodafone NZ and its subsidiaries
Vodafone Plc	Vodafone Group Plc
Vodafone Procurement Company	Vodafone Procurement Company S.à.r.l
Vodafone Roaming Services	Vodafone Roaming Services S.à.r.l

Vodafone Sales and Services	Vodafone Sales and Services Limited
Vodafone Services Agreements	various services agreements between various members of the Combined Group and the Vodafone Group, including as the four main agreements the Procurement Accession and Amendment Agreement, the Roaming Amendment Agreement, the Branding Agreement (including the related Branding Sub-Licence) and the Co-operation Agreement
VNGS	Vodafone Next Generation Services Limited
VWAP	volume weighted average price
WorldxChange	WorldxChange Communications Limited (later re-named Nostromo Holdings Limited), the assets and business of which were acquired by VNGS in 2015

APPENDIX ONE

INDEPENDENT REPORT

GRANT SAMUEL

LEVEL 31
VERO CENTRE
48 SHORTLAND STREET AUCKLAND
PO BOX 4306 AUCKLAND
T: +64 9 912 7777 / F: +64 9 912 7788
www.grantsamuel.co.nz

10 June 2016

The Directors
Sky Network Television Limited
10 Panorama Road
Mt Wellington
Auckland 1060

Dear Directors

Proposed Acquisition of Vodafone New Zealand Limited

Summary of our Independent Adviser's Report and Appraisal Report

1 Introduction

Sky Network Television Limited ("Sky TV" or "the Company") is New Zealand's leading pay television operator. It has annual revenues of over $900 million[1] and a market capitalisation of approximately $1.6 billion.

Vodafone New Zealand Limited ("Vodafone NZ") is a full service telecommunications provider, providing fixed line voice, broadband and mobile telephony services to the retail and corporate sectors across New Zealand. Its revenue for FY16[2] was approximately $2.0 billion. Vodafone NZ is wholly owned by Vodafone Europe B.V., a member of the Vodafone group of companies ("Vodafone Group")[3] of which Vodafone Group Plc is the ultimate parent. The Vodafone Group has operations in 26 countries and more than 450 million customers globally. It is listed on the London Stock Exchange with a market capitalisation of approximately £58 billion.

On 9 June 2016, Sky TV announced that it had entered into an agreement with Vodafone Group to acquire all the shares in Vodafone NZ ("the Proposed Transaction"). The headline consideration payable by Sky TV ("the Consideration") is $3.44 billion, consisting of cash of $1.25 billion and the issue of 405.0 million shares in Sky TV ("Share Issue[4]"). As a result of the Share Issue, Vodafone Group will hold 51% of Sky TV's shares on issue. The remaining shares in Sky TV will continue to be traded on the New Zealand Stock Exchange ("NZX") and the Australian Securities Exchange ("ASX").

The Proposed Transaction is subject to a number of conditions that are set out in full in the Explanatory Memorandum. In particular, the Proposed Transaction is subject to the approval of Sky TV shareholders by special resolution (at least 75% of votes cast) and by ordinary resolution (a simple majority of votes cast). The directors of Sky TV have unanimously recommended that Sky TV shareholders vote in favour of the Proposed Transaction.

The directors of Sky TV have engaged Grant Samuel & Associates Limited ("Grant Samuel") to prepare an independent adviser's report on the merits of the Proposed Transaction, as required under the New Zealand Takeovers Code. In addition, the directors of Sky TV have requested that Grant Samuel provide an opinion as to whether the terms of the Share Issue are fair to the existing shareholders of Sky TV, for the purposes of the appraisal report requirements of the Listing Rules of NZX. This letter contains a summary of Grant Samuel's main conclusions in relation to the merits of the Proposed Transaction and its opinion as to whether the price and terms of the Share Issue are fair.

1 All references to $ in this report represent New Zealand dollars (unless otherwise specified).

2 FYXX = Financial Year ending 30 June 20XX for Sky TV and the Combined Group and 31 March 20XX for Vodafone NZ (except in relation to forecast financial information for Vodafone NZ which has been restated to a 30 June 20XX year end).

3 For the purposes of this report, the term "Vodafone Group" includes all subsidiaries of Vodafone Group as the context requires.

4 Sky TV will issue sufficient shares such that following the Share Issue Vodafone Group will own 51% of the Combined Group. Accordingly, the number of shares to be issued to Vodafone Group will vary from 405.0 million to the extent that there is any change in the number of Sky TV shares on issue prior to completion of the Proposed Transaction. For the purposes of this report, Grant Samuel has assumed that 405.0 million Sky TV shares will be issued to Vodafone Group.

A copy of the full report:

- is available for inspection at Sky TV's registered office (10 Panorama Road, Mt Wellington, Auckland) on and after the date of the notice of Sky TV's special meeting of shareholders;
- is available to download from the investor relations page on Sky TV's website www.sky.co.nz/investor-relations; and
- will be sent on request to any person entitled to attend Sky TV's special meeting of shareholders. The full report may be requested by calling 0800 378 300 (freephone within New Zealand), 1800 501 366 (freephone within Australia) or +64 9 488 8777.

2 Summary

The growing popularity of Over-the-Top ("OTT") services delivering video on demand via high speed broadband internet has fundamentally changed the competitive position of pay television operators around the world. The effect for Sky TV has been increasing rates of subscriber churn and a flattening of revenue growth. At the same time, heightened global competition for content has driven up programming costs, resulting in a projected fall in Sky TV's earnings across the FY16 and FY17 financial years. The Proposed Transaction is expressly designed to address the deterioration in Sky TV's strategic position. It will be transformational for Sky TV, creating a business unique in the New Zealand market place. The merged Sky TV and Vodafone NZ businesses ("the Combined Group[5]") will have market leading positions in mobile telephony and pay television, a strong fixed line telephony and broadband internet business, extensive infrastructure and the leading content offering in the New Zealand market.

The combination of the Sky TV and Vodafone NZ businesses is expected to generate meaningful cost synergies over time, although in the short term the cost synergies will be modest. More importantly, it will materially improve the Combined Group's competitive position and, over time, should allow the capture of significant revenue synergies. The Combined Group will be able to cross-sell a much broader range of services across the Sky TV and Vodafone NZ subscriber bases, reduce subscriber churn through bundled service offerings, and deliver incremental revenue through new offerings. Sky TV has estimated that the net present value ("NPV") of the cost and revenue synergies is approximately $850 million, although the bulk of these synergies will only be captured in the medium to longer term.

The Proposed Transaction will result in other, less easily quantifiable benefits. In particular, as part of the Vodafone Group, the Combined Group will have the benefit of management support and expertise based on the Vodafone Group's international operations, and access to the Vodafone Group's global technology base. Given its size and diversification, the business should have the capacity to respond effectively to changes in technology and consumer preferences over the medium to longer term. It should be able to access capital (at least debt capital) on attractive terms.

The Combined Group will have much higher debt levels than Sky TV on a standalone basis, with aggregate debt of around $1.6 billion immediately following the Proposed Transaction. However, the level of gearing will be within acceptable limits and will arguably represent a more efficient capital structure than Sky TV's current capital structure.

Overall, the Proposed Transaction will result in the creation of a robust, strongly capitalised business with a far stronger strategic position than that enjoyed by Sky TV in its current form. The improvement in Sky TV's strategic positioning will have some direct short term benefits. More importantly, however, it will materially address the longer term risks associated with Sky TV's standalone business model as a "pure play" provider of video entertainment.

[5] References in this letter to the Combined Group are references to Sky TV after completion of the Proposed Transaction.

A threshold issue for Sky TV shareholders is whether shares in the Combined Group can be expected to trade at prices higher than shares in a standalone Sky TV. Grant Samuel has considered factors including:

- **the potential for a market re-rating to reflect the stronger strategic position and business characteristics of the Combined Group;**
- **the nature, quantum and timing of the synergies expected to be generated by the combination of the Sky TV and Vodafone NZ businesses;**
- **the expected increase in underlying free cash flow and dividends per share following the Proposed Transaction;**
- **the expected substantial fall in earnings per share (reflecting the significant non-cash depreciation and amortisation charges associated with Vodafone NZ's asset base and the effect of merger accounting);**
- **the earnings multiples on which broadly comparable businesses are trading in New Zealand and in other markets; and**
- **the impact on investor sentiment of Vodafone Group's controlling stake (given that it is likely to reduce the prospect of a takeover offer from any party other than Vodafone Group).**

Having regard to these factors, Grant Samuel believes that it is reasonable to expect that, over time, shares in the Combined Group will trade at meaningfully higher prices than shares in a standalone Sky TV. In the shorter term, the positive effect may be more modest, reflecting the longer dated timing of many of the synergies and likely investor caution regarding the recognition of revenue synergies before they have been delivered.

As a result of the Share Issue, Vodafone Group will hold 51% of the shares in the Combined Group. While the Proposed Transaction is structured as an acquisition of Vodafone NZ, it is effectively an acquisition of Sky TV by Vodafone Group. In this context, Sky TV shareholders are potentially giving up the opportunity to receive a takeover premium (through an actual takeover offer for Sky TV by the Vodafone Group or by some third party). By way of compensation, Sky TV shareholders will benefit to the extent that shares in the Combined Group trade at higher prices than shares in a standalone Sky TV. Comparison of the opportunity cost of approving the Proposed Transaction (i.e. foregoing the possibility of receiving a fully priced takeover offer) with the potential benefit in terms of improved share prices is essentially judgemental:

- **there are likely to be very few parties interested in an outright acquisition of Sky TV, at least in the short term. In this context any estimate of the value potentially realisable through a takeover offer may be little more than theoretical; and**
- **there is nothing to prevent any third party that is interested in an acquisition of Sky TV from submitting an alternative proposal following announcement of the Proposed Transaction.**

There is at least a risk that Sky TV shareholders are receiving only partial compensation for the passing of control of the Company to Vodafone Group. On the other hand, in Grant Samuel's view, Sky TV shareholders will clearly be better off if the Proposed Transaction proceeds than if Sky TV continues as a standalone entity.

Grant Samuel has valued Vodafone NZ in the range $3,400-3,700 million. The Consideration for the acquisition is $1,250 million in cash and 405.0 million shares in Sky TV. Given that the shares to be issued to Vodafone Group will confer control over Sky TV, it is appropriate to value the share component of the Consideration on the basis of Sky TV's estimated full underlying value ($4.95-5.46 per share). On this basis, the Consideration has an aggregate value of $3,255-3,463 million, slightly less than the estimated value of Vodafone NZ. This acquisition analysis suggests that the Proposed Transaction is on attractive terms for Sky TV.

The merits of the Proposed Transaction may also be assessed by merger analysis, by comparing Sky TV's proportionate contribution of value to the Combined Group with the post transaction shareholdings in the Combined Group. Sky TV shareholders will hold in aggregate 49% of the shares in the Combined Group. On the basis of Grant Samuel's estimates of value, Sky TV will be

contributing approximately 46-47% of the value of the Combined Group. Sky TV shareholders' aggregate shareholding will be marginally greater than their proportionate contribution of value, suggesting that the Proposed Transaction terms are favourable to Sky TV shareholders.

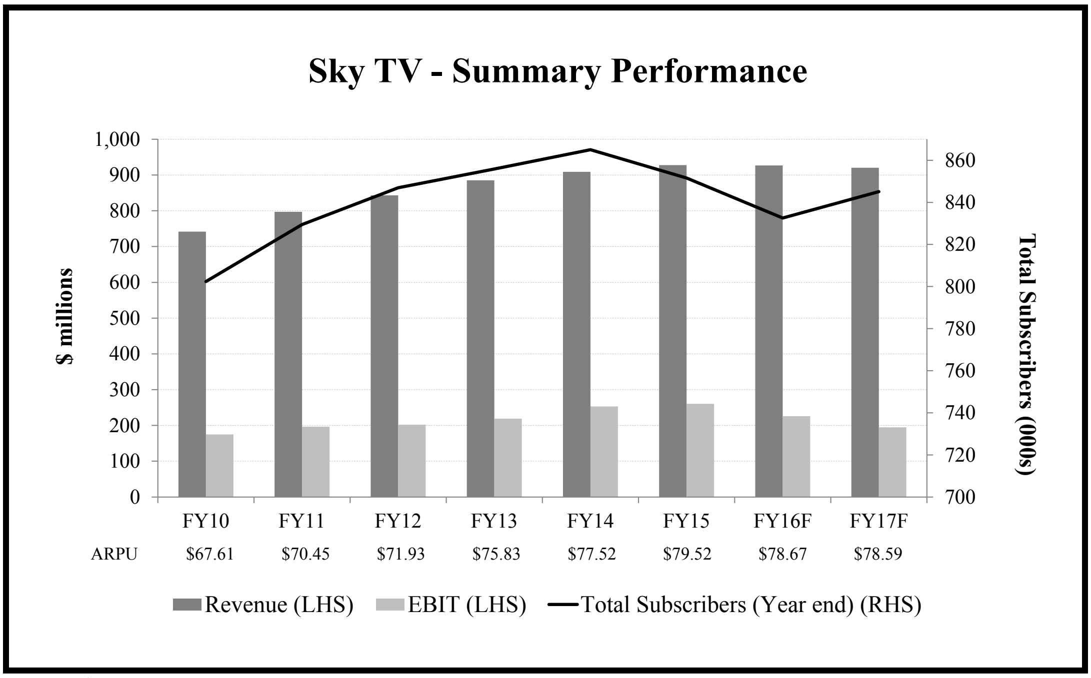
There are various risks and disadvantages associated with the Proposed Transaction, including ongoing risks associated with the Vodafone NZ business and the achievement of its projected earnings growth, business integration risks, the Combined Group's future reliance on the Vodafone Group, transaction costs and other matters. However, in Grant Samuel's view, these risks and disadvantages are outweighed by the benefits of the Proposed Transaction.

The effective price at which shares are to be issued to Vodafone Group under the Share Issue is equal to or greater than the estimated underlying value of Sky TV on a per share basis. Accordingly, Grant Samuel has concluded for the purpose of the NZX Listing Rules that the price and terms of the Share Issue are fair.

3 Key Conclusions

- **The Proposed Transaction is a response to a fundamental deterioration in Sky TV's strategic position.**

  As the leader in the provision of video entertainment in New Zealand, Sky TV has been able to generate continuing growth in revenue and earnings over many years. However, the increasing availability of high speed broadband internet, changing consumer preferences and the entry into the New Zealand market of Netflix and other providers of OTT video has resulted in a fundamental deterioration in Sky TV's strategic position. The competition from OTT video providers has seen an increase in Sky TV's subscriber churn rates, an absolute decline in subscriber numbers and pressure on subscriber pricing. At the same time, growing competition for content continues to drive up content costs. The result has been a flatlining of Sky TV's revenues and a forecast fall in earnings in FY16 and FY17.



Source: Sky TV

- **The Proposed Transaction will be transformational for Sky TV.**

  Globally, technological developments have driven a growing convergence of the telecommunications and video entertainment sectors. In response to both the competitive threats and the opportunities resulting from this convergence, sector participants have generally sought to build capabilities to deliver a broader suite of telecommunications, internet and video services, whether organically, through acquisitions or by alliance. The Proposed Transaction will in a single step transform Sky TV's competitive position in the New Zealand market. The Combined Group will be the only participant with meaningful positions across all relevant market sectors. It will have market leading positions in the mobile telephony and video entertainment sectors and strong fixed line broadband and telephony businesses. As well as holding the leading portfolio of video content (including rights to all the most popular New Zealand sports), the Combined Group will own an extensive infrastructure suite, including mobile spectrum, local fixed line networks in Wellington and Christchurch, an inter-city fibre backbone, access to international data cables and satellite transmission rights. It will be well positioned to take advantage of the opportunities afforded by the roll-out of the ultra fast broadband ("UFB") network across New Zealand.

- **The combination of the Sky TV and Vodafone NZ businesses is expected to yield significant cost and revenue synergies.**

  The combination of the Sky TV and Vodafone NZ businesses is expected to yield meaningful synergies. Sky TV and Vodafone NZ management have completed a detailed review and quantification of the likely synergies. The Explanatory Memorandum discloses an estimated total net present value of the expected synergies of approximately $850 million, of which approximately $415 million are operating and capital cost synergies and approximately $435 million are revenue synergies. The expected cost savings in the short term, including savings in corporate costs and back office integration, are relatively modest. The cost savings are expected to increase in the medium term, largely through opportunities to rationalise Sky TV's distribution costs by accessing the Vodafone NZ broadband network. In addition, it is expected that capital expenditure synergies relating to network optimisation and future set top box upgrades should also be realisable. More importantly, the strengthened competitive position of the Combined Group should allow it to realise meaningful revenue synergies. These synergies are expected to include:

  - additional revenue from cross-selling the Combined Group's broad range of products across the Sky TV and Vodafone NZ subscriber bases;
  - a reduction in subscriber churn rates through the bundling of products. The Combined Group will be able to sell bundled fixed line and mobile, pay television and internet packages more effectively than either business under the existing alliance arrangements. Subscribers for these bundled packages are typically much "stickier" than subscribers to a single product (e.g. pay television or mobile phone), although the transition to bundled pricing of existing common subscribers will have a negative impact on revenue; and
  - opportunities to generate additional revenue through the development of new products focussed on mobile content.

- **The Proposed Transaction should deliver further non quantifiable benefits.**

  The Proposed Transaction should deliver further benefits in addition to the quantifiable cost and revenue synergies that are expected to be realised. At an operational level, the Combined Group will have the management capability, breadth of infrastructure and other resources to allow it to respond optimally to changing competitive dynamics, technological developments or regulatory change in the markets in which it operates. Whereas for a standalone Sky TV the rollout of the UFB is principally a threat (because it facilitates consumer access to competing OTT services), for the Combined Group it will provide an opportunity to lower distribution costs and deliver new products using Sky TV's content in different ways. The Combined Group will have access to the management expertise and global experience of the broader Vodafone Group, and in particular its experience of the challenges and opportunities associated with telco/television convergence in the United Kingdom, multiple markets across Europe, South Africa and India. The Combined Group will have the benefit of the management systems and intellectual property developed over time within the global Vodafone Group, and opportunities to leverage Vodafone Group technological developments (e.g. in the development of set top boxes) to deliver new products at lower costs.

At a financial level, the Combined Group will be a substantially larger business than Sky TV on a standalone basis, with projected EBITDA[6] for FY17 of more than $750 million. Given its size, profitability and diversified range of activities, it should be able to access debt capital on favourable terms.

- **The Combined Group will have significantly higher gearing levels than Sky TV on a standalone basis.**

  Sky TV will fund the $1.25 billion cash component of the Consideration by drawing down additional debt. The Vodafone Group will provide an initial debt facility if required, although Sky TV is free to secure alternative facilities if it can obtain more favourable terms in the market. As a result of the additional debt, the Combined Group's proforma net debt as at 30 June 2016 will be approximately $1.6 billion. The following table shows the impact of this additional debt on the key credit metrics for the Combined Group:

Impact on Key Credit Metrics (times)		
	Sky TV	**Combined Group**
Interest Cover (FY17) (Adjusted EBITDA/net interest)	17.3	11.0
Interest Cover (Y17) (Adjusted EBIT[7]/net interest)	11.5	4.1
Leverage Ratio (FY17) (net debt[8]/Adjusted EBITDA)	1.1	2.0
EBITA[9] Leverage Ratio (FY17) (net debt[8]/Adjusted EBITA)	1.1	4.1
EBIT Leverage Ratio (FY17) (net debt[8]/Adjusted EBIT)	1.6	5.4
Gearing (net debt[8]/enterprise value[10])	15.4%	27.4%

  While the Combined Group will have significantly higher levels of gearing than a standalone Sky TV, its credit metrics on completion of the Proposed Transaction will remain within reasonable levels. In particular, on the basis of its projected interest cover and leverage ratios, the Combined Group should display the financial characteristics of an investment grade credit. Arguably, Sky TV's existing low level of gearing is sub-optimal and the Proposed Transaction will result in the establishment of a more efficient capital structure. Sky TV expects that the Combined Group will generate sufficient free cash flow to be able to progressively amortise its debt, should that be the best use of available free cash flow at the time.

- **The Proposed Transaction should have a positive impact on Sky TV's share price.**

  A threshold issue for Sky TV shareholders is whether shares in the Combined Group are likely to trade at higher prices than shares in a standalone Sky TV (i.e. on the alternative assumption that the Proposed Transaction does not proceed). Grant Samuel has considered the following factors:

  - the strengthened strategic position of the Combined Group should attract a higher market rating than for Sky TV on a standalone basis;
  - the NPV of the synergies that are expected to be realised through the combination of the Sky TV and Vodafone NZ businesses has been estimated at around $850 million. The projected short term cost synergies are not significant in the context of the aggregate earnings

6 EBITDA is earnings before interest, tax, depreciation and amortisation.

7 EBIT is earnings before interest and tax.

8 Based on the pro forma debt less cash at 1 July 2016 for Sky TV (stand-alone) and the Combined Group respectively.

9 EBITA is earnings before interest, tax and amortisation of customer bases and other intangible assets resulting from acquisitions as well as one off impairments.

10 Based on Sky TV's closing share price of NZ$4.47 as at 7 June 2016 for Sky TV, and Sky TV's post announcement closing share price of NZ$5.25 on 9 June 2016 for the Combined Group.

of Sky TV and Vodafone NZ, but there are opportunities to realise additional cost synergies and more meaningful revenue synergies over time. To the extent that analysts and investors are prepared to impute these potential synergies into the share price, or the Combined Group is able to demonstrate the achievement of these synergies through improved operational performance over time, the Combined Group share price should strengthen;

- FY17 underlying free cash flow per share for the Combined Group is projected to be approximately 8% greater than for Sky TV on a standalone basis (increasing from 34.7 cents per share to 37.5 cents per share). However, this uplift is largely attributable to the effect of the additional gearing in the capital structure of the Combined Group. Sky TV could deliver a comparable uplift through some form of debt funded capital management;
- the Board's current intention is to pay annual dividends of 85-100% of free cash flow per share, equating to 31.9 to 37.5 cents per share based on FY17 pro forma forecasts. The Board expects that over time the Combined Group will be able to pay higher dividends than Sky TV on a standalone basis;
- FY17 earnings per share ("EPS") for the Combined Group are projected at 18.3 cents per share, significantly less than projected FY17 EPS for Sky TV on a standalone basis of 32.1 cents per share. EPS for the Combined Group is reduced by the significant non-cash depreciation and amortisation charges associated with the Vodafone NZ asset base (well in excess of expected capital expenditure going forward) and the effects of merger accounting as a result of the Proposed Transaction. Removing the non-cash charges resulting from the accounting for the Proposed Transaction and adjusting for one-off transaction and related costs results in projected underlying FY17 EPS for the Combined Group of 28.2 cents per share. Projected underlying FY17 EPS for Sky TV on a standalone basis (after adjusting for transaction costs) is 33.8 cents per share;
- returns to shareholders should be enhanced by the greater efficiency of the Combined Group's capital structure (although this could be achieved, at least in part, by Sky TV on a standalone basis, through a debt funded cash return to shareholders);
- the Combined Group will be approximately twice the size of a standalone Sky TV in terms of market capitalisation (before any re-rating), although there will be no change to its free float. To the extent that the improved strategic position of the Combined Group attracts additional investor interest, there may be a positive impact on share liquidity and the share price; and
- Vodafone Group's 51% shareholding in the Combined Group, given that it will materially reduce shareholders' prospects of receiving a fully priced takeover offer for their shares, could have a dampening effect on the share price for the Combined Group. On the other hand, some investors may look favourably on the prospect of having Vodafone Group as a supportive 51% shareholder, given the resources and the range of benefits that Vodafone Group can bring to the Combined Group.

Recent volatility in the Sky TV share price means that judgements regarding the future share price for the Combined Group are subject to considerable uncertainty. On balance, however, Grant Samuel believes that it is reasonable to expect that shares in the Combined Group will trade at higher prices than shares in a standalone Sky TV. The quantum of short term synergies is not material and the impact on the cash earnings and dividends per share of the Combined Group is likely to be only marginally positive (at least in the short term). However, the significantly improved strategic position of the Combined Group and the expectations of significant longer term synergies should result in a positive market re-rating. In the short term, the impact on the share price may be relatively modest but it is reasonable to expect a more meaningful impact in the medium to longer term as the expected synergies are progressively realised.

The following table sets out the earnings and cash flow multiples implied by share prices for the Combined Group in the range $4.50-5.00:

Implied Earnings Multiples – Combined Group						
	Share Price Range ($)					
	4.50	**4.60**	**4.70**	**4.80**	**4.90**	**5.00**
Multiple of adjusted EBITDA (times)						
FY16 (pro forma forecast)	6.5	6.6	6.7	6.8	6.9	7.0
FY17 (pro forma forecast)	6.5	6.6	6.8	6.9	7.0	7.1
Multiple of adjusted EBITA (times)						
FY16 (pro forma forecast)	13.9	14.1	14.3	14.5	14.7	14.9
FY17 (pro forma forecast)	13.3	13.5	13.7	13.9	14.1	14.3
Multiple of EBITDA – Capex[11] (times)						
FY16 (pro forma forecast)	11.5	11.7	11.9	12.1	12.2	12.4
FY17 (pro forma forecast)	10.9	11.1	11.2	11.4	11.6	11.7

A trading range for shares in the Combined Group of $4.50-5.00 implies multiples of earnings that appear broadly consistent with the multiples on which peer group companies (including Spark New Zealand Limited) are trading (although Grant Samuel makes no forecast and gives no assurance as to this share price range or any other future share price for the Combined Group).

Sky TV shares traded strongly upwards following the announcement of the Proposed Transaction, closing on 9 June 2016 at $5.25, a 17.4% increase on the previous closing price of $4.47.

- **The Proposed Transaction will result in a change of control of Sky TV**

  Vodafone Group will have a 51% shareholding in the Combined Group. Five members of Sky TV's current board of directors will initially continue as directors of the Combined Group, including the Chairman, Mr Peter Macourt. The remaining four directors of the Combined Group, including the Chief Executive Officer, Mr Russell Stanners, will be nominated by Vodafone Group.

  Vodafone Group has undertaken not to increase its percentage shareholding in the Combined Group (other than through an offer to all shareholders or with shareholder approval). The interests of Vodafone Group and minority shareholders should generally be aligned, and the interests of minority shareholders will in any event be protected by the independent directors on the Board of the Combined Group. However, given its 51% shareholding, Vodafone Group will have unfettered ability to determine the future composition of the Board of the Combined Group (subject to the independence requirements of the NZX and the ASX). Accordingly, Vodafone Group will have, at least in a management and strategic sense, close to absolute control of the Combined Group (although there will be limits on its ability to effect changes that require the passing of a special resolution, requiring a 75% vote).

- **Sky TV shareholders will not receive a traditional "premium for control".**

  Given the structure of the Proposed Transaction, Sky TV shareholders will not receive any direct consideration for the passing of control of Sky TV to Vodafone Group. Following the Proposed Transaction, there will be limited prospects of a takeover bid from any third party, although the possibility of a future mop up bid from Vodafone Group cannot be completely discounted.

  Accordingly, in approving the Proposed Transaction, Sky TV shareholders may be foregoing the opportunity to realise a control premium for Sky TV. Sky TV shareholders would be justified in foregoing a control premium if the commercial benefits of the Proposed Transaction and the market re-rating were such that shares in the Combined Group could be expected to trade at levels

11 Adjusted EBITDA less Adjusted Capital Expenditure, where the adjustments relate to one-off adjustments relating to the Proposed Transaction.

comparable to the control value for Sky TV on a standalone basis (i.e. at a price corresponding to a value for Sky TV that included a control premium).

Grant Samuel has valued Sky TV on a standalone basis in the range $4.95-5.46 per share. This valuation range represents an estimate of Sky TV's full underlying value, including a premium for control. For Sky TV shareholders to be fully compensated for the passing of control to Vodafone Group, shares in the Combined Group would need to trade at least at levels around $4.95.

Having regard to the multiples of earnings and free cash flows implied by this share price, and the multiples on which comparable companies are trading, the possibility that shares in the Combined Group could trade in the short term at levels around $4.95 cannot be ruled out. However, given recent trading in Sky TV shares, there is at least some risk that shares in the Combined Group will trade at levels lower this this, at least in the short term. In turn, this suggests that Sky TV shareholders may be no more than partially compensated for the passing of control to Vodafone Group. On the other hand:

- judgements regarding the price at which shares in the Combined Group are likely to trade are by their nature subjective and subject to considerable uncertainty;
- there are at most a limited number of potential acquirers of Sky TV. It is possible that at the current time there are no parties interested in (and with the financial capacity to complete) an acquisition of 100% of Sky TV. In the absence of actual alternative acquirers of Sky TV, the notion of an opportunity foregone to realise full underlying value is little more than theoretical; and
- to the extent that there are alternative potential acquirers of Sky TV, they will have an opportunity to respond with competing proposals prior to the shareholder meeting to approve the Proposed Transaction.

▪ **Grant Samuel has valued Sky TV in the range $1,926-2,126 million, or $4.95-5.46 per Sky TV share.**

Grant Samuel has valued Sky TV in the range $1,926-2,126 million, equating to a value of $4.95-5.46 per Sky TV share. This valuation range represents an estimate of full underlying value, including a premium for control, and is greater than the price at which Sky TV shares would be expected to trade in the ordinary course on the NZX. The valuation is summarised below:

Sky TV - Valuation Summary ($ millions)

	Detailed Report Section Reference	Value Range	
		Low	High
Business operations	6.1	2,300	2,500
Less: Net borrowings	6.5	(374)	(374)
Value of equity		**1,926**	**2,126**
Shares on issue (millions)		389.1	389.1
Value of equity ($ per share)		**4.95**	**5.46**

The value attributed to the business operations of $2,300-2,500 million is an overall judgement having regard to a number of valuation methodologies and parameters, including capitalisation of earnings (multiples of EBITDA and EBITA) and DCF analysis. The valuation takes into account potential synergies generally available to acquirers of Sky TV, including listed company cost savings and other synergies.

The earnings multiples implied by the valuation of Sky TV's business operations are summarised below:

Sky TV – Implied Valuation Parameters			
	Variable[12] ($ millions)	Range of Parameters	
		Low	High
Value range ($ millions)		**2,300**	**2,500**
Multiple of underlying EBITDA (times)			
FY16 (company forecast)	337.0[13]	6.8	7.4
FY17 (company forecast)	306.6	7.5	8.2
Multiple of underlying EBITA (times)			
FY16 (company forecast)	237.4[13]	9.7	10.5
FY17 (company forecast)	205.3	11.2	12.2
Multiple of EBITDA – Capex (times)			
FY16 (company forecast)	231.8[13]	9.9	10.8
FY17 (company forecast)	198.5	11.6	12.6
Value per Subscriber	**Total Subscribers**		
31 December 2015 (actual)	851,561	$2,701	$2,936
30 June 2016 (company forecast)	832,548	$2,763	$3,003

In Grant Samuel's view, the multiples implied by the valuation are reasonable. Sky TV has a number of highly attractive characteristics:

- while New Zealand is a small market, the underlying economic conditions and outlook for population growth rates are relatively strong, certainly compared to Europe or the United States;
- Sky TV is the only pay television operator in New Zealand of any significance. Its core service has a substantial residential subscriber base representing a penetration rate of just under 50%, which up to FY15 had continued to grow steadily. The Sky TV brand is synonymous with pay television in New Zealand and is widely recognised across the community;
- there are no anti-siphoning laws in New Zealand and Sky TV has a strong lock on the key sporting rights that are significant drivers of subscriber attraction and retention. It has secured long term deals with other key content providers; and
- the business has a very strong track record of consistent, albeit modest, growth and strong cash flow generation (at least until FY15).

On the other hand, there are a number of factors that warrant considerable caution in considering multiples for Sky TV:

- Sky TV's subscriber penetration rate (approximately 50%) is already at relatively high levels by world standards suggesting there is limited scope to grow its core service offering;
- the effects of OTT services have become apparent in the last few months with residential subscribers declining materially in FY16 and expected to decline further in FY17. The trend from this point forward is difficult to forecast with any confidence:
  - Sky TV has its own OTT services that have started to gain some traction;
  - it is possible that the rapid growth in New Zealand OTT subscriber numbers represents a "honeymoon" and that, given OTT programming limitations, at least some subscribers will return to Sky TV; and
  - Sky TV's sports rights holdings provide a critical competitive advantage both in terms of its core subscription service and its OTT offerings.

12 After allowing for public listed company cost savings of $1.2 million per annum.

13 After adding back one off costs related to the Proposed Transaction incurred in FY16.

However,

- the completion of the rollout of the UFB over the next three years will result in widespread access to high speed broadband (with a target of 80% fibre to the home), increasing the availability and potential of OTT services; and
- there are clear trends away from "linear viewing" among younger age groups;

- Sky TV does not have a meaningful broadband or telephony offering (fixed or mobile) for its customers (apart from its "discount" offer through Vodafone), leaving it in a strategically weak position in terms of customer attraction and retention;
- while Sky TV has the key sports broadcast rights locked up for a number of years and its penetration levels are a critical attraction for the relevant codes, Sky TV will need to keep on successfully bidding to renew those rights. Costs are likely to continue to increase; and
- the outlook for Sky TV earnings and cash flows beyond FY17 is unclear. In a rapidly changing environment there is inevitably a high degree of uncertainty. Sky TV's corporate plan projects a return to earnings growth, albeit modest, in FY18 and beyond. The experience from other traditional media sectors such as newspapers and free to air television is that they have experienced steadily deteriorating margins and earnings once the new technological or competitive dynamic has taken hold.

- **Grant Samuel has valued Vodafone NZ in the range $3,400-3,700 million.**

Grant Samuel has valued Vodafone NZ in the range $3,400-3,700 million. This represents the full underlying value of Vodafone NZ, including a premium for control (and allows for charges payable to Vodafone Group under the various services and branding agreements). The valuation range implies the following multiples:

Vodafone NZ – Implied Valuation Parameters			
	Variable ($ millions)	Range of Parameters	
		Low	High
Value range ($ millions)		**3,400**	**3,700**
Multiple of underlying EBITDA (times)			
FY16 (pro forma forecast)	453.4	7.5	8.2
FY17 (pro forma forecast)	480.9[14]	7.1	7.7
Multiple of underlying EBITA (times)			
FY16 (pro forma forecast)	134.7	25.2	27.5
FY17 (pro forma forecast)	183.3[14]	18.5	20.2
Multiple of EBITDA - Capex (times)			
FY16 (pro forma forecast)	215.8	15.8	17.1
FY17 (pro forma forecast)	274.8[14]	12.4	13.5

In Grant Samuel's opinion, the multiples implied by the valuation are reasonable (although the EBITA multiples are less meaningful, because projected EBITA has been reduced by significant non-cash depreciation and amortisation charges that are materially in excess of expected capital expenditures). Grant Samuel has considered the following:

- overall market conditions in New Zealand are favourable, with relatively high rates of economic and population growth forecast in the short medium term;
- Vodafone NZ has a very strong market position across the whole New Zealand telecommunications market. It is the leader in the mobile sector, with a 40% share of connections and a higher share of revenue[15]. It also has a significant share of the fixed line

[14] Before one off items of $1.6 million.

[15] Source: Commerce Commission, *Annual Telecommunications Monitoring Report 2015*.

market (approximately 29% of connections[15]). Vodafone NZ has demonstrated an ability to operate effectively in a very competitive environment and to successfully position its business at the premium end of the market;

- the *Vodafone* brand, albeit used under licence rather than "owned", is a very powerful and widely recognised brand globally as well as in New Zealand;
- Vodafone NZ's access to Vodafone Group technology, product development, marketing expertise and other "know how" will position it to be a leader in the continued development of the telecommunications industry in New Zealand;
- Vodafone NZ has a strong product offering in the consumer market, in part because of its existing partnership with Sky TV;
- Vodafone NZ has a high quality physical network with significant latent capacity. Notwithstanding some recent consumer perception problems, the Vodafone NZ mobile network is superior in terms of performance measures such as download speed, voice call facility and call drop frequency;
- as a result of the capacity within Vodafone NZ's mobile network, it is expected to be able to absorb the forecast continued rapid growth in data usage over the next 3-5 years without significant further capital expenditure. Beyond 2020, there will be specific projects (such as 5G) but it is believed these will largely be able to be absorbed within Vodafone NZ's ongoing capital expenditure programme; and
- an important part of Vodafone NZ's medium term strategy is a continuing "cost out" programme.

On the other hand:

- the New Zealand telecommunications market is mature and competitive. Penetration levels for mobile services are already high by world standards. The completion of the UFB does offer opportunities for developing enhanced and/or new premium services but, with the open access networks provided by Chorus Limited and other Local Fibre Companies, the barriers to entry for competing providers of fixed line services are lower;
- Vodafone NZ's earnings track record over the past five years has been patchy, with EBITDA declining in FY15 and remaining flat in FY16. The fall was primarily due to reductions in ARPU as a result of intensive price based competition from Spark and 2degrees (mobile only). The forecasts for FY17 (and management projections beyond that) are premised on improved market conditions. While this is a plausible assumption, there can be no certainty that the market will become less competitive; and
- the FY17 forecast includes significant cost savings from the Fit4Growth program. Not all of these identified savings have detailed plans.

There is a limited universe of potential acquirers of Vodafone NZ and any acquirer would almost certainly be from offshore. In these circumstances, the opportunities for direct cost synergies for a buyer would be limited as Vodafone NZ would effectively remain a standalone business. Accordingly, Grant Samuel has not factored any synergies into its valuation of Vodafone NZ.

- **Merger analysis suggests that the Proposed Transaction is on terms favourable to Sky TV shareholders.**

One approach to assessing the Proposed Transaction is to compare the proportionate contributions of value to be made to the Combined Group by Sky TV and Vodafone NZ with the shareholdings to be held by Sky TV minority shareholders (49%) and Vodafone Group (51%), as set out in the following table. The underlying value contributed by Vodafone NZ has been reduced by the cash amount of $1,250 million to be paid to Vodafone Group:

Relative Contributions – Underlying Value Analysis ($ millions)			
	Detailed Report Section Reference	Grant Samuel Estimates of Value	
		Low	High
Underlying Value – Sky TV	6.1	**1,926**	**2,126**
Underlying Value – Vodafone NZ	8.1	**2,150**	**2,450**
Relative Value Contributions – Sky TV		47.3%	46.5%
Relative Value Contributions – Vodafone NZ		52.7%	53.5%

Based on Grant Samuel's valuations, Sky TV shareholders are contributing approximately 46-47% of the aggregate underlying value of the Combined Group.

Estimates of underlying value are to some extent subjective. Nevertheless, on the basis of Grant Samuel's analysis, the collective interest to be held by Sky TV shareholders in the Combined Group is consistent with, and arguably greater than, their proportionate contribution of value to the Combined Group. On this basis, the terms of the Proposed Transaction are favourable to Sky TV shareholders (while recognising that this analysis does not take into account the change of control consequences of the Proposed Transaction).

- **The terms of the acquisition of Vodafone NZ are favourable to Sky TV.**

While the effect of the Proposed Transaction at the operational level will be a merger between Sky TV and Vodafone NZ, from a legal perspective the Proposed Transaction represents the acquisition of 100% of Vodafone NZ.

The Consideration for the acquisition is $1,250 million in cash and 405.0 million new Sky TV shares. On the basis of an estimated underlying value of Sky TV in the range $4.95-5.46 per share, the Consideration has aggregate value of $3,255-3,463 million:

Value of the Consideration		
	Low	High
No. of shares to be issued (millions)	405.0	405.0
Underlying value per share ($ per share)	$4.95	$5.46
Aggregate value of shares ($ millions)	**2,005**	**2,213**
Cash consideration ($ millions)	1,250	1,250
Consideration value ($ millions)	**3,255**	**3,463**

Grant Samuel has valued Vodafone NZ in the range $3,400-3,700 million. Accordingly, Sky TV is paying a price that is slightly lower than the estimated value of Vodafone NZ. On this basis, the terms of the Proposed Transaction are favourable to Sky TV.

- **The Share Issue is at an effective price representing a premium to Sky TV's underlying value.**

Sky TV will issue 405.0 million new shares to Vodafone Group as part of the Consideration for the acquisition of Vodafone NZ (in addition to the cash payment of $1.25 billion). Based on Grant Samuel's valuation of Vodafone NZ in the range $3,400-3,700 million, the effective issue price is $5.31-6.05 per share:

Effective Share Issue Price		
	Low	**High**
Valuation of Vodafone NZ ($millions)	3,400	3,700
Less: Cash portion of the Consideration ($millions)	(1,250)	(1,250)
Net value for share issue ($millions)	**2,150**	**2,450**
No. of shares issued (millions)	405	405
Effective issue price ($ per share)	**$5.31**	**$6.05**

The effective Share Issue price of $5.31-6.05 is at a premium to Grant Samuel's estimate of the underlying value of Sky TV, which is in the range $4.95-5.46 per share. In effect, Vodafone Group is paying a price for its 51% shareholding at or above full underlying value, although any premium to underlying value does not accrue directly for the benefit of Sky TV shareholders, but is rather shared by all shareholders of the Combined Group (including Vodafone Group). The effective Share Issue price of $5.31-6.05 represents a substantial premium to recent Sky TV share prices, as follows:

Premiums Relative to Share Price Pre Announcement			
		Implied Premium	
	Price/VWAP	**Low**	**High**
Effective issue price ($ per share)		**$5.31**	**$6.05**
Last Price (7 June 2016)	$4.47	18.8%	35.3%
One week VWAP (to 7 June 2016)	$4.59	15.6%	31.7%
One month VWAP (to 7 June 2016)	$4.25	24.8%	42.2%
Three month VWAP (to 7 June 2016)	$4.78	11.1%	26.5%

- **The major risk for Sky TV shareholders relates to the achievement of the projected growth in Vodafone NZ earnings.**

The Proposed Transaction does involve a number of disadvantages and risks in addition to its implications for control of Sky TV. The single largest risk for Sky TV shareholders is that the Vodafone NZ business may not deliver the level of earnings expected. The earnings of Vodafone NZ over recent years have been flat to marginally down (at the EBITDA level). Vodafone NZ is forecasting a growth in EBITDA in the short term, essentially premised on an improvement in the competitive environment and ongoing cost reduction initiatives. The improvement in profitability is credible, but will ultimately depend at least in part on the competitive behaviour of other participants in the New Zealand telecommunications sector. While Sky TV has conducted extensive due diligence on the Vodafone NZ business, it should be recognised that the future profitability of the Vodafone NZ business will be to some extent outside the control of the Combined Group and could vary significantly from expectations.

Due to integration issues, competitor responses or for other reasons, the quantum of synergies finally realised could be less than current estimates, or the synergies could take longer to realise than expected.

Other disadvantages and risks are less significant:

- while the Board and management of the Combined Group are well credentialed, they have still to demonstrate their ability to work together as a new team;
- the Combined Group will be reliant on Vodafone Group for the provision of various services, to be provided under agreements with an initial five year term (although these agreements could be terminated before the end of their initial term in certain circumstances). While there is every reason to expect that the agreements will be extended beyond their initial term, such extension may be on less favourable terms;

- the Combined Group (via a Branding Agreement and Branding Sub-Licence) will be entitled to use the *Vodafone* brand name and associated trade marks for a minimum period of ten years (although these agreements could be terminated before the end of their initial term in certain circumstances), for which the Combined Group will pay a brand royalty of $31.4 million per year. The brand royalty arrangement will be subject to renegotiation at the end of the ten year period and there is no guarantee that an agreement on comparable terms will be reached; and
- Sky TV expects that its total transaction costs for the Proposed Transaction will be approximately $20 million, of which approximately $13 million will have been committed by the time shareholders vote on the Proposed Transaction.

▪ **The alternatives to the Proposed Transaction are less attractive.**

Sky TV shareholders could choose to vote against the Proposed Transaction, either on the basis that they preferred to be shareholders in a standalone Sky TV or in the expectation that they might realise superior value through some alternative change of control transaction in the future.

Sky TV's strategic position as a "pure play" pay television operator is not attractive over the longer term. It is possible to construct a variety of hypothetical but plausible outcomes for the long term future of a standalone Sky TV. While the range of outcomes is potentially very wide, the continuation of business as usual would be a best case and much poorer outcomes could also eventuate. Shareholders in a standalone Sky TV would be exposed to numerous risks, some of which, over time, could potentially threaten the viability of the business. In Grant Samuel's view, the strategic benefits of the Proposed Transaction are such that Sky TV shareholders will clearly be better off if the Proposed Transaction is implemented than if they continue as shareholders in a standalone Sky TV.

It is also possible that Sky TV shareholders could realise superior value through some alternative change of control transaction in the future. However, there could be no assurance that any alternative proposal would be put to Sky TV shareholders, either in the immediate future or over the longer term. There are very few potential acquirers of Sky TV with the strategic motivation and financial capacity to pay a full price for the company. In any event, there is nothing to prevent any potential alternative acquirer from announcing its interest in an acquisition of Sky TV, at some time between the first announcement of the Proposed Transaction and the shareholders' meeting at which Sky TV shareholders will vote on the Proposed Transaction. In the absence of such a counter-offer, Sky TV shareholders can be confident that there are no superior alternative transactions currently available.

▪ **The price and terms of the Share Issue to Vodafone Group are fair for the purposes of the NZX Listing Rules.**

Grant Samuel has estimated that the full underlying value of Sky TV is in the range $4.95-5.46 per share. As set out above, the effective price at which Sky TV is to issue shares to Vodafone Group is $5.31-6.05, a price equal to or greater than Sky TV's underlying value (on a per share basis). Other terms of the Share Issue (including commitments made by Vodafone Group not to increase its shareholding except in limited circumstances) are for the benefit of Sky TV shareholders and are reasonable in the circumstances. In Grant Samuel's view the price and the terms of the Share Issue are fair for the purposes of the NZX Listing Rules.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Sky TV shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Explanatory Memorandum issued by Sky TV in relation to the Proposed Transaction.

Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Proposed Transaction, the responsibility for which lies with the directors of Sky TV. In any event, the decision whether to vote for or against the Proposed Transaction is a matter for individual shareholders, based on their own views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Sky TV or the Combined Group. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote in favour of the Proposed Transaction. Shareholders should consult their own professional adviser in this regard.

This letter is a summary of the Grant Samuel Independent Adviser's and Appraisal Report in relation to the Proposed Transaction dated the same date as this letter. We certify that this summary is accurate, a fair summary and not misleading to Sky TV shareholders.

The opinions set out in this letter are made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully
GRANT SAMUEL & ASSOCIATES LIMITED

APPENDIX TWO

FINANCIAL INFORMATION

1.0 FINANCIAL SECTION OVERVIEW

1.1 INTRODUCTION

The tables in this section provide key financial information about the Combined Group including the SKY Group (pre and following the Proposed Transaction) and the Vodafone NZ Group. Full historical financial statements for SKY Group are available on SKY's website **www.skytv.co.nz/investor** and for Vodafone NZ Group from the Companies Office website **www.business.govt.nz/companies**. If you do not understand this financial information, you should seek advice from a financial adviser or accountant. This information is disclosed in NZD and rounded to the nearest million.

This Appendix Two and the Notice of Meeting and Explanatory Memorandum contains PFI which is based on the Directors' assessment of events and conditions existing at the date of the Notice of Meeting and Explanatory Memorandum and the accounting policies and assumptions set out in section 6.0 headed "Consolidated PFI of the Combined Group" on pages 24 to 49 of this Appendix Two. You should read the PFI in this Appendix Two in light of the assumptions, and in conjunction with the other information in the Notice of Meeting and Explanatory Memorandum (including in particular, the information in section 6 headed "Key risks" on pages 44 to 49 and in Appendix One "Independent Report", both in the Notice of Meeting and Explanatory Memorandum).

PFI by its nature is inherently uncertain. It is a prediction of future events which cannot be assured. It involves risks and uncertainties many of which are beyond the control of the Combined Group. The Board believes that the PFI has been prepared with due care and attention and considers the assumptions when taken as a whole, to be reasonable at the time of preparing the Notice of Meeting and Explanatory Memorandum. Actual results are likely to vary from the information presented and variances may be material. Accordingly, neither the Directors nor any other person can provide any assurance that the PFI will be achieved and Shareholders are cautioned not to place undue reliance on the PFI.

1.2 FINANCIAL INFORMATION PRESENTED

The selected financial information presented in section 1.5 headed "Selected consolidated financial information for the Combined Group" on pages 5 to 8 of this Appendix Two is extracted from more detailed information which is presented later in this Appendix Two. The selected financial information for the Combined Group presents the following information.

Consolidated pro forma historical information (30 June 2015)

This is derived from:

- SKY Group's published historical audited consolidated annual report for the year ended 30 June 2015 (with no pro forma adjustments).
- Vodafone NZ Group's pro forma consolidated HFI for the year ended 30 June 2015 incorporating pro forma adjustments for alignment of Vodafone NZ Group's year end from 31 March to 30 June, to adjust charges payable to Vodafone Group under the Vodafone Services Agreements as if the change in services applicable post transaction pursuant to the Vodafone Services Agreements applied at that point in time, and to present on a debt free/cash free basis as described in section 2.0 headed "Consolidated HFI for Vodafone NZ Group" on pages 9 to 12 of this Appendix Two.

Consolidated PFI (30 June 2016 and 30 June 2017)

This includes:

- Pro forma PFI to 30 June 2016 based on management accounts for SKY Group and Vodafone NZ Group for the period 1 July 2015 to 29 February 2016 and PFI for the SKY Group and the Vodafone NZ Group for the period 1 March 2016 to 30 June 2016, with pro forma adjustments as described in section 4.0 headed "Combined Group consolidated pro forma financial information" on pages 16 to 21 of this Appendix Two and prior to the Proposed Transaction taking place.
- PFI for the Combined Group for the full year 1 July 2016 to 30 June 2017 as if the Proposed Transaction takes place on 1 July 2016, refer to the basis of preparation, assumptions and accounting polices set out in section 6.0 headed "Consolidated PFI of the Combined Group" on pages 24 to 49 of this Appendix Two. This is presented on the same basis as that on which the Combined Group intends to report under GAAP in the future.

The pro forma HFI, pro forma PFI and PFI for the Combined Group has been prepared solely for the purposes of inclusion in this Appendix Two and the Notice of Meeting and Explanatory Memorandum. More information on the pro forma adjustments, their nature and how they reconcile to statutory measures of earnings, net assets and cash flows is provided in section 4.0 headed "Combined Group consolidated pro forma financial information" on pages 16 to 21 of this Appendix Two.

The financial information in this Appendix Two assumes that the Acquisition, the Share Issue and the incurrence of the New Debt as parts of the Proposed Transaction, receive approval of Shareholders and occur on 1 July 2016. The Proposed Transaction may occur later than 1 July 2016, however this assumed Completion Date was selected for the purposes of preparing the PFI so as to present a full 12 month period of PFI to 30 June 2017.

1.3 MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL HIGHLIGHTS FOR THE COMBINED GROUP

The Combined Group is assumed to have total revenue for FY 2017 of more than $2.9 billion, $786 million of Underlying EBITDA and $467 million of Underlying Operating Free Cash Flow. As at 30 June 2017 the Combined Group is expected to have 0.85 million Media and Entertainment subscribers, together with 2.38 million mobile and 0.52 million fixed line customer connections, providing an aggregate of more than 3.75 million customer relationships.

The Proposed Transaction will be Underlying Free Cash Flow per Share accretive with Underlying Free Cash Flow for the Combined Group for FY 2017 of $298 million, 37.5 cents per Share (compared to SKY stand-alone PFI for FY 2017 of 34.7 cents per Share).

The Combined Group Net Interest Bearing Debt at 1 July 2016 of $1.6 billion is substantially more than SKY's stand-alone Net Interest Bearing Debt of $0.3 billion on 30 June 2016 prior to Completion. On Completion (assumed in the PFI to be 1 July 2016), the Combined Group's ratio of Net Interest Bearing Debt to FY 2016 EBITDA is assumed to be approximately 2.0x and remain at 2.0x based on FY 2017 EBITDA and Net Interest Bearing Debt as at 30 June 2017. This compares to SKY's stand-alone leverage ratio of 1.0x (Net Interest Bearing Debt to FY 2016 EBITDA).

SKY Group will incur Transaction Costs of approximately $10.6 million in FY 2016 and $9.4 million in FY 2017 in connection with the Proposed Transaction. Vodafone NZ will not incur any transaction costs in connection with the Proposed Transaction as they are being borne by Vodafone Group.

Following Completion, the Board's current intention, which is aligned with Vodafone's expectations, is to pay an annual dividend of 85-100% of Free Cash Flow subject to the Board's assessment of 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 prudent balance sheet. Assuming an illustrative 1 July 2016 Completion Date, the intended payout range would be equivalent to total declared dividends of between 31.9 cents and 37.5 cents per Share for the FY 2017 period (based on Underlying Free Cash Flow per Share of 37.5 cents for the FY 2017 period). Note that this dividend amount is hypothetical given the Completion Date is likely to be later than the assumed date of 1 July 2016. For the prospective FY 2017 period, dividends of 30 cents per Share totalling $238.4 million are assumed to be paid, reflecting an assumed FY 2016 final dividend of $0.15 per Share and FY 2017 interim dividend of $0.15 per Share.

1.4 NON-GAAP FINANCIAL MEASURES

Certain information included in this section is non-GAAP information. This includes Underlying EBITDA, Underlying Cash Generated From Operations, Underlying Capital Expenditure, Underlying Operating Free Cash Flow, Underlying Free Cash Flow and Free Cash Flow. An explanation of those non-GAAP measures employed by the Combined Group is provided below. An explanation of other non-GAAP information (being EBITDA, EBIT, Operating Free Cash Flow and Net Interest Bearing Debt) is provided, including reconciliation to GAAP financial information, in section 5.0 headed "Non-GAAP financial measures" on page 22 of this Appendix Two.

The tables in section 1.5 headed "Selected consolidated financial information for the Combined Group" on pages 5 to 8 of this Appendix Two presents:

- Underlying EBITDA which excludes certain one-off costs (relating to SKY Group Transaction Costs in connection with the Proposed Transaction, Vodafone NZ Group restructuring costs and Combined Group net integration costs, included within total operating expenses);
- Underlying Cash Generated From Operations which excludes the cash impact of the one-off costs included in total operating expenses;
- Underlying Capital Expenditure which excludes capital expenditure relating to integration and includes the adjustment to capital expenditure for the timing of subscriber equipment spend impacting FY 2016 and FY 2017;
- Underlying Operating Free Cash Flow which is defined as Underlying Cash Generated From Operations less Underlying Capital Expenditure;
- Underlying Free Cash Flow which is defined as Underlying Operating Free Cash Flow less cash used to pay interest and tax; and
- Free Cash Flow which is defined as cash generated from operations less capital expenditure less cash used to pay interest and tax.

1.4 NON-GAAP FINANCIAL MEASURES (CONTINUED)

The adjustments are explained further below:

		COMBINED GROUP			SKY GROUP	
In NZD millions	Notes	Pro forma historical 30 Jun 2015	Pro forma prospective 30 Jun 2016	PFI 30 Jun 2017	Stand-alone prospective 30 Jun 2016	Stand-alone prospective 30 Jun 2017
SKY Group Transaction Costs	1	–	10.6	9.4	10.6	9.4
Net integration costs	2	–	–	1.8	–	–
Restructuring costs	3	18.3	–	1.6	–	–
Total one-off costs included in operating expenses	4,7	**18.3**	**10.6**	**12.8**	**10.6**	**9.4**
Adjustment to capital expenditure	5	–	(21.2)	21.2	(21.2)	21.2
Integration capital expenditure	6	–	–	(37.5)	–	–

Notes to the above table:

1. Within Media and Entertainment other operating expenses are Transaction Costs of approximately $10.6 million in FY 2016 and a further $9.4 million in FY 2017 (exclusive of GST). These Transaction Costs include legal fees, audit and accounting fees, other professional consulting fees and costs specifically related to the Proposed Transaction such as printing, postage and courier costs. Vodafone NZ will not incur any transaction costs in connection with the Proposed Transaction as they are being borne by Vodafone Group.
2. FY 2017 assumes the Combined Group achieves $0.1 million of synergy benefits and incurs $1.9 million of integration costs, giving the net integration costs of $1.8 million (recognised within operating expenses). Synergies and related integration costs are discussed in more detail in section 4 headed “Overview of the Combined Group” on pages 26 to 35 of the Notice of Meeting and Explanatory Memorandum.
3. FY 2017 includes $1.6 million of restructuring costs associated with the implementation of strategic operating efficiency initiatives and a cost out program. The operating expenses in FY 2015 included one-off restructuring costs of $18.3 million associated with the integration of TelstraClear into Vodafone NZ Group.
4. The total one-off costs included in operating expenses represent the difference between EBITDA and Underlying EBITDA, and the difference between cash generated from operations and Underlying Cash Generated From Operations.
5. As part of a recent commercial renegotiation of terms between SKY and Cisco, relating to the delays in the rollout of new internet enabled decoders, it was agreed that SKY would accelerate the purchase of the remaining decoders into FY 2016 although they will not be required until FY 2017. These decoders relate to the replacement programme for the legacy decoders. Under normal circumstances, SKY would not have purchased this quantity of decoders in FY 2016 and would have delayed these purchases until FY 2017 when the decoders would be required. Therefore SKY has adjusted FY 2016 for the decoders assumed to be held at the year end above the normal level that SKY usually hold, and this has the effect of reducing FY 2016 and increasing FY 2017 capital expenditure by $21.2 million.
6. In addition to integration costs in operating expenses, it is anticipated that business integration opportunities will require upfront integration capital expenditure of $37.5 million in FY 2017, with business integration (synergy) benefits expected to follow over the medium term.
7. The tax effect of the above adjustments has not been included in income tax paid.

1.5 SELECTED CONSOLIDATED FINANCIAL INFORMATION FOR THE COMBINED GROUP

In NZD millions	COMBINED GROUP Pro forma historical 30 Jun 2015	COMBINED GROUP Pro forma prospective 30 Jun 2016	COMBINED GROUP PFI 30 Jun 2017	SKY GROUP Stand-alone prospective 30 Jun 2016	SKY GROUP Stand-alone prospective 30 Jun 2017
SUMMARISED INCOME STATEMENT					
Total revenue	**2,867.6**	**2,903.3**	**2,914.3**	**926.6**	**920.4**
Total operating expenses(1) pre one-off items	2,024.5	2,114.1	2,128.0	590.8	615.0
Underlying EBITDA(2)	**843.1**	**789.2**	**786.3**	**335.8**	**305.4**
Transaction Costs	–	10.6	9.4	10.6	9.4
Net integration costs	–	–	1.8	–	–
Restructuring costs	18.3	–	1.6	–	–
Sub-total: one-off items included in operating expenses	18.3	10.6	12.8	10.6	9.4
EBITDA(2)	**824.8**	**778.6**	**773.5**	**325.2**	**296.0**
Depreciation, amortisation and impairment	508.2	433.9	411.6	99.6	101.3
Amortisation on Acquisition adjustments(3)	–	–	84.2	–	–
Total depreciation, amortisation and impairment	508.2	433.9	495.8	99.6	101.3
EBIT(2)	**316.6**	**344.7**	**277.7**	**225.6**	**194.7**
Finance costs, net			71.2		17.7
Income tax expense(4)			61.5		52.2
Profit for the year			**145.0**		**124.8**
SUMMARISED STATEMENT OF CASH FLOWS					
Cash generated from operations	**833.3**	**758.0**	**768.7**	**331.7**	**300.0**
One-off items included in operating expenses	18.3	10.6	12.8	10.6	9.4
Underlying Cash Generated From Operations(2)	**851.6**	**768.6**	**781.5**	**342.3**	**309.4**
Media and Entertainment capital expenditure	115.5	126.4	86.9	126.4	86.9
Telecommunications capital expenditure	315.5	237.6	206.1	–	–
Capital expenditure excluding integration capital expenditure	**431.0**	**364.0**	**293.0**	**126.4**	**86.9**
Adjustment to capital expenditure	–	(21.2)	21.2	(21.2)	21.2
Underlying Capital Expenditure(2)	**431.0**	**342.8**	**314.2**	**105.2**	**108.1**
Underlying Operating Free Cash Flow(2)	**420.6**	**425.8**	**467.3**	**237.1**	**201.3**
Interest paid			71.7		18.2
Income tax paid(4)			97.4		47.9
Underlying Free Cash Flow(2)			**298.2**		**135.2**
One-off items included in operating expenses			12.8		9.4
Adjustment to capital expenditure			(21.2)		(21.2)
Integration capital expenditure			37.5		–
Free Cash Flow(2)			**269.1**		**147.0**
Dividend paid (excluding supplementary dividend)			**238.4**		**116.8**
% Underlying EBITDA margin	29.4%	27.2%	27.0%	36.2%	33.2%
% EBITDA margin	28.8%	26.8%	26.5%	35.1%	32.2%
% Underlying Capital Expenditure / revenue	15.0%	11.8%	10.8%	11.4%	11.7%
% Capital expenditure / revenue	15.0%	12.5%	10.1%	13.6%	9.4%
% Underlying Operating Free Cash Flow / revenue	14.7%	14.7%	16.0%	25.6%	21.9%
Number of SKY Shares on issue (millions)			794.2	389.1	389.1
Earnings per Share (cents)			18.3		32.1
Free Cash Flow per Share (cents)			33.9		37.8
Underlying Free Cash Flow per Share (cents)			37.5		34.7

(1) Total operating expenses include cost of sales and share of associate company losses and exclude depreciation, amortisation and impairment, net finance costs and income tax expense.

(2) EBITDA, EBIT, Underlying EBITDA, Underlying Cash Generated From Operations, Underlying Capital Expenditure, Underlying Operating Free Cash Flow, Free Cash Flow and Underlying Free Cash Flow are non-GAAP financial measures.

(3) Intangibles amortisation on Acquisition adjustments relates to the customer relations and brand assets recognised on Completion arising from the revaluation of SKY's assets (discussed in section 6.9 headed "Specific assumptions utilised for preparation of PFI" on pages 43 to 44 of this Appendix Two under the sub-heading "Depreciation, amortisation, impairment and capital expenditure").

(4) Income tax paid is higher than the annual income tax expense in FY 2017 due to the unwinding of the deferred tax liability recognised on Acquisition as at 1 July 2016.

1.5 SELECTED CONSOLIDATED FINANCIAL INFORMATION FOR THE COMBINED GROUP (CONTINUED)

	COMBINED GROUP		SKY GROUP	
In NZD millions	Prospective 1 Jul 2016	PFI 30 Jun 2017	Stand-alone prospective 1 Jul 2016	Stand-alone prospective 30 Jun 2017
SUMMARISED BALANCE SHEET				
Cash and cash equivalents(5)	20.0	74.1	20.0	20.0
Other current assets	423.4	426.8	158.5	150.3
Total current assets	**443.4**	**500.9**	**178.5**	**170.3**
Goodwill and other intangible assets(6)	2,751.9	2,605.2	1,457.7	1,454.2
Other non-current assets	1,411.1	1,406.1	328.3	313.1
Non-current assets	**4,163.0**	**4,011.3**	**1,786.0**	**1,767.3**
Total assets	**4,606.4**	**4,512.2**	**1,964.5**	**1,937.6**
Borrowings/bonds(5)	199.9	–	199.9	–
Other current liabilities	615.6	631.4	214.4	215.5
Total current liabilities	**815.5**	**631.4**	**414.3**	**215.5**
Borrowings/bonds(5)	1,395.3	1,618.5	145.3	315.0
Other non-current liabilities	200.0	164.2	52.0	49.8
Total non-current liabilities	**1,595.3**	**1,782.7**	**197.3**	**364.8**
Total liabilities	**2,410.8**	**2,414.1**	**611.6**	**580.3**
Net assets	**2,195.6**	**2,098.1**	**1,352.9**	**1,357.3**
Net Interest Bearing Debt (millions)	1,575.2	1,544.4	325.2	295.0
Ratio of Net Interest Bearing Debt to EBITDA(7)	2.0x	2.0x	1.0x	1.0x
Ratio of Net Interest Bearing Debt to Underlying EBITDA(7)	2.0x	2.0x	1.0x	1.0x

(5) Borrowings/bonds less cash and cash equivalents are also referred to as Net Interest Bearing Debt, a non-GAAP financial measure. The PFI for the year to, and as at, 30 June 2017 for the Combined Group includes the New Debt following Completion (SKY Group stand-alone presented above excludes this New Debt).

(6) Goodwill and other intangible assets for the Combined Group includes goodwill and separately identifiable brand and customer relations intangible assets arising on Acquisition along with other acquired intangible assets in Vodafone NZ Group (refer note 2 "Other intangible assets and goodwill" in section 6.7 headed "Notes to the consolidated prospective financial statements" on page 36 of this Appendix Two).

(7) The ratio of Net Interest Bearing Debt to EBITDA/Underlying EBITDA for 1 July 2016 uses the pro forma prospective EBITDA/Underlying EBITDA for the year ending 30 June 2016.

The following table is presented to allow Shareholders to compare selected financial information for FY 2015, FY 2016 and FY 2017 for each of Vodafone NZ Group and SKY Group segmental information, including SKY Group and Vodafone NZ Group revenues, EBITDA, EBIT, Underlying EBITDA, net assets, capital expenditure and subscriber numbers. This stand-alone segmental information represents the component inputs to the Combined Group Financial Information above subject to the explained adjustments.

1.5 SELECTED CONSOLIDATED FINANCIAL INFORMATION FOR THE COMBINED GROUP (CONTINUED)

	VODAFONE NZ GROUP			SKY GROUP		
In NZD millions	Pro forma historical 30 Jun 2015	Pro forma prospective 30 Jun 2016	PFI 30 Jun 2017	Pro forma historical 30 Jun 2015	Pro forma prospective 30 Jun 2016	PFI 30 Jun 2017
Total revenue	1,959.9	1,998.8	2,024.3	927.5	926.6	920.4
Total operating expenses	1,496.6	1,545.4	1,543.4	547.7	590.8	615.0
Underlying EBITDA	**463.3**	**453.4**	**480.9**	**379.8**	**335.8**	**305.4**
One-off items included in operating expenses	18.3	–	1.6	–	10.6	9.4
EBITDA	**445.0**	**453.4**	**479.3**	**379.8**	**325.2**	**296.0**
Depreciation, amortisation and impairment	389.0	334.3	310.3	119.2	99.6	101.3
EBIT	**56.0**	**119.1**	**169.0**	**260.6**	**225.6**	**194.7**
Finance costs, net			–			17.7
Profit before tax			**169.0**			**177.0**
Income tax expense			48.4			52.2
Profit for the year			**120.6**			**124.8**
Total assets	1,828.6	1,760.3	1,923.1	1,924.1	1,944.5	1,937.6
Total liabilities	456.6	440.5	460.8	254.1	266.5	1,830.3
Net assets	**1,372.0**	**1,319.8**	**1,462.3**	**1,670.0**	**1,678.0**	**107.3**
Other segmental information						
Capital expenditure excluding integration capital expenditure	315.5	237.6	206.1	115.5	126.4	86.9
Adjustment to capital expenditure	–	–	–	–	(21.2)	21.2
Underlying Capital Expenditure	**315.5**	**237.6**	**206.1**	**115.5**	**105.2**	**108.1**
Integration capital expenditure	–	–	–	–	–	–
% Underlying EBITDA margin	23.6%	22.7%	23.8%	40.9%	36.2%	33.2%
% EBITDA margin	22.7%	22.7%	23.7%	40.9%	35.1%	32.2%
% Capital expenditure / revenue	16.1%	11.9%	10.2%	12.5%	13.6%	9.4%
Customer relationships (000's)	2,852.4	2,861.3	2,907.8	851.6	832.5	845.1

Note: Total assets, total liabilities and net assets exclude Net Interest Bearing Debt and tax for Vodafone NZ Group and Net Interest Bearing Debt for SKY Group for pro forma historical as at 30 June 2015 and pro forma prospective as at 30 June 2016. As at 30 June 2017 the SKY Group total liabilities and net assets includes the total Combined Group Net Interest Bearing Debt (including the New Debt). Combined Group customer relationships are an aggregation of Vodafone NZ Group's customer connections and SKY Group's subscriber numbers.

ADJUSTMENTS AND ELIMINATIONS			COMBINED GROUP		
Pro forma historical 30 Jun 2015	Pro forma prospective 30 Jun 2016	PFI 30 Jun 2017	Pro forma historical 30 Jun 2015	Pro forma prospective 30 Jun 2016	PFI 30 Jun 2017
(19.8)	(22.1)	(30.4)	2,867.6	2,903.3	2,914.3
(19.8)	(22.1)	(30.4)	2,024.5	2,114.1	2,128.0
–	**–**	**–**	**843.1**	**789.2**	**786.3**
–	–	1.8	18.3	10.6	12.8
–	**–**	**(1.8)**	**824.8**	**778.6**	**773.5**
–	–	84.2	508.2	433.9	495.8
–	**–**	**(86.0)**	**316.6**	**344.7**	**277.7**
		53.5			71.2
		(139.5)			**206.5**
		(39.1)			61.5
		(100.4)			**145.0**
(10.0)	(9.3)	651.5	3,742.7	3,695.5	4,512.2
(10.0)	(9.3)	123.0	700.7	697.7	2,414.1
–	**–**	**528.5**	**3,042.0**	**2,997.8**	**2,098.1**
–	–	–	431.0	364.0	293.0
–	–	–	–	(21.2)	21.2
–	**–**	**–**	**431.0**	**342.8**	**314.2**
–	–	37.5	–	–	37.5
			29.4%	27.2%	27.0%
			28.8%	26.8%	26.5%
			15.0%	12.5%	10.1%
			3,704.0	3,693.8	3,752.9

2.0 CONSOLIDATED HFI FOR VODAFONE NZ GROUP

This section contains summary consolidated historical information for Vodafone NZ Group for the last two years. Complete annual consolidated financial statements and related audited reports for 31 March 2014 and 31 March 2015 are available from the Companies Office website www.business.govt.nz/companies.

For summary consolidated historical information for SKY Group please refer to section 3.0 headed "Consolidated HFI for SKY Group" on pages 13 to 15 of this Appendix Two.

2.1 INTRODUCTION

The table following includes:

- a summary of the statutory consolidated historical financial performance of Vodafone NZ Group for the years ended 31 March 2014 and 31 March 2015 as reported in Vodafone NZ Group's audited financial statements;
- pro forma HFI for the years ended 30 June 2014 and 30 June 2015; and
- pro forma HFI for the interim six month period to 31 December 2015 (to align with the SKY Group's interim balance date), extracted from unaudited management accounts for Vodafone NZ Group and prepared on the same basis as the pro forma historical information for the year ended 30 June 2015.

This information is included to assist SKY Shareholders to understand the historical stand-alone performance of Vodafone NZ Group, to understand the build up to the pro forma financial information for Vodafone NZ Group and to provide context to the Combined Group pro forma financial information presented in section 4.0 headed "Combined Group consolidated pro forma financial information" on pages 16 to 21 of this Appendix Two.

The summary consolidated financial information is presented in NZD which is the functional currency of the Vodafone NZ Group.

2.2 BASIS OF PREPARATION

The summarised financial information of the Vodafone NZ Group presented overleaf has been prepared on the following basis.

31 March 2014 and 31 March 2015

The financial information has been derived from the full consolidated financial statements of the Vodafone NZ Group for the years ended 31 March 2014 and 31 March 2015. The audited financial statements for these financial years were prepared in accordance with GAAP as appropriate for profit oriented entities that qualify for and apply differential reporting concessions under the NZ IFRS Differential Reporting Regime on the basis that Vodafone NZ Group is not publicly accountable and there is no separation between its owners and the governing body as all of the shareholders are represented on the board of directors. Therefore, as permitted by that regime, the audited financial statements for the years ended 31 March 2014 and 31 March 2015 do not include cash flow statements or accounting for deferred tax.

Pro forma consolidated historical summary information for 30 June 2014, 30 June 2015 and 31 December 2015

The pro forma consolidated historical summary information has been prepared for illustrative purposes only so that the historical financial performance can be better compared with SKY Group's historical and forecast financial performance.

The pro forma summarised consolidated historical information has been derived from the statutory consolidated historical summarised information for the years ended 31 March 2014 and 31 March 2015 and adjusted in accordance with information from unaudited management accounts (as explained below).

The summarised pro forma historical information has been prepared in accordance with the accounting policies used in the preparation of Vodafone NZ Group's annual audited financial statements. The significant accounting policies applied in preparing the Combined Group PFI are the same as the accounting policies used in the preparation of Vodafone NZ Group's annual audited financial statements other than including cash flow statements and accounting for deferred tax as required for publicly accountable entities. Refer to section 6.6 headed "Significant accounting policies" on page 34 of this Appendix Two.

2.3 VODAFONE NZ GROUP SUMMARISED CONSOLIDATED HFI AND PRO FORMA HFI

In NZD millions	Statutory historical (audited) 31 Mar 2014	Statutory historical (audited) 31 Mar 2015	Pro forma historical (unaudited) 30 Jun 2014	Pro forma historical (unaudited) 30 Jun 2015	Pro forma historical (unaudited) 6 months 31 Dec 2015
SUMMARISED INCOME STATEMENT					
Total revenue	2,055.5	1,964.5	2,035.6	1,959.9	1,005.1
Total operating expenses(2)	1,575.2	1,551.8	1,535.6	1,514.9	789.1
EBITDA(1)	**480.3**	**412.7**	**500.0**	**445.0**	**216.0**
Depreciation, amortisation and impairment	386.6	396.4	384.4	389.0	170.5
EBIT(1)	**93.7**	**16.3**	**115.6**	**56.0**	**45.5**
SUMMARISED STATEMENT OF CASH FLOWS					
EBIT(1)	**93.7**	**16.3**	**115.6**	**56.0**	**45.5**
Depreciation, amortisation and impairment	386.6	396.4	384.4	389.0	170.5
Share of associate company losses	–	1.0	–	0.9	–
Other non-cash items	8.0	1.7	9.5	–	0.4
Movements in share based payment reserve	(0.4)	(0.7)	(0.4)	(0.8)	0.6
Change in working capital	8.1	(73.7)	(13.5)	19.0	12.0
Cash generated from operations	**496.0**	**341.0**	**495.6**	**464.1**	**229.0**
Capital expenditure	(301.6)	(339.3)	(295.5)	(315.5)	(125.0)
Operating Free Cash Flow(1) (3)	**194.4**	**1.7**	**200.1**	**148.6**	**104.0**
SUMMARISED BALANCE SHEET					
Current assets	657.4	631.4	278.2	266.6	272.0
Non-current assets	1,660.3	1,586.8	1,630.6	1,562.0	1,534.9
Total assets	**2,317.7**	**2,218.2**	**1,908.8**	**1,828.6**	**1,806.9**
Vodafone Group borrowings	–	1,506.3	–	–	–
Other current liabilities	516.0	401.8	435.0	431.7	448.3
Current liabilities	**516.0**	**1,908.1**	**435.0**	**431.7**	**448.3**
Vodafone Group borrowings	1,498.2	128.2	–	–	–
Other non-current liabilities	25.0	24.8	25.1	24.9	24.7
Total non-current liabilities	**1,523.2**	**153.0**	**25.1**	**24.9**	**24.7**
Total liabilities	**2,039.2**	**2,061.1**	**460.1**	**456.6**	**473.0**
Net assets	**278.5**	**157.1**	**1,448.7**	**1,372.0**	**1,333.9**
KEY PERFORMANCE INDICATORS					
% EBITDA margin	23.4%	21.0%	24.6%	22.7%	21.5%

(1) EBITDA, EBIT and Operating Free Cash Flow are non-GAAP financial measures and are defined in section 5.0 headed "Non-GAAP financial measures" on page 22 of this Appendix Two. These non-GAAP adjustments are not audited.

(2) Operating expenses include cost of sales and share of associate company losses and exclude depreciation, amortisation and impairment, net financing costs and income tax expense.

(3) Operating Free Cash Flow is not derived from audited financial statements as Vodafone NZ Group applies Differential Reporting Exemptions and consequently does not report a cash flow statement.

2.4 NOTES TO THE PRO FORMA SUMMARY FINANCIAL INFORMATION

As the SKY Group has a 30 June balance date and the Vodafone NZ Group currently has a 31 March balance date, to ensure both SKY Group's and Vodafone NZ Group's financial information is presented on a comparable basis, Vodafone NZ Group has restated certain information as contained in its audited financial statements for the years ended 31 March 2014 and 31 March 2015, to instead be presented for the years ended 30 June 2014 and 30 June 2015 (titled pro forma (unaudited)). It is assumed the Combined Group will have a 30 June 2017 year end for its first reporting period (31 December 2016, as interim reporting period). This has involved pro forma period adjustments being made to the 31 March financial information to add three months' financial performance to 30 June and remove the three months of the prior year, using source information from unaudited management accounts.

Furthermore, given that the debt levels for the Combined Group's capital structure will be a key driver of interest, tax expense and cash payments and that the debt levels and terms that will apply post the Proposed Transaction are significantly different to the existing financial arrangements, particularly for Vodafone NZ Group (which is being acquired by SKY Group on a debt free/cash free basis), the Directors have deemed that Vodafone NZ Group's pro forma (unaudited) financial information should not present any items below EBIT, any cash flows relating to financing activities and tax, and no balance sheet items relating to interest bearing debt, equity and income tax as the historical amounts of interest, debt and tax are not meaningful information for Shareholders.

Vodafone NZ Group also currently utilises the scale and efficiency of the Vodafone Group and as such Vodafone Group currently provides Vodafone NZ Group with certain services, including procurement, support for Vodafone NZ Group's business units, IT services, corporate functions, and charges Vodafone NZ Group brand and agency fees. Charges for these services are reflected in Vodafone NZ Group's income and cash flow statements. After consulting with Vodafone NZ management, and after taking external advice, SKY has agreed that once the Proposed Transaction occurs, some of these services will no longer be required. As part of the Proposed Transaction, at Completion SKY will enter into new agreements with Vodafone Group (referred to as the Vodafone Services Agreements) which will cover the next five years (other than for brand fees, where the agreement will cover the next ten years). Vodafone NZ Group's summarised pro forma (unaudited) HFI for the years ended 30 June 2014 and 30 June 2015 has been restated to reflect the position as if Vodafone NZ Group had been part of the Combined Group and the Vodafone Services Agreements (and the charges payable under them) had been in place.

Adjustments have been made to total expenses to restate the Vodafone Services Agreements charges as if Vodafone NZ Group had formed part of the Combined Group from 1 July 2013. An adjustment has also been made to the historical balance sheets to reflect the trade payables owing to Vodafone Group arising as a result of the Vodafone Services Agreements charges.

No attempt has been made to present a historical deferred taxation position.

To assist Shareholders to understand the historical operating cash flows of Vodafone NZ Group in all other aspects (i.e. excluding historical financing and tax cash flows), pro forma Operating Free Cash Flow (before financing activities and tax), has been presented for the years ended 31 March 2014 and 2015, and on a pro forma basis for the years ended 30 June 2014 and 2015, and the six months ended 31 December 2015.

No other pro forma adjustments have been made to Vodafone NZ Group's consolidated pro forma HFI presented in this section.

2.4 NOTES TO THE PRO FORMA SUMMARY FINANCIAL INFORMATION (CONTINUED)

A summary of adjustments applied to Vodafone NZ Group's historical financial statements are as follows:

In NZD millions	Pro forma historical (unaudited) 30 Jun 2014	Pro forma historical (unaudited) 30 Jun 2015	Pro forma historical (unaudited) 6 months 31 Dec 2015
Balance sheet			
Other current liabilities – Vodafone Services Agreements charges	6.5	4.7	7.1
Vodafone Group borrowings	1,531.8	1,691.4	1,190.7
Current assets – Cash and cash equivalents	(34.6)	(13.0)	(3.7)
Current assets – Tax receivable	(38.1)	(32.8)	(38.1)
Current assets – Vodafone Group deposit and receivable	(254.9)	(408.9)	(244.0)
Net balance sheet adjustment	**1,210.7**	**1,241.4**	**912.0**
Net adjustment to EBIT			
Vodafone Services Agreements charges	44.3	42.4	23.7

Note: The "Current assets – Tax receivable" adjustments above reflect the underlying management account balances only as at 30 June 2014 and 2015, and 31 December 2015, rather than the actual March year end tax calculations.

The tax effect of all pro forma adjustments has not been considered as tax has been excluded from the Vodafone NZ Group and Combined Group HFI.

2.5 MANAGEMENT COMMENTARY ON VODAFONE NZ GROUP PRO FORMA HISTORICAL REVENUE AND EBITDA

This section provides an overview of Vodafone NZ Group's historical financial performance for the pro forma year ended 30 June 2015. The performance for the six month period to 31 December 2015 is contained within the commentary of the assumptions for the year ended 30 June 2016 which can be found in section 4.6 headed "Management commentary on the Combined Group consolidated pro forma financial information" on page 21 of this Appendix Two.

For the year ended 30 June 2015, Vodafone NZ Group's revenue decreased by 3.7% from $2,035.6 million for the prior comparable period to $1,959.9 million, primarily driven by competitive pressures in the market. The key drivers of this decrease in revenue included:

- intense competition in Vodafone NZ Group's Enterprise business, leading to a decrease in mobile and fixed line revenues. This was partially offset by favourable rate/mix benefits from UFB growth and upselling of unlimited data plans, as well as growth in mobile post-pay customers (9.9% Consumer and 2.6% Enterprise); and

- traditional voice calling revenue decreased, which was a combination of changing usage behaviour (customers switching out of landlines in favour of more mobile/OTT application usage) and growth in the number of minutes included within bundles. This was partially offset by cross-selling of fixed line customers into the mobile customer base.

EBITDA for the year ended 30 June 2015 decreased by 11.0% from $500 million for the prior comparable period to $445 million due to the decreases in revenue described above, partially offset by further realisation of operating synergies following the TelstraClear acquisition in FY 2013. This year also included $18.3 million of one-off restructuring costs in connection with TelstraClear. Refer to section 6.0 headed "Consolidated PFI of the Combined Group" on pages 24 to 49 of this Appendix Two for certain PFI for the Vodafone NZ Group such as total revenue, total operating expenses, EBITDA, depreciation, amortisation and impairment, EBIT and capital expenditure along with certain balance sheet items and underlying general and specific assumptions.

3.0 CONSOLIDATED HFI FOR SKY GROUP

This section contains summary consolidated historical information for SKY Group for the last two years.
For full financial statements for SKY Group please refer to the annual financial statements published on their website www.skytv.co.nz/investor.

3.1 INTRODUCTION

A summary of the consolidated historical financial performance of SKY Group for the years ended 30 June 2014 and 30 June 2015 (audited) and the six month period to 31 December 2015 (reviewed) as per SKY's published financial statements is set out in the table following.

No pro forma adjustments have been made to SKY Group's HFI presented.

3.2 BASIS OF PREPARATION

The summarised consolidated financial statements of the SKY Group presented overleaf have been prepared on the following basis.

The summarised consolidated HFI has been extracted from the published audited consolidated financial statements of the SKY Group for the years ended 30 June 2014 and 30 June 2015 as well as the interim unaudited consolidated report for the six month period ended 31 December 2015. The audited consolidated financial statements and the unaudited consolidated interim financial statements for these years and period were prepared in accordance with GAAP and comply with NZ IFRS as appropriate for profit oriented entities.

The summary consolidated financial statements cannot be expected to provide a complete understanding as provided by the full financial statements from which they are extracted.

The summary financial statements are presented in NZD which is the functional currency of SKY and rounded to the nearest million dollars.

3.3 SKY GROUP SUMMARISED CONSOLIDATED HFI

In NZD millions	Statutory historical (audited) 30 Jun 2014	Statutory historical (audited) 30 Jun 2015	Statutory historical (unaudited) 6 months 31 Dec 2015
SUMMARISED STATEMENT OF COMPREHENSIVE INCOME			
Total revenue	909.0	927.5	475.6
Total operating expenses(2)	530.0	547.7	294.7
EBITDA(1)	**379.0**	**379.8**	**180.9**
Depreciation, amortisation and impairment	126.1	119.2	49.2
EBIT(1)	**252.9**	**260.6**	**131.7**
Net financing costs	28.4	21.7	10.3
Net profit before taxation	**224.5**	**238.9**	**121.4**
Net taxation	63.1	67.1	34.0
Net profit for the year/period	**161.4**	**171.8**	**87.4**
Non-controlling interest	4.4	(0.2)	(0.3)
Attributable to equity holders of SKY	**165.8**	**171.6**	**87.1**
OTHER COMPREHENSIVE INCOME			
Net profit for the year/period	**161.4**	**171.8**	**87.4**
Cash flow hedges (net of tax)	(0.2)	41.0	(17.8)
Total comprehensive income	**161.2**	**212.8**	**69.6**
Non-controlling interests	4.4	(0.2)	(0.3)
Attributable to equity holders of SKY	**165.6**	**212.6**	**69.3**
Earnings per Share (cents)	**42.61**	**44.09**	**22.38**
SUMMARISED STATEMENT OF CASH FLOWS			
EBIT	**252.9**	**260.6**	**131.7**
Depreciation, amortisation and impairment	126.1	119.2	49.2
Other non-cash items(3)	2.0	2.0	(1.2)
Change in working capital(3)	(1.7)	(12.5)	19.8
Cash generated from operations	**379.3**	**369.3**	**199.5**
Capital expenditure	(93.7)	(115.5)	(59.5)
Operating Free Cash Flow(1)	**285.6**	**253.8**	**140.0**
KEY PERFORMANCE INDICATORS			
% EBITDA margin	41.7%	40.9%	38.0%
ARPU(4) (NZD per month)	77.52	79.54	79.56
Total subscribers (000's)	865.0	851.6	860.0

(1) EBITDA, EBIT and Operating Free Cash Flow are non-GAAP financial measures and are defined in section 5.0 headed "Non-GAAP financial measures" on page 22 of this Appendix Two. These non-GAAP adjustments are not audited. In SKY Group's stand-alone historical published financial statements, EBIT is reported as 'operating profit'.

(2) Operating expenses exclude depreciation, amortisation and impairment, net financing costs and income tax expense.

(3) Other non-cash items and change in working capital differ from audited financial statements due to bad debt and movement in provision for bad debts being included as a movement in working capital rather than a non-cash item.

(4) 31 December 2015 includes IGLOO, NEON and FAN PASS (not included in 30 June 2014 and 30 June 2015).

3.3 SKY GROUP SUMMARISED CONSOLIDATED HFI (CONTINUED)

In NZD millions	Statutory historical (audited) 30 Jun 2014	Statutory historical (audited) 30 Jun 2015	Statutory historical (unaudited) 6 months 31 Dec 2015
SUMMARISED BALANCE SHEET			
Current assets	133.9	188.6	189.0
Non-current assets	1,731.5	1,753.4	1,753.2
Total assets	**1,865.4**	**1,942.0**	**1,942.2**
Borrowings/bonds	7.4	3.3	199.8
Other current liabilities	195.3	197.8	206.5
Total current liabilities	**202.7**	**201.1**	**406.3**
Borrowings/bonds	379.8	347.4	138.0
Other non-current liabilities	41.7	56.3	49.5
Total non-current liabilities	**421.5**	**403.7**	**187.5**
Total liabilities	**624.2**	**604.8**	**593.8**
Net assets	**1,241.2**	**1,337.2**	**1,348.4**
Equity attributable to equity holders of SKY	1,239.9	1,335.7	1,346.7
Non-controlling interest	1.3	1.5	1.7
Total equity	**1,241.2**	**1,337.2**	**1,348.4**
Total equity and liabilities	**1,865.4**	**1,942.0**	**1,942.2**
SUMMARISED STATEMENT OF CHANGES IN EQUITY			
Share capital			
Opening and closing balance	**577.4**	**577.4**	**577.4**
Hedging reserve			
Opening balance	(9.9)	(10.1)	30.9
Cash flow hedges, net of tax	(0.2)	41.0	(17.8)
Closing balance	**(10.1)**	**30.9**	**13.1**
Retained earnings			
Opening balance	607.1	672.6	727.4
Change in non-controlling interest	0.9	–	–
Profit for the year/period	165.8	171.6	87.1
Dividend paid	(101.2)	(116.8)	(58.4)
Closing balance	**672.6**	**727.4**	**756.1**
Shareholders' equity attributable to owners of SKY	**1,239.9**	**1,335.7**	**1,346.6**
Non-controlling interest			
Opening balance	7.4	1.3	1.5
Change in non-controlling interest	(1.7)	–	–
Profit/(loss) for the year/period	(4.4)	0.2	0.3
Closing balance	**1.3**	**1.5**	**1.8**
Total equity	**1,241.2**	**1,337.2**	**1,348.4**

3.4 MANAGEMENT COMMENTARY ON SKY GROUP RESULTS

Commentary on SKY Group's historical financial results is provided in SKY's results announcements and annual reports for the years ended 30 June 2014 and 30 June 2015 and the interim period ended 31 December 2015. These reports are available on SKY's website **www.skytv.co.nz/investor** or the NZX website **www.nzx.com**.

4.0 COMBINED GROUP CONSOLIDATED PRO FORMA FINANCIAL INFORMATION

4.1 INTRODUCTION

The consolidated pro forma historical and pro forma prospective financial information set out in this section has been prepared by the Directors, with input from Vodafone NZ Group's management in respect of Vodafone NZ Group's business, and contains a summary of certain pro forma financial information relating to the Combined Group. The Proposed Transaction is assumed to have occurred on 1 July 2016 and the impact of the Proposed Transaction has been included from that date.

The consolidated pro forma HFI presented in this section has been prepared in accordance with the recognition and measurement principles and accounting policies detailed in section 6.6 headed "Significant accounting policies" on page 34 of this Appendix Two and has been derived as follows:

- SKY's published audited annual report for the period to, and as at, 30 June 2015 and its interim report for the six month period ended 31 December 2015 (summarised in section 3.0 headed "Consolidated HFI for SKY Group" on pages 13 to 15 of this Appendix Two); and

- Vodafone NZ Group's pro forma consolidated HFI for the periods to, and as at, 30 June 2015 and 31 December 2015 (refer section 2.0 headed "Consolidated HFI for Vodafone NZ Group" on pages 9 to 12 of this Appendix Two).

The consolidated pro forma PFI presented in this section for the year ending 30 June 2016 is based on actual results recorded in management accounts for each of SKY Group and Vodafone NZ Group for the period 1 July 2015 to 29 February 2016 and prospective information for the SKY Group and the Vodafone NZ Group, provided by the respective group, for the period 1 March 2016 to 30 June 2016, with pro forma adjustments as described in the basis of preparation below.

At the date of this Notice of Meeting and Explanatory Memorandum the results for the period 1 March 2016 to 31 May 2016 are known, and are materially consistent with the prospective information. On this basis, a significant proportion of the prospective financial performance for the year to 30 June 2016 has already been achieved.

4.2 BASIS OF PREPARATION

The Combined Group pro forma HFI presented does not contain all the disclosures, presentation statements or comparatives that are usually provided in the annual report prepared in accordance with the requirements of Part 7 of the FMCA and should be read in conjunction with SKY's published financial reports for the periods ended 30 June 2014, 30 June 2015 and 31 December 2015.

The Combined Group pro forma PFI for FY 2016 has been prepared using principles derived from Financial Reporting Standard (FRS-42) "Prospective Financial Statements" to the extent applicable, given the pro forma nature of that prospective financial information.

The pro forma PFI for the year ended, and as at, 30 June 2016, and the consolidated prospective financial statements for the Combined Group for the year to that date, includes adjustments to remove the capital structure of SKY Group and Vodafone NZ Group and present the Combined Group as if it had already been combined, thereby including hypothetical assumptions or conditions, rather than being solely a forecast of expected future transactions or events. Accordingly, the pro forma prospective financial statements do not use all of the assumptions needed to comply with FRS-42.

The Directors believe the additional matters that compliance with FRS-42 would require to be included in this section would not provide meaningful information for Shareholders in the context of the Proposed Transaction primarily because it would not reflect the proposed establishment of the Combined Group and its capital structure on a go forward basis. Pro forma adjustments as they relate to the Combined Group pro forma PFI are discussed in section 4.5 headed "Notes to the selected consolidated pro forma financial information" on pages 18 to 20 of this Appendix Two.

The PFI for the year ending, and as at, 30 June 2017 and the consolidated prospective financial statements of the Combined Group for the year to that date, have been prepared on the basis of, and comply with, FRS-42 subject to the assumed Completion Date of 1 July 2016.

The consolidated pro forma financial information has been presented to provide an indication of the Combined Group's revenues, earnings, operating cash flows and net assets assuming the activities are included in the same group from the beginning of each period and after intercompany transactions are eliminated. The pro forma financial information is based on a hypothetical situation and no adjustments have been made for purchase price allocation, synergies and capital structure. These are discussed in section 6.4 headed "Assumptions and notes for the opening financial position" on pages 27 to 29 of this Appendix Two where the effects of the Proposed Transaction are presented.

The accounting policies applied are consistent with those expected to be applied by the combining entities in their consolidated financial statements, to the extent applicable in the context of the basis of preparation as explained in section 6.6 "Significant accounting policies" on page 34 of this Appendix Two. Deferred tax and cash flows have not historically been accounted for within Vodafone NZ Group as Vodafone NZ Group had adopted differential reporting concessions under the NZ IFRS Differential Reporting Regime (discussed in section 2.0 headed "Consolidated HFI for Vodafone NZ Group") on pages 9 to 12 of this Appendix Two.

It is assumed that, although the impact of the Proposed Transaction is included from 1 July 2016, for the purposes of presenting the Combined Group operationally, the Combined Group is formed from 1 July 2014.

The Directors are responsible for and have authorised for issue the Combined Group consolidated pro forma financial information on 13 June 2016 for use in this Notice of Meeting and Explanatory Memorandum for the purposes of the Proposed Transaction.

4.3 SELECTED COMBINED GROUP CONSOLIDATED PRO FORMA HFI AND PRO FORMA PFI

In NZD millions	Pro forma prospective 30 Jun 2016	Pro forma historical (unaudited) 30 Jun 2015	Pro forma historical (unaudited) 6 months 31 Dec 2015
SUMMARISED INCOME STATEMENT			
Total revenue	2,903.3	2,867.6	1,469.7
Total operating expenses(2)	2,124.7	2,042.8	1,072.8
EBITDA(1)	**778.6**	**824.8**	**396.9**
Depreciation, amortisation and impairment	433.9	508.2	219.7
EBIT(1)	**344.7**	**316.6**	**177.2**
SUMMARISED STATEMENT OF CASH FLOWS			
EBIT	**344.7**	**316.6**	**177.2**
Depreciation, amortisation and impairment	433.9	508.2	219.7
Share of associate company losses	0.9	0.9	–
Other non-cash items	(1.8)	1.9	(0.8)
Movement in share based payment reserve	2.4	(0.8)	0.6
Change in working capital	(22.1)	6.5	31.8
Cash generated from operations	**758.0**	**833.3**	**428.5**
Capital expenditure	(364.0)	(431.0)	(184.5)
Operating Free Cash Flow(1)	**394.0**	**402.3**	**244.0**
SUMMARISED BALANCE SHEET			
Current assets	423.3	427.2	414.7
Non-current assets	3,272.2	3,315.5	3,288.1
Total assets	**3,695.5**	**3,742.7**	**3,702.8**
Current liabilities	615.5	619.5	644.8
Non-current liabilities	82.2	81.2	74.2
Total liabilities	**697.7**	**700.7**	**719.0**
Net assets(3)	**2,997.8**	**3,042.0**	**2,983.8**

(1) EBITDA, EBIT and Operating Free Cash Flow are non-GAAP financial measures and are defined in section 5.0 headed "Non-GAAP financial measures" on page 22 of this Appendix Two.

(2) Operating expenses include cost of sales and share of associate company losses and exclude depreciation, amortisation and impairment, net finance costs and income tax expense.

(3) Net assets excludes Net Interest Bearing Debt and Vodafone NZ Group income tax.

4.4 ASSUMPTIONS FOR PRO FORMA PFI FOR 30 JUNE 2016

For assumptions relating to pro forma PFI for the year ending, and as at, 30 June 2016 please refer to the assumptions in section 6.8 headed "General assumptions utilised for preparation of PFI" on page 37 and section 6.9 headed "Specific assumptions utilised for preparation of PFI" on pages 38 to 47, both in this Appendix Two. Acquisition accounting, capital structure and synergies are all assumed as if Completion occurs on 1 July 2016 and the Combined Group is in place for the year to 30 June 2017.

4.5 NOTES TO THE SELECTED CONSOLIDATED PRO FORMA FINANCIAL INFORMATION

PRO FORMA ADJUSTMENTS

The following pro forma adjustments have been included in the Combined Group pro forma financial information.

Vodafone NZ Group's historical information has been adjusted from its audited period of 31 March to 30 June in order to align its financial reporting periods to those of SKY's. Consequently the financial information shown for Vodafone NZ Group does not reflect its audited financial statements. The adjustments made to Vodafone NZ Group's historical financial results are described in section 2.0 headed "Consolidated HFI for Vodafone NZ Group" on pages 9 to 12 of this Appendix Two.

Similar pro forma adjustments have been made to the pro forma PFI for the period ending, and as at, 30 June 2016. These pro forma adjustments result in the exclusion of balance sheet items relating to Vodafone NZ Net Interest Bearing Debt (based on the debt levels and terms that apply post the Proposed Transaction being significantly different to the existing financial arrangements for Vodafone NZ Group), exclusion of tax balances and the recognition of Vodafone Group charges on the basis of the new Vodafone Services Agreements for certain services, as follows:

In NZD millions	Vodafone NZ Group Pro forma prospective 30 Jun 2016
Balance sheet	
Other current liabilities – Vodafone Services Agreements charges	6.5
Vodafone Group borrowings	1,302.3
Current assets – Cash and cash equivalents	(3.7)
Current assets – Tax receivable	(10.2)
Current assets – Vodafone Group deposit and receivable	(411.6)
Net balance sheet adjustment	**883.3**
Net adjustment to EBIT	
Vodafone Services Agreements charges	47.3

The tax effect of all pro forma adjustments has not been considered as tax has been excluded from the pro forma financial information presented.

INTERCOMPANY ELIMINATIONS

The income and expenditure relating to the retransmission contracts between Vodafone NZ Group and SKY Group have been eliminated.

Mobile phone and any other operating expenses paid by SKY Group to Vodafone NZ Group have also been eliminated.

4.5 NOTES TO THE SELECTED CONSOLIDATED PRO FORMA FINANCIAL INFORMATION (CONTINUED)

RELATED PARTY TRANSACTIONS

Transactions with Vodafone Group following Completion will be related party transactions, this includes Vodafone Services Agreements charges (discussed above) and sales and purchases of goods and services from Vodafone Group companies (including procurement of goods and services via Vodafone Procurement Company).

In NZD millions	Pro forma prospective 30 Jun 2016	Pro forma historical (unaudited) 30 Jun 2015	Pro forma historical (unaudited) 6 months 31 Dec 2015
Transactions included in the income statement			
Purchase of goods and services from Vodafone Group	155.7	129.3	79.3
Transactions included in the balance sheet			
Owing to affiliates of Vodafone Group	16.8	22.9	28.7

SEGMENTAL INFORMATION

For management purposes, it is assumed the Combined Group is organised into two operating segments, discussed further in section 6.7 headed "Notes to the consolidated prospective financial statements" on pages 35 to 37 of this Appendix Two.

Segment results include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items in the profit or loss comprise mainly interest and financing income and expenses and income tax expense.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The segment information provided below is for the Combined Group pro forma financial information provided for the year ending 30 June 2016, the year ended 30 June 2015 and the six month period ended 31 December 2015.

FOR THE YEAR ENDING, AND AS AT, 30 JUNE 2016

In NZD millions	Telecoms	Media and Entertainment	Adjustments	Combined Group pro forma prospective
Total revenue	1,998.8	926.6	(22.1)	2,903.3
Total operating expenses	1,545.4	601.4	(22.1)	2,124.7
EBITDA	**453.4**	**325.2**	**–**	**778.6**
Depreciation, amortisation and impairment	334.3	99.6	–	433.9
EBIT	**119.1**	**225.6**	**–**	**344.7**
Total assets	1,760.3	1,944.5	(9.3)	3,695.5
Total liabilities	440.5	266.5	(9.3)	697.7
Net assets	**1,319.8**	**1,678.0**	**–**	**2,997.8**
Other segmental information				
Capital expenditure	237.6	126.4	–	364.0
% EBITDA margin	22.7%	35.1%	–	26.8%
% Capital expenditure/revenue	11.9%	13.6%	–	12.5%

Note: Capital expenditure shown above is that reflected in the cash flow statement, which removes the impact of creditors. Total liabilities and net assets exclude Net Interest Bearing Debt.

4.5 NOTES TO THE SELECTED CONSOLIDATED PRO FORMA FINANCIAL INFORMATION (CONTINUED)

FOR THE YEAR ENDED, AND AS AT, 30 JUNE 2015 (UNAUDITED)

In NZD millions	Telecoms	Media and Entertainment	Adjustments	Combined Group pro forma historical
Total revenue	1,959.9	927.5	(19.8)	2,867.6
Total operating expenses	1,514.9	547.7	(19.8)	2,042.8
EBITDA	**445.0**	**379.8**	**–**	**824.8**
Depreciation, amortisation and impairment	389.0	119.2	–	508.2
EBIT	**56.0**	**260.6**	**–**	**316.6**
Total assets	1,828.6	1,924.1	(10.0)	3,742.7
Total liabilities	456.6	254.1	(10.0)	700.7
Net assets	**1,372.0**	**1,670.0**	**–**	**3,042.0**
Other segmental information				
Capital expenditure	315.5	115.5	–	431.0
% EBITDA margin	22.7%	40.9%	–	28.8%
% Capital expenditure/revenue	16.1%	12.5%	–	15.0%

Note: Capital expenditure shown above is that reflected in the cash flow statement, which removes the impact of creditors. Total liabilities and net assets exclude Net Interest Bearing Debt.

FOR THE SIX MONTHS ENDED, AND AS AT, 31 DECEMBER 2015 (UNAUDITED)

In NZD millions	Telecoms	Media and Entertainment	Adjustments	Combined Group pro forma historical
Total revenue	1,005.1	475.6	(11.0)	1,469.7
Total operating expenses	789.1	294.7	(11.0)	1,072.8
EBITDA	**216.0**	**180.9**	**–**	**396.9**
Depreciation, amortisation and impairment	170.5	49.2	–	219.7
EBIT	**45.5**	**131.7**	**–**	**177.2**
Total assets	1,806.9	1,905.9	(10.0)	3,702.8
Total liabilities	473.0	256.0	(10.0)	719.0
Net assets	**1,333.9**	**1,649.9**	**–**	**2,983.8**
Other segmental information				
Capital expenditure	125.0	59.5	–	184.5
% EBITDA margin	21.5%	38.0%	–	27.0%
% Capital expenditure/revenue	12.4%	12.5%	–	12.6%

Note: Capital expenditure shown above is that reflected in the cash flow statement, which removes the impact of creditors. Total liabilities and net assets exclude Net Interest Bearing Debt.

4.6 MANAGEMENT COMMENTARY ON THE COMBINED GROUP CONSOLIDATED PRO FORMA FINANCIAL INFORMATION

VODAFONE NZ GROUP (TELECOMMUNICATIONS)

The below commentary provides an overview of Vodafone NZ Group's pro forma prospective financial performance for the year ending 30 June 2016 (which incorporates actual results to 29 February 2016 and forecast results for the four months from March 2016 to June 2016).

Telecommunications revenue is forecast to increase by 2.0% to $1,999 million, driven by ongoing market improvements and customer base growth of 0.5% in fixed line and 0.3% in mobile. The key drivers of this increase include:

- fixed line revenues are forecast to increase by 3.5% driven by pricing changes and pass through of regulatory cost increases; a growing share in Enterprise, leveraging the capabilities acquired through the TelstraClear and WorldxChange acquisitions; and the monetisation of core services and demand for high speed data; and
- mobile revenue is forecast to increase by 0.8% as the effects of market improvements continue. Ongoing post-pay customer growth is assumed as a result of the growing demand for data sharing plans; uptake of interest free handset offers; and the benefit of material investments made to improve customer experience.

EBITDA is forecast to increase by 1.9% to $453 million, with the uplift driven by flow through of higher revenue but partially offset by increased investment in customer care, the acquisition of WorldxChange (subsequently renamed Vodafone Next Generation Services Limited) and foreign exchange losses.

SKY GROUP (MEDIA AND ENTERTAINMENT)

Media and Entertainment revenue is assumed to remain stable at $927 million in FY 2016. ARPU has increased driven by a price increase in June 2015 and customers enjoying more services. The ARPU increase has been offset by an assumed decline in year end subscriber numbers to 832,548 driven by challenging technology launches, the completion of the Rugby World Cup 2015 and heightened competition.

EBITDA has reduced due to higher content costs as SKY has secured premium sports, entertainment and movies content such as SANZAAR, New Zealand Cricket, and Disney. There has also been an increase in corporate costs due to the Proposed Transaction and an increase in subscriber management costs as new services were launched.

The software upgrade to MYSKY customers was completed during FY 2016 allowing customers to connect to the internet and view on demand content. In conjunction with this the replacement of older digital decoders with new SKY decoders is well underway and expected to be completed in FY 2017.

SKY also launched a new version of FAN PASS, its OTT sports offering, and continued to promote NEON, its new SVOD offering.

SKY continued to grow its balance sheet with increased capital expenditure (mainly through the purchase of new decoders) and increased programming rights inventory. SKY assumes it will pay a dividend of 30 cents per Share for FY 2016 having paid 15 cents per Share in March 2016.

5.0 NON-GAAP FINANCIAL MEASURES

In order to assist Shareholders to better understand financial performance, four non-GAAP financial measures are used, being EBITDA, EBIT, Operating Free Cash Flow and Net Interest Bearing Debt. These measures are not defined by GAAP and are designed to supplement the GAAP measures presented in the Combined Group, SKY Group and Vodafone NZ Group financial information and not as a substitute for those measures.

EBITDA and EBIT are non-GAAP measures of financial performance and are defined as earnings before interest, taxation, and depreciation, amortisation and impairment and earnings before interest and taxation respectively.

This Appendix Two and the Notice of Meeting and Explanatory Memorandum also presents Operating Free Cash Flow, which is defined as cash generated from operations less capital expenditure, which is a non-GAAP cash flow measure, and Net Interest Bearing Debt, which is defined as bank borrowings, bonds, and finance leases net of cash and cash equivalents, a non-GAAP measure.

Refer to calculations below for non-GAAP financial measures for Combined Group and for SKY Group stand-alone:

	COMBINED GROUP			SKY GROUP	
In NZD millions	Pro forma historical 30 Jun 2015	Pro forma prospective 30 Jun 2016	PFI 30 Jun 2017	Stand-alone prospective 30 Jun 2016	Stand-alone prospective 30 Jun 2017
Net profit for the year			**145.0**		**124.8**
Income tax expense			61.5		52.2
Finance costs, net			71.2		17.7
EBIT[1]	**316.6**	**344.7**	**277.7**	**225.6**	**194.7**
Depreciation, amortisation and impairment	508.2	433.9	495.8	99.6	101.3
EBITDA	**824.8**	**778.6**	**773.5**	**325.2**	**296.0**
Share of associate company losses	0.9	0.9	–	–	–
Non-cash items	1.1	0.6	(1.7)	0.5	0.5
Movement in working capital items	6.5	(22.1)	(3.1)	6.0	3.3
Cash generated from operations	**833.3**	**758.0**	**768.7**	**331.7**	**300.0**
Capital expenditure	431.0	364.0	330.5	126.4	86.9
Operating Free Cash Flow	**402.3**	**394.0**	**438.2**	**205.3**	**213.1**

(1) In SKY Group's stand-alone historical published financial statements, EBIT is reported as 'operating profit'.

	COMBINED GROUP		SKY GROUP	
In NZD millions	Prospective 1 Jul 2016	PFI 30 Jun 2017	Stand-alone prospective 1 Jul 2016	Stand-alone prospective 30 Jun 2017
Cash and cash equivalents	(20.0)	(74.1)	(20.0)	(20.0)
Borrowings	1,296.6	1,520.2	46.6	216.7
Bonds	298.6	98.3	298.6	98.3
Net Interest Bearing Debt	**1,575.2**	**1,544.4**	**325.2**	**295.0**
Ratio of Net Interest Bearing Debt to EBITDA	2.0x	2.0x	1.0x	1.0x

PROSPECTIVE FINANCIAL STATEMENTS

For the year ending 30 June 2017 including:

- **PROSPECTIVE CONSOLIDATED BALANCE SHEET AS AT 1 JULY 2016 (OPENING FINANCIAL POSITION); AND**
- **FULL SET OF PROSPECTIVE FINANCIAL STATEMENTS FOR THE YEAR ENDING, AND AS AT, 30 JUNE 2017.**

6.0 CONSOLIDATED PFI OF THE COMBINED GROUP

6.1 INTRODUCTION

The PFI set out in this section has been prepared by SKY with input from Vodafone NZ Group's management in respect of Vodafone NZ Group's business and contains a prospective consolidated balance sheet as at 1 July 2016 and a full set of prospective consolidated financial statements for the Combined Group for the year to, and as at, 30 June 2017 assuming Completion occurs on 1 July 2016.

Actual results of the Combined Group will differ from the PFI as Completion may not occur on 1 July 2016 and the results prior to Completion will not form part of the Combined Group. The assumed Completion Date was selected for the purposes of preparing the PFI so as to present a full 12 month period to 30 June 2017. Completion may occur later than 1 July 2016 as the regulatory conditions precedent below are unlikely to be satisfied before that date. The Proposed Transaction is subject to a number of conditions precedent contained in the Sale and Purchase Agreement, including:

- Shareholder approval of the Acquisition, the incurrence of the New Debt and the Share Issue;
- SKY and Vodafone each receiving all OIO approvals required for the Acquisition and the Share Issue;
- SKY and Vodafone each receiving all Commerce Commission clearances required for the Acquisition and the Share Issue; and
- all conditions precedent to the drawing of the Loan Facility Agreement in respect of the New Debt, other than those which are outside of SKY's control, being satisfied or waived.

If the conditions are not satisfied (or, if permitted, waived) or if a material adverse change or prescribed breach event occurs in relation to Vodafone NZ or SKY prior to Completion, the Proposed Transaction may not proceed.

The Combined Group PFI is presented on the same basis as that on which the Combined Group intends to report under GAAP in the future. The Combined Group will present a comparison of the PFI with actual financial results in its FY 2017 annual report.

The Combined Group consolidated prospective financial statements include:

- Prospective consolidated balance sheet as at 1 July 2016 reflecting the capital structure and Acquisition accounting.
- Prospective consolidated statement of comprehensive income for the year ending 30 June 2017.
- Prospective consolidated balance sheet as at 30 June 2017.
- Prospective consolidated statement of changes in equity for the year ending 30 June 2017.
- Prospective consolidated statement of cash flows for the year ending 30 June 2017.

The Combined Group prospective financial statements are supported by:

- An explanation of the basis of preparation for the consolidated prospective financial statements.
- Assumptions and notes for the opening financial position for equity, fair value adjustments and goodwill, deferred tax, funding and intercompany transactions.
- Notes to the prospective consolidated financial statements for segmental information, other intangible assets and goodwill, Net Interest Bearing Debt and related parties.
- Significant accounting policies applied.
- A description of the Directors' best-estimate general and specific assumptions that support the PFI.
- An analysis of the sensitivity of the PFI to changes in key specific assumptions.

The information contained in this section is based on the Directors' assessment of events and conditions existing at the date of the Notice of Meeting and Explanatory Memorandum and the accounting policies and assumptions set out later in this section. It is derived from the prospective financial position of Vodafone NZ Group and SKY Group as at 30 June 2016 and the prospective financial performance and position of those groups for the year ending, and as at, 30 June 2017. The PFI reflects the accounting for the Proposed Transaction on the assumption that the Proposed Transaction occurs on 1 July 2016. A summary of the assumptions supporting the PFI and the Proposed Transaction Acquisition accounting entries is presented later in this section 6.0.

6.2 BASIS OF PREPARATION

These prospective consolidated financial statements of the Combined Group have been prepared in accordance with the requirements of Financial Reporting Standard (FRS-42) "Prospective Financial Statements" (subject to the assumed Completion Date, as explained below) specifically in connection with the proposed combination of Vodafone NZ Group and SKY Group and may not be suitable for any other purpose.

The Completion Date is assumed to be 1 July 2016. Whilst the Completion Date is likely to be later than this, the selection of 1 July 2016 as the assumed Completion Date enables the PFI to provide a full year of Combined Group prospective financial performance to 30 June 2017 which is considered the most relevant information for Shareholders.

The prospective financial statements for the year ending 30 June 2017 do not include any actual trading results.

The PFI including the assumptions underlying it has been prepared by the Directors, with input from Vodafone NZ Group's management in respect of Vodafone NZ Group's business, and approved by the Board on 13 June 2016. The underlying stand-alone forecasts for Vodafone NZ Group, including the assumptions underlying them have been approved by the board of directors of Vodafone NZ on 13 June 2016.

The PFI is based on the Board's assessment of events and conditions existing at the date of preparation of this report. PFI by its nature involves risks and uncertainties which are beyond the control of the Board. The Board believes the PFI has been prepared with due care and attention, and considers the best-estimate assumptions to be reasonable at the time of preparing this PFI. However, actual results are likely to differ from the information presented and these differences may be material therefore Shareholders are advised not to place undue reliance on the PFI.

The prospective financial statements are presented in NZD and rounded to the nearest million dollars.

6.3 PROSPECTIVE CONSOLIDATED BALANCE SHEET AS AT 1 JULY 2016

In NZD millions	Notes	Vodafone NZ Group	SKY Group	Acquisition adjustments/ eliminations	Combined Group prospective 1 Jul 2016
Current assets					
Cash and cash equivalents		–	20.0	–	20.0
Trade and other receivables	5	244.7	69.8	(9.2)	305.3
Programme rights inventory		–	78.7	–	78.7
Inventories		29.4	–	–	29.4
Derivative financial instruments		–	10.0	–	10.0
		274.1	**178.5**	**(9.2)**	**443.4**
Non-current assets					
Property, plant and equipment		1,055.6	302.5	–	1,358.1
Other intangible assets		266.9	32.4	421.1	720.4
Goodwill	2	159.0	1,425.3	447.2	2,031.5
Investments		4.6	3,441.9	(3,437.1)	9.4
Deferred tax asset	3	22.6	–	–	22.6
Derivative financial instruments		–	21.0	–	21.0
		1,508.7	**5,223.1**	**(2,568.8)**	**4,163.0**
Total assets		**1,782.8**	**5,401.6**	**(2,578.0)**	**4,606.4**
Current liabilities					
Bonds	4	–	199.9	–	199.9
Trade and other payables	5	405.8	198.9	(9.2)	595.5
Income tax payable		–	14.3	–	14.3
Provisions		4.6	–	–	4.6
Derivative financial instruments		–	1.2	–	1.2
		410.4	**414.3**	**(9.2)**	**815.5**
Non-current liabilities					
Borrowings	4	–	1,296.6	–	1,296.6
Bonds	4	–	98.7	–	98.7
Provisions		30.1	–	–	30.1
Deferred tax	1,3	–	44.1	117.9	162.0
Derivative financial instruments		–	7.9	–	7.9
		30.1	**1,447.3**	**117.9**	**1,595.3**
Total liabilities		**440.5**	**1,861.6**	**108.7**	**2,410.8**
Equity					
Share capital	1	1,337.9	2,764.5	(663.1)	3,439.3
Hedging reserve	1	–	15.8	(15.8)	-
Distribution to Vodafone	1	–	–	(1,250.0)	(1,250.0)
Share based payment reserve	1	10.5	–	–	10.5
Retained earnings	1	(6.1)	757.8	(757.8)	(6.1)
Total equity attributable to equity holders of the Combined Group		**1,342.3**	**3,538.1**	**(2,686.7)**	**2,193.7**
Non-controlling interest		–	1.9	–	1.9
Total equity		**1,342.3**	**3,540.0**	**(2,686.7)**	**2,195.6**
Total equity and liabilities		**1,782.8**	**5,401.6**	**(2,578.0)**	**4,606.4**

Note: The balance sheet presented above for 1 July 2016 differs from the segment reporting as at 30 June 2016, as it includes the impact of Acquisition accounting.

6.4 ASSUMPTIONS AND NOTES FOR THE OPENING FINANCIAL POSITION

For the purposes of this Appendix Two and the Notice of Meeting and Explanatory Memorandum, and in order to demonstrate the impact of the Acquisition accounting, SKY has assessed the fair value of the Acquisition based on the best information currently available. The fair value of the Acquisition is based on the fair value of the Shares. For the purposes of this Appendix Two and the Notice of Meeting and Explanatory Memorandum the best available information is the $5.40 per Share that has been agreed between SKY and Vodafone. The final Acquisition accounting will be based on the Share price at the Completion Date. Further, SKY has performed a preliminary fair value assessment of all of the assets, liabilities and contingent liabilities of SKY, and the difference between the fair value of consideration transferred as at 1 July 2016 has been allocated to brands ($67 million), customer relations ($354 million), deferred tax liability ($118 million) and the remainder to goodwill ($1,873 million) – refer note 2 "Other intangible assets and goodwill" in section 6.7 headed "Notes to the consolidated prospective financial statements" on page 36 of this Appendix Two. The Combined Group will undertake a formal fair value assessment post Completion, which may give rise to a different fair value allocation to that used for the purposes of the PFI set out in this Appendix Two. This could have an impact on both the calculation, and allocation of, the fair value of the consideration transferred as at 1 July 2016, as well as the amortisation charge in the Statement of Comprehensive Income.

1. EQUITY

The prospective equity includes Acquisition adjustments that reflect Vodafone as the acquirer and the issue of Share capital to the new equity owner. The equity of Vodafone NZ Group has been adjusted to reflect the conversion of the Vodafone loan to equity. The Combined Group equity comprises the value of the equity of Vodafone NZ Group at the Completion Date and the fair value of the Shares issued to the new equity owner. Retained earnings comprises Vodafone NZ Group retained earnings at the Completion Date less the payment of $1,250 million paid to the new equity owner as part of the transaction price.

Adjustments to equity are described in the following table:

In NZD millions	SKY Group	Vodafone NZ Group	Combined Group
Share capital at 30 June 2016 pre Proposed Transaction	**577.4**	**454.6**	**1,032.0**
Share capital Proposed Transaction adjustments			
Share capital issued to Vodafone(1) (2)	2,187.1	–	2,187.1
Vodafone loan converted to equity	–	883.3	883.3
SKY Share capital eliminated on Acquisition	(663.1)	–	(663.1)
Share capital as at 1 July 2016	**2,101.4**	**1,337.9**	**3,439.3**
Retained earnings and reserves pre Proposed Transaction	**773.6**	**4.4**	**778.0**
Distribution to Vodafone(2)	(1,250.0)	–	(1,250.0)
SKY retained earnings and hedging reserve eliminated on Acquisition	(773.6)	–	(773.6)
Retained earnings as at 1 July 2016	**(1,250.0)**	**4.4**	**(1,245.6)**
Equity attributable to Shareholders at 1 July 2016			**2,193.7**

(1) Current Shares on issue total 389,140,785 (49% of the new structure). The Proposed Transaction issues 405,023,041 new Shares at a price of $5.40 ($2,187.1 million – 51%) to give a total number of Shares on issue of 794,162,826.

(2) The Share capital issued to the acquirer and the distribution to Vodafone together total $3,437.1 million which represents the cost of investment in SKY's stand-alone 1 July 2016 balance sheet.

It is assumed that minority buy-out rights will have no material impact on equity, debt and the PFI as a whole.

6.4 ASSUMPTIONS AND NOTES FOR THE OPENING FINANCIAL POSITION (CONTINUED)

2. FAIR VALUE ADJUSTMENTS AND GOODWILL

At the Completion Date in accordance with NZ IFRS 3, the identifiable assets and liabilities of the accounting acquiree (SKY Group) are required to be recognised in the financial statements of the Combined Group at their fair values. Goodwill will arise on the difference between the fair value of the consideration transferred (the Shares issued to the new equity owner) and the Completion Date fair value of the assets and liabilities of SKY Group.

The fair values of the identifiable assets and liabilities as at 1 July 2016 and the resulting goodwill arising from the business combination are shown for indicative purposes in the prospective balance sheet. The fair value adjustments currently anticipated include the fair value of brand and customer relations intangibles and related deferred tax. The actual fair values at the Completion Date may differ from the estimates shown at 1 July 2016, including as a result of the undertaking of the formal fair value assessment post Completion as referred to above.

The valuation of customer relations is based on the income approach using the excess earnings method. Fair value is derived from the current value of cash flows expected to be earned over the remainder of the economic life of the asset. The cash flows are adjusted for contributory charges relating to the use of SKY Group's assets. The valuation is sensitive to changes in growth estimates and the operating profit margins.

Brand valuation has been based on the relief from royalties' method which applies a royalty rate of 1.5% to discounted revenue projections. The valuation is sensitive to changes in the royalty rate.

The valuations for customer relations and brands have assumed a growth rate of 2% and a discount rate of 9% and are based on an economic life of nine years.

SKY Group has determined that the current book value of its property, plant, equipment and intangible assets is a reasonable approximation of fair value. The following are the fair value adjustments arising from a review of SKY Group's assets and liabilities:

In NZD millions	Combined Group prospective 1 Jul 2016
Fair value of consideration transferred in relation to issue of Shares	2,101.4
Cash payment to Vodafone	1,250.0
Total consideration transferred	**3,351.4**
Assets acquired	
SKY Group net assets excluding goodwill	(74.3)
Other intangible assets:	
Brand	66.9
Customer relations	354.2
Deferred tax	(117.9)
Fair value of assets acquired	**228.9**
Add payment to Vodafone	1,250.0
Total allocation of Acquisition price	**1,478.9**
Balance to goodwill	**1,872.5**
Add historical goodwill Vodafone NZ Group	159.0
Total goodwill	**2,031.5**

Note: The fair value of the consideration transferred effected by issue of Shares to Vodafone of $2,101.4 million is based on the number of Shares Shareholders hold on the Completion Date (being 49% of the Combined Group) valued at the fair value price of the Shares on the Completion Date which is assumed to be $5.40. The consideration ultimately paid will be based on the Completion Date fair value.

6.4 ASSUMPTIONS AND NOTES FOR THE OPENING FINANCIAL POSITION (CONTINUED)

3. DEFERRED TAX

Any changes to the fair value of assets acquired in a business combination result in an adjustment to deferred tax at a rate of 28%. The deferred tax relating to the fair value adjustments is shown in the table below. In addition Vodafone NZ Group has not previously reported deferred tax in its financial statements. Therefore an adjustment for deferred tax has been included in the opening balance sheet. The deferred tax balance as at 1 July 2016 and the impact of the adjustments to deferred tax arising on Acquisition are summarised as follows:

In NZD millions	SKY Group	Vodafone NZ Group
Vodafone NZ Group deferred tax asset not previously reported	–	22.6
SKY Group deferred tax	(44.1)	–
Deferred tax on SKY Group fair value adjustments	(117.9)	–
Deferred tax balances at 1 July 2016	**(162.0)**	**22.6**
Adjustment to goodwill as at 1 July 2016	117.9	–
Adjustment to retained earnings as at 1 July 2016	–	(22.6)

4. FUNDING

In order to fund its obligation to pay $1.25 billion in cash to Vodafone on Completion, in partial satisfaction of the purchase price for the Acquisition, to pay Transaction Costs, to repay its existing bank debt facilities at Completion if required (but excluding the $100 million of bonds which will remain outstanding at and following Completion), and to fund the Combined Group's ongoing working capital needs following Completion, SKY will, subject to Completion occurring contemporaneously, incur the New Debt. The New Debt will replace all of SKY's existing debt facilities at Completion other than bonds outstanding at that time. SKY has entered into a facility agreement with Vodafone Overseas Finance Limited for the New Debt, being an amount not exceeding $1.8 billion. The Board considers that the terms of the New Debt offered by Vodafone Overseas Finance Limited are attractive, but have retained the right to replace this debt, or the revolving credit facility portion of it, from one or more third parties subject to certain conditions. For more details of the New Debt see the section 7 headed "Details of the Proposed Transaction and transaction documents" under the sub-heading "Summary of Acquisition funding" on page 50 of the Notice of Meeting and Explanatory Memorandum.

The funding reflected in the prospective opening balance sheet represents the SKY Group's total debt existing at Completion plus additional funding through the incurrence of the New Debt. For further details on Net Interest Bearing Debt, refer note 3 "Net Interest Bearing Debt" in section 6.7 headed "Notes to the consolidated prospective financial statements" on page 36 of this Appendix Two. Previously Vodafone NZ Group was funded by a loan from Vodafone Group, $883 million of which is assumed to be converted to equity (refer note 1 "Equity" in this section on page 27).

The $200 million ($199.9 million carrying value) bond maturing in October 2016 is assumed to be repaid on 16 October 2016 utilising the revolving credit facility. In addition the SKY Group has a $100 million ($98.7 million carrying value) bond maturing on 31 March 2021.

For further details on assumptions relating to Net Interest Bearing Debt and finance costs, refer section 6.9 headed "Specific assumptions utilised for preparation of PFI" on page 45 of this Appendix Two.

5. INTERCOMPANY TRANSACTIONS

The following table shows the intercompany balances eliminated from the opening balance sheet. Intercompany transactions between Vodafone NZ Group and SKY Group have been eliminated from the prospective financial statements. These include transactions relating to the reseller and retransmission agreements between Vodafone NZ and SKY as well as the provision of mobile phone services to SKY. Transactions with Vodafone Group are disclosed as related party transactions.

In NZD millions	SKY Group	Vodafone NZ Group
Trade receivables	9.2	–
Trade payables	–	9.2

6.5 PROSPECTIVE FINANCIAL STATEMENTS

PROSPECTIVE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDING 30 JUNE 2017

In NZD millions	Notes	Combined Group PFI 30 Jun 2017
Total revenue	1	**2,914.3**
Expenses		
Operating expenses	1,4	2,140.8
EBITDA	1	**773.5**
Depreciation, amortisation and impairment	1	495.8
EBIT	1	**277.7**
Finance costs, net		71.2
Profit before tax		**206.5**
Income tax expense	1	61.5
Profit for the year	1	**145.0**
Attributable to		
Equity holders of the Combined Group		144.7
Non-controlling interests		0.3
		145.0
Earnings per Share		
Basic and diluted earnings per Share (cents)		18.2
OTHER COMPREHENSIVE INCOME		
Profit for the year		145.0
Items that may be reclassified subsequently to profit and loss:		
Cash flow hedges		(4.9)
Income tax effect		1.4
Other comprehensive income for the year, net of income tax		(3.5)
Total comprehensive income for the year		**141.5**
Attributable to:		
Equity holders of the Combined Group		141.2
Non-controlling interest		0.3
		141.5

6.5 PROSPECTIVE FINANCIAL STATEMENTS (CONTINUED)

PROSPECTIVE CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2017

In NZD millions	Notes	Combined Group PFI 30 Jun 2017	Combined Group prospective 1 Jul 2016
Current assets			
Cash and cash equivalents	3	74.1	20.0
Trade and other receivables		315.8	305.3
Programme rights inventory		74.8	78.7
Inventories		30.9	29.4
Derivative financial instruments		5.3	10.0
		500.9	**443.4**
Non-current assets			
Property, plant and equipment		1,342.2	1,358.1
Other intangible assets	2	573.3	720.4
Goodwill	2	2,031.9	2,031.5
Investments		9.4	9.4
Deferred tax		38.8	22.6
Derivative financial instruments		15.7	21.0
		4,011.3	**4,163.0**
Total assets	1	**4,512.2**	**4,606.4**
Current liabilities			
Bonds	3	–	199.9
Trade and other payables	4	609.8	595.5
Income tax payable		13.7	14.3
Provisions		6.4	4.6
Derivative financial instruments		1.5	1.2
		631.4	**815.5**
Non-current liabilities			
Borrowings	3	1,520.2	1,296.6
Bonds	3	98.3	98.7
Provisions		20.1	30.1
Deferred tax		141.6	162.0
Derivative financial instruments		2.5	7.9
		1,782.7	**1,595.3**
Total liabilities	1	**2,414.1**	**2,410.8**
Equity			
Share capital		3,439.3	3,439.3
Hedging reserve		12.3	-
Share based payment reserve		9.9	10.5
Retained earnings		(1,365.6)	(1,256.1)
Total equity attributable to equity holders of the Combined Group		**2,095.9**	**2,193.7**
Non-controlling interest		2.2	1.9
Total equity		**2,098.1**	**2,195.6**
Total equity and liabilities		**4,512.2**	**4,606.4**

6.5 PROSPECTIVE FINANCIAL STATEMENTS (CONTINUED)

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDING 30 JUNE 2017

	Attributable to owners of the Combined Group						
In NZD millions	Share capital	Share based payments reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 July 2016(1)	**1,915.3**	**10.5**	**15.8**	**751.7**	**2,693.3**	**1.9**	**2,695.2**
Transaction adjustments	2,187.1	–	–	(1,250.0)	937.1	–	937.1
Elimination SKY Group equity(2)	(663.1)	–	(15.8)	(757.8)	(1,436.7)	–	(1,436.7)
Adjusted opening balance	**3,439.3**	**10.5**	**–**	**(1,256.1)**	**2,193.7**	**1.9**	**2,195.6**
Profit for the year	–	–	-	144.7	144.7	0.3	145.0
Cash flow hedges, net of tax	–	–	12.3	(15.8)	(3.5)	–	(3.5)
Total comprehensive income for the year	**–**	**–**	**12.3**	**128.9**	**141.2**	**0.3**	**141.5**
Transactions with owners in their capacity as owners							
Movement in share based payment reserve	–	(0.6)	–	–	(0.6)	–	(0.6)
Dividend paid	–	–	–	(238.4)	(238.4)	–	(238.4)
Supplementary dividends	–	–	–	(14.9)	(14.9)	–	(14.9)
Foreign investor tax credits	–	–	–	14.9	14.9	–	14.9
Movement in year	**–**	**(0.6)**	**–**	**(238.4)**	**(239.0)**	**–**	**(239.0)**
Balance at 30 June 2017	**3,439.3**	**9.9**	**12.3**	**(1,365.6)**	**2,095.9**	**2.2**	**2,098.1**

(1) Opening Share capital of $1,915.3 million includes SKY's Share capital of $577.4 million plus Vodafone NZ Group's share capital of $1,337.9 million.

(2) Elimination of SKY Group Share capital of $663.1 million includes $577.4 million plus $85.7 million being the difference between the value of the Shares issued to Vodafone of $2,187.1 million (refer note 1 "Equity" in section 6.4 headed "Assumptions and notes for the opening financial position" on page 27 of this Appendix Two) and the fair value of the consideration transferred effected by issue of Shares to Vodafone of $2,101.4 million (refer note 2 "Fair value adjustments and goodwill" in section 6.4 headed "Assumptions and notes for the opening financial position" on page 28 of this Appendix Two).

6.5 PROSPECTIVE FINANCIAL STATEMENTS (CONTINUED)

PROSPECTIVE CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDING 30 JUNE 2017

In NZD millions	Notes	Combined Group PFI 30 Jun 2017
Cash flows from operating activities		
Profit before tax		206.5
Adjustments for:		
Depreciation, amortisation and impairment		495.8
Interest expense		71.2
Amortisation of bond issue costs		0.4
Movement in share based payments reserve		(0.6)
Other non-cash items		(1.5)
Movement in working capital items:		
Increase in receivables		(10.6)
Increase in payables		5.2
Increase in inventory		(1.5)
Decrease in programme rights		3.8
Cash generated from operations		**768.7**
Interest paid		(71.7)
Income tax paid		(97.4)
Net cash from operating activities		**599.6**
Cash flows from investing activities		
Acquisition of property, plant, equipment and intangibles	1	(330.5)
Net cash used in investing activities		**(330.5)**
Cash flows from financing activities		
Repayment of bond	3	(200.0)
Advances received – loans	3	1,488.5
Distribution to Vodafone		(1,250.0)
Payment of bank facility fees		(0.2)
Dividends paid		(253.3)
Net cash used in financing activities		**(215.0)**
Net increase in cash and cash equivalents		**54.1**
Cash and cash equivalents at beginning of year		20.0
Cash and cash equivalents at end of year		**74.1**

6.6 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in preparing the Combined Group PFI are the same as the accounting policies set out in SKY Group's audited financial statements for the year ended 30 June 2015 which are available on SKY's website **www.skytv.co.nz/investor**.

The following new accounting policies have also been applied for the Combined Group financial information.

BASIS OF CONSOLIDATION

The Proposed Transaction is a business transaction that is required to be accounted for in accordance with NZ IFRS 3 Business combinations. For accounting purposes the Proposed Transaction has been treated as a reverse acquisition because the previous owner of Vodafone NZ Group, Vodafone will obtain a controlling interest in SKY as a consequence of the Proposed Transaction and therefore Vodafone NZ has been identified as the acquirer. A reverse acquisition is said to have occurred when the entity that issues securities (the legal acquirer) is identified as the acquiree for accounting purposes. The Completion Date is assumed to be 1 July 2016.

NETWORK ASSETS

The amounts paid for network licences and additional Spectrum licences are amortised over the period of the licences on a straight line basis. The amortisation commences from the date of network acceptance, which is when the network is technically ready to operate the commercial service. Where a network is progressively brought into full service over a period of time, the initial amortisation is in proportion to the capacity of the network compared to that expected at network maturity.

BRANDS

Brands acquired, separately or as part of a business combination, are capitalised if they meet the definition of an intangible asset and the recognition criteria are satisfied. Brands acquired as part of a business combination are valued at fair value based on the royalty relief method.

CUSTOMER RELATED AND CONTRACT BASED INTANGIBLES

Customer related and contract based intangibles acquired in a business combination are capitalised if they meet the definition of an intangible asset and the recognition criteria are satisfied. If the amounts are not material these are included in the brand valuation. The relationship between brands and customer related intangibles is carefully considered so that brands and customer related intangibles are not both recognised on the basis of the same cash flows.

SHARE BASED PAYMENTS

The Combined Group issues both restricted and unrestricted shares in Vodafone Plc to certain eligible employees under retention and incentive schemes.

The fair value of shares granted under the scheme is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at the grant date and recognised over the period during which the employees become unconditionally entitled to the shares.

GOVERNMENT GRANTS

Government grants whose primary condition is that the Combined Group should purchase, construct or otherwise acquire non-current assets are recognised by deducting the amount from the net carrying value of the asset in the balance sheet. Government grants are not recognised until there is reasonable assurance that the Combined Group will comply with the conditions attached to them and that the grants will be received.

6.7 NOTES TO THE CONSOLIDATED PROSPECTIVE FINANCIAL STATEMENTS

1. SEGMENTAL INFORMATION

Segmental information is required to be reported in a manner consistent with internal reporting provided to the Combined Group's chief operating decision makers. Historically both parties have each reported as a single operating segment.

For management purposes, it is assumed the Combined Group will be organised into two operating segments, based on the different products and services offered, as follows:

Segment	Activity
Telecommunications	Telecommunications service provision in New Zealand (the legacy Vodafone NZ Group business)
Media and Entertainment	The provision of multi-channel Media and Entertainment services in New Zealand (the legacy SKY business)

The Combined Group operates primarily in New Zealand and has no external customer for which revenue amounts to 10% or more of total revenue.

Segment results include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items in the profit or loss comprise mainly financing income and expenses and income tax expense.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

FOR THE YEAR ENDING, AND AS AT, 30 JUNE 2017

In NZD millions	Telecoms	Media and Entertainment	Eliminations and adjustments	Combined Group PFI
Total revenue	2,024.3	920.4	(30.4)	2,914.3
Total operating expenses	1,545.0	624.4	(28.6)	2,140.8
EBITDA	**479.3**	**296.0**	**(1.8)**	**773.5**
Depreciation, amortisation and impairment	310.3	101.3	84.2	495.8
EBIT	**169.0**	**194.7**	**(86.0)**	**277.7**
Finance costs, net	–	17.7	53.5	71.2
Profit before tax	**169.0**	**177.0**	**(139.5)**	**206.5**
Tax	48.4	52.2	(39.1)	61.5
Net profit	**120.6**	**124.8**	**(100.4)**	**145.0**
Total assets	1,923.1	1,937.6	651.5	4,512.2
Total liabilities	460.8	1,830.3	123.0	2,414.1
Net assets	**1,462.3**	**107.3**	**528.5**	**2,098.1**
Other segmental information				
Capital expenditure	206.1	86.9	37.5	330.5
% EBITDA margin	23.7%	32.2%	–	26.5%
% Capital expenditure/revenue	10.2%	9.4%	–	11.3%

Note: Capital expenditure shown above is that reflected in the cash flow statement, which removes the impact of creditors (this excludes Acquisition adjustments additions to intangible assets and goodwill). Eliminations net to $nil impact on EBITDA. Adjustments reduce EBITDA by $1.8 million and relate to integration costs and synergy benefits (refer section 6.9 headed "Specific assumptions utilised for preparation of PFI" under the assumption "Combined Group integration costs and synergy benefits" on page 42 of this Appendix Two).

6.7 NOTES TO THE CONSOLIDATED PROSPECTIVE FINANCIAL STATEMENTS (CONTINUED)

2. OTHER INTANGIBLE ASSETS AND GOODWILL

In NZD millions	Other intangible assets	Customer base Vodafone NZ Group	Customer base SKY Group	Brand	Total other intangible assets	Goodwill	Total other intangible assets and goodwill
Cost							
Opening balance Vodafone NZ Group	1,417.8	105.8	–	–	1,523.6	159.0	1,682.6
Acquired on 1 July 2016	32.4	–	354.2	66.9	453.5	1,872.5	2,326.0
Balance at 1 July 2016	**1,450.2**	**105.8**	**354.2**	**66.9**	**1,977.1**	**2,031.5**	**4,008.6**
Additions during the year	48.9	–	–	–	48.9	0.4	49.3
Balance at 30 June 2017	**1,499.1**	**105.8**	**354.2**	**66.9**	**2,026.0**	**2,031.9**	**4,057.9**
Accumulated amortisation							
Opening balance Vodafone NZ Group	1,185.5	71.2	–	–	1,256.7	–	1,256.7
Amortisation for the year	99.1	12.7	70.8	13.4	196.0	–	196.0
Balance at 30 June 2017	**1,284.6**	**83.9**	**70.8**	**13.4**	**1,452.7**	**–**	**1,452.7**
Net book value at 1 July 2016	**264.7**	**34.6**	**354.2**	**66.9**	**720.4**	**2,031.5**	**2,751.9**
Net book value at 30 June 2017	**214.5**	**21.9**	**283.4**	**53.5**	**573.3**	**2,031.9**	**2,605.2**

3. NET INTEREST BEARING DEBT

	30 Jun 2017			1 Jul 2016		
In NZD millions	Current	Non-current	Total	Current	Non-current	Total
New Debt	–	1,250.0	1,250.0	–	1,250.0	1,250.0
Borrowings	–	270.2	270.2	–	46.6	46.6
Total borrowings	**–**	**1,520.2**	**1,520.2**	**–**	**1,296.6**	**1,296.6**
Bonds	–	98.3	98.3	199.9	98.7	298.6
Total debt	**–**	**1,618.5**	**1,618.5**	**199.9**	**1,395.3**	**1,595.2**
Cash and cash equivalents	(74.1)	–	(74.1)	(20.0)	–	(20.0)
Net Interest Bearing Debt	**(74.1)**	**1,618.5**	**1,544.4**	**179.9**	**1,395.3**	**1,575.2**

	30 Jun 2017	1 Jul 2016	
In NZD millions	Bond B	Bond A	Bond B
Nominal interest rate	6.25%	3.38%	6.25%
Issue date	31-Mar-14	16-Oct-06	31-Mar-14
Date of maturity	31-Mar-21	16-Oct-16	31-Mar-21
Face value	100.0	200.0	100.0

In order to fund its obligation to pay $1.25 billion in cash to Vodafone on Completion, in partial satisfaction of the purchase price for the Acquisition, to pay Transaction Costs, to repay its existing bank debt facilities at Completion if required (but excluding the $100 million of bonds which will remain outstanding at and following Completion), and to fund the Combined Group's ongoing working capital needs following Completion, SKY will, subject to Completion occurring contemporaneously, incur the New Debt. The New Debt will replace all of SKY's existing debt facilities at Completion other than bonds outstanding at that time. SKY has entered into a facility agreement with Vodafone Overseas Finance Limited for the New Debt, being an amount not exceeding $1.8 billion. The Board considers that the terms of the New Debt offered by Vodafone Overseas Finance Limited are attractive, but have retained the right to replace this debt, or the revolving credit facility portion of it, from one or more third parties subject to certain conditions. For more details of the New Debt see section 7 headed "Details of the Proposed Transaction and transaction documents" under the sub-heading "Summary of Acquisition funding" on page 50 of the Notice of Meeting and Explanatory Memorandum.

6.7 NOTES TO THE CONSOLIDATED PROSPECTIVE FINANCIAL STATEMENTS (CONTINUED)

The total debt reflected in the prospective opening balance sheet (as at 1 July 2016) represents SKY Group's total debt existing at Completion plus additional funding through the incurrence of the New Debt.

The $200 million ($199.9 million carrying value) bond maturing in October 2016 is assumed to be repaid on 16 October 2016 utilising the revolving credit facility. In addition the SKY Group has a $100 million ($98.7 million carrying value) bond maturing on 31 March 2021.

During the year ending 30 June 2017 cash flows are assumed relating to the repayment of bonds of $200 million and total advances received (including New Debt) of $1,488.5 million.

For further details on assumptions relating to Net Interest Bearing Debt (including existing debt, New Debt and related finance costs), refer section 6.9 headed "Specific assumptions utilised for preparation of PFI" on page 45 of this Appendix Two.

4. RELATED PARTIES

The immediate parent of the Combined Group is Vodafone. The ultimate parent entity of the Combined Group is Vodafone Plc. Unless otherwise stated, related parties are under common control of the ultimate parent entity.

In NZD millions	30 Jun 2017	30 Jun 2016
Transactions included in the income statement		
Purchase of goods and services from Vodafone Group	159.0	155.7
Interest paid to Vodafone Group	53.5	–
Transactions included in the balance sheet		
New Debt	1,250.0	–
Owing to affiliates of Vodafone Group	16.1	16.8

6.8 GENERAL ASSUMPTIONS UTILISED FOR PREPARATION OF PFI

The best-estimate general assumptions are summarised below and should be read in conjunction with section 6 headed "Key risks" on pages 44 to 49 of the Notice of Meeting and Explanatory Memorandum.

Changes which occur in the following areas may have a significant impact on the Combined Group's financial performance and position. For the consolidated PFI it is assumed there will be no material changes in the following:

- the economic environment in which the Combined Group operates;
- the political, legislative and regulatory environment in which the Combined Group operates;
- the competitive environment;
- the tax laws and tax rates;
- industry conditions and ability to operate;
- key suppliers and customers;
- financial and operating policies;
- the operating environment in which the Combined Group operates;
- associates, joint ventures, subsidiaries with no business acquisitions or disposals;
- changes in accounting standards and interpretations; and
- key personnel required to manage and operate the Combined Group.

6.9 SPECIFIC ASSUMPTIONS UTILISED FOR PREPARATION OF PFI

PFI for the Combined Group for the year ending 30 June 2016 has been based on actual results for the period to 29 February 2016 and prospective information for the four months to 30 June 2016. Detailed assumptions relating to the consolidated PFI for FY 2016 and FY 2017 are described below.

REVENUE

In NZD millions	Notes	Pro forma historical 30 Jun 2015	Pro forma prospective 30 Jun 2016	PFI 30 Jun 2017
Media and Entertainment				
Residential satellite subscriptions	1	760.0	751.5	734.7
Other subscriptions	2	71.2	78.9	91.7
Advertising	3	69.5	74.0	69.3
Other revenue	4	26.8	22.2	24.7
Total Media and Entertainment revenue		**927.5**	**926.6**	**920.4**
Telecommunications				
Enterprise mobile		431.8	409.3	405.5
Enterprise fixed line		330.4	338.0	363.7
Enterprise	5	**762.2**	**747.3**	**769.2**
Consumer mobile		624.0	655.4	662.7
Consumer fixed line		424.8	430.2	445.5
Consumer	6	**1,048.8**	**1,085.6**	**1,108.2**
Wholesale and other	7	**148.9**	**165.9**	**146.9**
Total Telecommunications revenue		**1,959.9**	**1,998.8**	**2,024.3**
Eliminations	8	(19.8)	(22.1)	(30.4)
Total Combined Group revenue		**2,867.6**	**2,903.3**	**2,914.3**

Note: Telecommunications total revenue includes customer service revenue and other non-service revenue (equipment, acquisition and retention). Mobile service revenue includes mobile customer revenue, mobile incoming and other (e.g. machine to machine and late payment fees). Mobile customer revenue includes in package and out of package revenues from customers in the provision of mobile services such as voice, messaging and data. Mobile incoming relates to termination revenue from voice calling (from landlines, other mobiles and international) and SMS from customers on other networks to Vodafone NZ Group customers. Fixed line revenue includes access, broadband, voice, television, cloud/hosting, IP-VPN, security and prepaid calling card revenues.

MEDIA AND ENTERTAINMENT CUSTOMERS AND ARPU

	Pro forma historical 30 Jun 2015	Pro forma prospective 30 Jun 2016	PFI 30 Jun 2017
Subscriber numbers (000's)	851.6	832.5	845.1
ARPU (NZD per month)	79.5	78.7	78.6

- **Subscriber numbers** are based on closing subscriber numbers including commercial subscribers, subscribers to OTT and other services such as NEON, FAN PASS and IGLOO and subscribers to programmed music and online DVD rentals.
- **ARPU** is based on average monthly revenue per residential subscriber. Pro forma prospective 30 June 2016 and PFI 30 June 2017 includes NEON, FAN PASS and IGLOO (not included in pro forma historical 30 June 2015).

6.9 SPECIFIC ASSUMPTIONS UTILISED FOR PREPARATION OF PFI (CONTINUED)

TELECOMMUNICATIONS CUSTOMER CONNECTIONS

Connections (000's)	Pro forma historical 30 Jun 2015	Pro forma prospective 30 Jun 2016	PFI 30 Jun 2017
Pre-pay mobile	1,471.2	1,409.9	1,382.2
Post-pay mobile	874.5	942.3	1,002.7
Total mobile	2,345.7	2,352.2	2,384.9
Fixed line	506.7	509.1	522.9
Total Telecommunications customer connections	**2,852.4**	**2,861.3**	**2,907.8**

TELECOMMUNICATIONS ARPU

ARPU (NZD per month)	Pro forma historical 30 Jun 2015	Pro forma prospective 30 Jun 2016	PFI 30 Jun 2017
Pre-pay mobile	12.9	12.6	12.8
Post-pay mobile	60.5	55.4	51.4

Note: Customer ARPU uses customer service revenue and is calculated using the average annual customer base.

MEDIA AND ENTERTAINMENT REVENUE

1. **Residential satellite subscription revenue** consists of MYSKY customers and digital customers and includes revenue earned from basic and premium channels, monthly decoder rental, high definition charges, pay-per-view events, multi room packages and SKYWatch magazine subscriptions. Growth of MYSKY customers which has historically been strong is assumed to be steady at 1.8% in 2016 with an assumed 3.6% increase for FY 2017. MYSKY penetration is forecast to grow from 77.3% at 30 June 2016 to 83.0% by 30 June 2017.

   Historically the decrease in digital subscribers is driven by a mixture of customers upgrading to MYSKY or leaving SKY. This is assumed to continue as new MYSKY capable decoders are launched. The level of subscribers assumes a continued decline in satellite subscribers. The historical increase in ARPU reflects the increase in the number of premium services sold to subscribers and price increases levied on the various packages which are reset annually and are set to continue in the prospective period.

2. **Other subscription revenue** consists of commercial subscribers such as hotels and pubs, SKY Music subscribers, residential customers subscribing to other SKY products such as NEON (launched in February 2015) and FAN PASS (launched in February 2015) and revenue relating to the retransmission of SKY content to customers on Vodafone NZ Group's HFC Network and the UFB network.

   Commercial subscriber revenue and SKY Music revenue is assumed to grow with planned higher price increases already communicated to customers with minimal customer growth as these services already enjoy acceptable penetration of their target markets.

   Retransmission revenue has historically been stable. However the upward trend experienced in FY 2015 and FY 2016 is assumed to continue through FY 2017 due to better pricing and marketing initiatives and the nationwide uptake of UFB. This revenue is eliminated for the Combined Group as it is included within Vodafone NZ Group's forecasts.

3. **Advertising revenue** is significantly impacted by the broadcasting of large events such as the Commonwealth Games, the Cricket World Cup (FY 2014 and FY 2015) and the Summer Olympics (FY 2017). There is also a recurring element of advertising revenue, which is earned through day to day broadcasting. This increases in FY 2016 due to the Rugby World Cup and is based on the run rate and known events. In FY 2017 revenues are assumed to decrease despite the Summer Olympics as this is not expected to offset the significant revenue earned from the Rugby World Cup in FY 2016.

4. **Other revenue** consists of installation revenue, fees paid by content producers to broadcast on SKY channels, revenue earned from outside broadcasting services and other miscellaneous revenues. Installation revenue is assumed to remain at historical levels due to existing market penetration assumed to remain stable. Other revenues have decreased in the historical period and are assumed to continue decreasing in FY 2016 with 11.3% growth assumed for FY 2017 due to the partnership with Vodafone NZ Group meaning content is available to more customers in more formats and on more devices.

6.9 SPECIFIC ASSUMPTIONS UTILISED FOR PREPARATION OF PFI (CONTINUED)

TELECOMMUNICATIONS REVENUE

Telecommunications revenue for FY 2016 has been forecast based on the eight months to 29 February 2016 by product type and business unit, and for significant classes of revenue (voice, messaging, data, other).

Telecommunications revenue for FY 2017 has been forecast based on customer and ARPU expectations, with reference to expected market growth. The forecast assumes:

- market improvements and consistent pass through of regulatory cost increases;
- ongoing investment in customer experience improving both customer satisfaction and retention;
- monetisation of core services and responding to customer demand for high speed data through expansion in UFB and Vodafone NZ Group's own HFC Network; and
- growing share in Vodafone NZ Group's Enterprise business, harnessing the capabilities acquired through TelstraClear and WorldxChange acquisitions.

5. **Enterprise revenue** is forecast to increase by 2.9% in FY 2017, compared to a 2.0% decrease in FY 2016, primarily driven by competitive pressures. This increase is driven by:
   - Mobile: historically revenues have been impacted by the intensely competitive nature of the New Zealand business market. With market improvement, ARPU erosion is expected to slow. Mobile revenues are forecast to reduce by 0.9% against FY 2016 but with connections growth driven by:
     - growing connection penetration of the existing customer base through the growth of new products such as Red Share;
     - leveraging opportunities in Unified Communications through new product offerings and offering interest free handsets to drive growth in small business customers; and
     - growing market share in the Government sector and TaaS.
   - Fixed line: revenues are forecast to grow by 7.6% in FY 2017, improving from a 2.3% increase in FY 2016. Key drivers of this growth include:
     - deployment of FY 2016 new business wins;
     - notified price increases from the pass through of regulatory and input costs;
     - expansion in newly acquired WorldxChange capability (rebranded VNGS) and a subsequent reporting reclassification of Wholesale revenue associated with VNGS; and
     - monetising the demand for high speed data with UFB as the preferred access technology.
6. **Consumer revenue** is forecast to grow by 3.5% in FY 2016 and by 2.1% in FY 2017.
   - Mobile: revenue is forecast to increase by 5.0% in FY 2016 and by 1.1% in FY 2017 driven by strong momentum in post-pay mobile, with continued pre-to-post migrations and total customer growth, supported by the growing demand for data sharing plans and family products; uptake of interest free handset offers; and the benefit of material investments made to improve customer experience.
   - Fixed line: revenue is forecast to increase by 1.3% in FY 2016 and a further 3.6% in FY 2017, principally driven by customer growth responding to the UFB rollout across New Zealand and Vodafone NZ Group's own HFC Network upgrade (available in Christchurch, Wellington and the Kapiti Coast) to grow the customer base.
7. **Wholesale and other revenue** is forecast to increase by 11.4% in FY 2016 and then decrease by 11.4% in FY 2017. This is due to the acquisition in FY 2016 of WorldxChange and a subsequent reporting reclassification, whereby associated revenue, recognised as part of Wholesale and other revenue in FY 2016, has been more accurately allocated to Enterprise and Consumer business units in FY 2017.

   Assumed national roaming revenue factors in new contractual arrangements signed in early 2016. Fixed line revenues are forecast to decrease driven by industry consolidation, contracting wholesale market revenues and a decrease in international voice revenues.

OPERATING EXPENSES

The table following presents a breakdown of both Media and Entertainment and Telecommunications operating costs.

The FY 2017 Telecommunications costs have been assumed based on volume and usage drivers, with reference to prior year trends and expectations around inflation, input costs and other charges.

A strategic cost out programme is planned for FY 2017 in Telecommunications, focusing on optimising cost structure with an aim of continuing to drive towards industry best practice.

Media and Entertainment FY 2017 costs have been assumed with reference to prior year trading trends, known contract costs and estimated expenses.

6.9 SPECIFIC ASSUMPTIONS UTILISED FOR PREPARATION OF PFI (CONTINUED)

In NZD millions	Notes	Pro forma historical 30 Jun 2015	Pro forma prospective 30 Jun 2016	PFI 30 Jun 2017
Media and Entertainment				
Programming costs	1	296.5	331.2	350.2
Subscriber related costs	2	107.1	109.0	109.3
Broadcasting and infrastructure	3	91.2	94.3	99.5
Other operating costs	4	52.9	66.9	65.4
Total Media and Entertainment operating expenses		**547.7**	**601.4**	**624.4**
Telecommunications				
Interconnect and access costs	5	396.5	385.8	406.0
Direct costs	6	245.6	261.1	263.3
Sales and variable costs	7	294.2	312.1	306.4
Sales fixed costs and overheads	8	480.6	496.9	480.0
Vodafone Group charges	9	78.8	87.8	87.7
Other operating costs(1)	10	19.2	1.7	1.6
Total Telecommunications operating expenses		**1,514.9**	**1,545.4**	**1,545.0**
Eliminations and adjustments		(19.8)	(22.1)	(28.6)
Total Combined Group operating expenses		**2,042.8**	**2,124.7**	**2,140.8**

(1) Includes associate company losses.

MEDIA AND ENTERTAINMENT OPERATING EXPENSES

1. **Programming costs** comprise the costs of programming rights and operations. The increases in the historical period are driven by increased costs of acquiring programming rights for entertainment, movies and regular large sporting events as well as increased employee costs resulting from the growth in content and the management thereof. Increases in the prospective period reflect the continued investment in content such as the Rugby World Cup, the Summer Olympics and the new SANZAAR contract together with the associated operational expenses.

2. **Subscriber related costs** comprise marketing costs as well as costs for running the call centre and other operational aspects that relate to customers or customer equipment. Increases in subscriber related costs in the historical period reflect increased subscriber management as SKY has recently launched new services which require more investment for customer on-boarding and assistance.

3. **Broadcasting and infrastructure** costs consist of transmission and linking costs for transmitting SKY, Prime and IGLOO's television signals from its studios in Auckland to other locations in New Zealand and the costs of operating SKY's television stations. Costs include the lease of seven transponders on the Optus D1 satellite and the costs of the SKY technology operations which support the entire organisation including IT, product development and infrastructure improvements and maintenance. The increases in the prospective periods are driven by increased transmission content delivery network costs related to making programmes available through online distribution platforms such as SKY on Demand, NEON and FAN PASS.

4. **Other costs** include costs relating to the sale of SKY's advertising inventory as well as costs relating to corporate management and affiliated businesses such as IGLOO and FATSO. Corporate costs in the FY 2016 period are assumed to increase as a result of Transaction Costs of approximately $10.6 million (exclusive of GST) and costs for the development of NEON. Corporate costs in FY 2017 include a further $9.4 million of Transaction Costs. Advertising costs are assumed to increase due to higher selling costs relating to the Rugby World Cup and Summer Olympics.

TELECOMMUNICATIONS OPERATING EXPENSES

5. **Interconnect and access costs** comprise the costs paid to other telecommunications operators (for delivery of voice, messaging, or data from Vodafone NZ Group customers); access fees (fixed line rentals of Chorus and other Local Fibre Companies); and international bandwidth (contracted capacity of international connections). Costs are forecast to decrease in FY 2016 by 2.7% but increase by 5.2% in FY 2017. The decrease in FY 2016 is primarily driven by savings related to the lower interim pricing for Chorus copper costs, partially offset by increased volume related costs in Wholesale. In FY 2017 costs are forecast to increase following the regulated price determination in December 2015 and growth in customer data usage. However, these increases are partially offset by strategic cost out initiatives, focusing on migration of customers from copper fixed line to higher margin UFB services.

6. **Direct costs** comprise the costs associated with equipment (indirect channel device sales), content, Enterprise projects and managed services (e.g. Vodafone NZ Group managed IT systems), carrier services, regulatory fees, handset insurance, advertising costs and other miscellaneous mobile costs. Direct costs are assumed to increase in FY 2016 by 6.3% primarily driven by the acquisition and inclusion of the VNGS business and incremental Enterprise project costs. FY 2017 increases marginally driven by growth in customers and expansion of the VNGS business, however ongoing cost savings initiatives are expected to mean direct costs are relatively flat in this period.

6.9 SPECIFIC ASSUMPTIONS UTILISED FOR PREPARATION OF PFI (CONTINUED)

7. **Sales variable costs** comprise costs for acquisition and retention, and other variable sales costs including device costs, installation, commissions, logistics, and bad debts. Sales variable costs are forecast to increase by 6.1% in FY 2016 due to greater acquisition and retention costs due to customer volume growth; accelerating sales of devices on an interest free basis and a mix shift towards higher cost UFB products (equipment costs of the modem and installation). Growth in connections and new customer premises equipment leasing arrangements drive an increase in sales variable costs in FY 2017, but this is assumed to be more than offset by greater penetration of lower cost Vodafone NZ Group branded handset volumes; reducing rebates on entry level plans; and improving bad debt recoveries.

8. **Sales fixed costs and overheads**(1)

In NZD millions	Pro forma historical 30 Jun 2015	Pro forma prospective 30 Jun 2016	PFI 30 Jun 2017
Fixed costs – customer care and marketing	226.1	241.7	228.2
Technology	191.8	173.7	174.8
Support functions	62.7	81.5	77.0
Total sales fixed costs and overheads	**480.6**	**496.9**	**480.0**

(1) Excludes Vodafone Group charges (these are separately discussed).

Fixed costs, customer care and marketing costs includes sales and distribution costs, which includes publicity costs, and employee costs including payroll costs for customer operations staff. These costs are forecast to increase in FY 2016 by 6.9% driven by investment to improve customer experience, followed by a decrease of 5.6% in FY 2017 as a result of Vodafone NZ Group initiating a cost out program focused on:

- efficiencies in publicity, and through employment cost savings;
- a focused simplification program expected to reduce call volumes in FY 2017 and drive cost efficiencies as a result; and
- cost savings from costs incurred in FY 2016 related to a product rationalisation program aimed at simplifying products and systems.

Technology costs include leased lines, employment costs, network expenditure and maintenance. Technology costs in FY 2016 are forecast to decrease by 9.5% due to leased line savings and then remain broadly flat in FY 2017, with marginal cost improvements due to further leased lines savings and other cost out initiatives offsetting inflationary pressure from support and maintenance costs.

Support functions costs include staff costs related to finance, HR, legal and other support functions, as well as property costs. The FY 2016 forecast assumes a 30.3% increase largely driven by costs relating to movements in payroll provisions, unfavourable foreign exchange impacts, the Christchurch office re-build and M&A related costs (unrelated to the Proposed Transaction) and FY 2017 costs decrease by 5.6% primarily as a result of these costs in FY 2016 no longer appearing.

9. **Vodafone Group charges for Vodafone Services Agreements** for FY 2016 and FY 2017 reflect only those charges for services that Vodafone NZ Group will continue to procure from Vodafone Group after the formation of the Combined Group. The Vodafone NZ Group charges of approximately $87.7 million in FY 2017 are based on the new intercompany Vodafone Services Agreements negotiated to meet the agreed ongoing needs of the Combined Group and to be entered into at Completion, as discussed in section 7 headed "Details of the Proposed Transaction and transaction documents" on pages 50 to 57 of the Notice of Meeting and Explanatory Memorandum. The proposed costs assume consumption levels consistent with the forecasts, with specific charges reflecting any changes in the level of products and services provided by Vodafone Group under the new Vodafone Services Agreements from Completion.

10. **Other operating costs** include share of associate company losses, and costs associated with the implementation of strategic initiatives. The share of associate company losses primarily relates to Vodafone NZ Group's investment in TSM NZ Limited (27.01% share), which is loss making while it is being established. Given the immaterial nature of the profit and loss of associates, nothing has been factored into the forecasts in FY 2017. FY 2017 includes $1.6 million of restructuring costs associated with the implementation of further efficiency initiatives. The costs in FY 2015 included $18.3 million of restructuring costs associated with the acquisition of TelstraClear.

11. **Share based payments** for Vodafone NZ Group allocate both restricted and unrestricted shares in the ultimate parent company, Vodafone Plc, to certain eligible employees under retention and incentive schemes. The FY 2017 forecast assumes further shares will be allocated, which is recognised as an employee benefit expense over the three year vesting period with a corresponding increase in the share based payments reserve. The FY 2017 forecast also assumes allocated shares will vest on the basis that performance targets are met, with the cash cost of the shares acquired in Vodafone Plc on the employees' behalf which is recognised as a decrease in the share based payments reserve.

12. **Combined Group integration costs and synergy benefits:** It is anticipated that business integration opportunities will generate significant benefits for customers and Shareholders including cost/capital expenditure and revenue synergies after incurring assumed upfront integration costs. Only marginal synergy benefits are assumed to be realised by the end of FY 2017. FY 2017 assumes $0.1 million of synergy benefits, $1.9 million of integration operating expenses (totalling net integration costs of $1.8 million) and $37.5 million of integration capital expenditure. These have been reflected in the prospective income statement, cash flow and balance sheet presented. Integration costs and synergy benefits are further discussed in section 4 headed "Overview of the Combined Group" on pages 26 to 35 of the Notice of Meeting and Explanatory Memorandum.

6.9 SPECIFIC ASSUMPTIONS UTILISED FOR PREPARATION OF PFI (CONTINUED)

DEPRECIATION, AMORTISATION, IMPAIRMENT AND CAPITAL EXPENDITURE

In NZD millions	Notes	Pro forma historical 30 Jun 2015	Pro forma prospective 30 Jun 2016	PFI 30 Jun 2017
DEPRECIATION, AMORTISATION AND IMPAIRMENT				
Media and Entertainment				
Depreciation of property, plant and equipment	1	99.0	88.8	88.1
Amortisation of intangibles	1	9.5	10.8	13.2
Impairment	2	10.7	–	–
Total costs		**119.2**	**99.6**	**101.3**
Telecommunications				
Depreciation of property, plant and equipment	1	239.2	210.7	211.7
Amortisation of radio spectrum licences		18.4	15.4	14.4
Amortisation of software		112.6	92.5	71.5
Amortisation of customer base		18.8	15.7	12.7
Amortisation of intangibles	1	149.8	123.6	98.6
Total costs		**389.0**	**334.3**	**310.3**
Acquisition adjustments				
Intangibles	3	–	–	84.2
Total depreciation, amortisation and impairment Combined Group		**508.2**	**433.9**	**495.8**
CAPITAL EXPENDITURE				
Media and Entertainment	4	115.5	126.4	86.9
Telecommunications	5	315.5	237.6	206.1
Integration capital expenditure		–	–	37.5
Capital expenditure per cash flow statement(2)		**431.0**	**364.0**	**330.5**
Acquisition adjustments (fair value)				
Intangibles(1)	6	–	–	421.1
Goodwill(1)	6	–	–	447.2
Total acquisition adjustments		**–**	**–**	**868.3**

(1) Intangibles and goodwill are derived from the fair value adjustments arising from the Proposed Transaction and are not reflected in the cash movement in the statement of cash flows.

(2) Capital expenditure shown above is that reflected in the cash flow statement, which removes the impact of creditors.

1. **Property, plant, equipment and intangibles** prospective depreciation and amortisation is based on existing rates of depreciation and amortisation with adjustments made for planned capital expenditure including projects commenced in the historical period and due to be completed in the prospective period. Depreciation and amortisation rates adopted are based on an assessment of the useful lives of assets and are not assumed to change in the prospective period. The depreciation and amortisation expense for Vodafone NZ Group is higher than capital expenditure because of the impact of the amortisation of 3G Spectrum and the TelstraClear customer base, and the impact of the timing of the forecast period in the context of the long term nature of the Vodafone NZ Group network assets and the associated capital expenditure cycle versus the timing of straight line depreciation.

2. **Impairment** in the historical period relates to projects where the return on assets post implementation was less than expected. No impairment is assumed for the PFI.

3. **Intangibles** amortisation for the customer relations and brand assets arising from the revaluation of SKY's assets is based on the sum of digits method over the anticipated life of both customer and brand of nine years.

4. **Media and Entertainment capital expenditure** is further summarised in the table below. Capital expenditure is presented on a cash basis consistent with how capital expenditure is presented in the cash flow statement. The increase in spend on new decoders in FY 2016 relates to the rollout of the new internet enabled SKY decoders during the 2016 calendar year. High historical project costs in FY 2015 relate to the software developments costs for the new SKY decoders, as well as costs relating to a media asset management system which enables SKY to track and control all media content and a technology upgrade to the broadcast head end. Capital expenditure is assumed to return to more normal levels in FY 2017.

In NZD millions	Pro forma historical 30 Jun 2015	Pro forma prospective 30 Jun 2016	PFI 30 Jun 2017
Subscriber equipment	22.0	64.9	11.9
Installation costs	29.7	35.5	42.6
Projects and other	63.0	34.4	32.4
Movements in capital expenditure creditors	0.8	(8.4)	–
Total capital expenditure	**115.5**	**126.4**	**86.9**

5. **Telecommunications capital expenditure** is further summarised in the table below. Forecast capital expenditure in FY 2017 reflects a change in spend mix from FY 2016, following the completion of network investment projects during FY 2015 and FY 2016.

In NZD millions	Pro forma historical 30 Jun 2015	Pro forma prospective 30 Jun 2016	PFI 30 Jun 2017
IT	60.1	68.0	75.3
Network	115.4	120.1	107.3
Other (including customer premises equipment)	129.3	48.7	24.7
Movement in capital expenditure creditors	10.7	0.8	(1.2)
Total capital expenditure	**315.5**	**237.6**	**206.1**

Key areas of capital expenditure in FY 2016 and FY 2017 include:

IT costs to continue the productivity toolset deployment, and rationalise business support systems with the aim of converging onto one customer relationship management and billing engine to allow converged product choices and packaging. It also includes costs for the rollout of "Ready Business", a standard set of cloud communication services.

FY 2016 includes expenditure related to the product rationalisation, VNGS integration, and the customer excellence programme support (initiatives aimed at reducing costs to serve and improving productivity).

Network spend for capacity upgrades to meet growing traffic requirements, as well as the expansion of the mobile network into rural areas as a key partner to the Government's rural broadband initiative.

Mobile network spend peaked in FY 2015 at the height of the 4G deployment, and is forecast to reduce in FY 2016 and level off in FY 2017 as the rollout approaches target coverage.

Other capital expenditure largely relates to customer premises equipment such as decoders and UFB/HFC Network modems, which is forecast to reduce with the intended new device leasing arrangements in FY 2017. FY 2015 included expenditure of $68.1 million for 4G Spectrum, and FY 2016 includes expenditure related to the Christchurch office re-build.

6. **Acquisition adjustments** have arisen as a result of the revaluation of SKY Group assets as part of the Acquisition adjustments as described in section 6.7 headed "Notes to the consolidated prospective financial statements" on pages 35 to 37 of this Appendix Two.

6.9 SPECIFIC ASSUMPTIONS UTILISED FOR PREPARATION OF PFI (CONTINUED)

NET INTEREST BEARING DEBT AND FINANCE COSTS

In NZD millions	Notes	Borrowings	Bonds	Total Debt	Cash and cash equivalents	Net Interest Bearing Debt
Opening balance for SKY Group at 1 July 2016	1	46.6	298.6	345.2	(20.0)	325.2
New Debt at Completion Date	2	1,250.0	–	1,250.0	–	1,250.0
Opening balance for Combined Group at 1 July 2016		**1,296.6**	**298.6**	**1,595.2**	**(20.0)**	**1,575.2**
SKY Group bond repayment	1	200.0	(200.0)	–	_	–
Net decrease at SKY Group borrowings	1	(29.9)	–	(29.9)	–	(29.9)
Amortisation of SKY Group bond issue costs	1	–	(0.3)	(0.3)	–	(0.3)
Net increase in cash and cash equivalents		–	–	–	(54.1)	(54.1)
New Debt loan interest	4	53.5	–	53.5	–	53.5
Combined Group Net Interest Bearing Debt as at 30 June 2017		**1,520.2**	**98.3**	**1,618.5**	**(74.1)**	**1,544.4**
Total Combined Group FY 2017 finance costs, net	3,4			**71.2**	**–**	**71.2**

Note: SKY Group stand-alone Net Interest Bearing Debt of $295.0 million at 30 June 2017 can be derived from the addition of the opening balance for SKY Group as at 1 July, SKY Group bond repayment, net decrease in SKY Group borrowings and the amortisation of SKY Group bond issue costs.

1. **SKY Group debt** consists of four year revolving credit bank debt facilities with facility limits of $250 million and a maturity date of 17 July 2020, a floating rate bond of $200 million due to be repaid on 16 October 2016 and a fixed rate bond of $100 million due for repayment on 31 March 2021 and lease liabilities maturing during the 2016 year. The repayment of the bonds is assumed to be made via a drawdown of the bank facility. Cash is assumed at $20 million. In the context of the Proposed Transaction, SKY intends to discuss with its existing lenders its continued ability to use its revolving credit facilities, including to meet its obligations to repay $200 million of bonds in October 2016. SKY expects to be able to continue to use the revolving credit facilities, including to repay the bonds. However, execution of the Sale and Purchase Agreement gives rise to a potential event of default under the revolving credit facilities and given confidentiality considerations, SKY has not yet had the opportunity to seek and gain consent from the existing lenders under these facilities. As a result, SKY has entered into a new $350 million facility with Citibank N.A., New Zealand Branch, to provide an effective backstop to the existing revolving credit bank facilities should those consents not be forthcoming.

2. **New Debt** as a result of the Proposed Transaction debt will increase by $1.25 billion (refer note 4 “Funding” in section 6.4 headed “Assumptions and notes for the opening financial position” on page 29 and note 3 “Net Interest Bearing Debt” in section 6.7 headed “Notes to the consolidated prospective financial statements” on pages 36 and 37, both in this Appendix Two). In order to fund its obligation to pay $1.25 billion in cash to Vodafone on Completion, in partial satisfaction of the purchase price for the Acquisition, to pay Transaction Costs, to repay its existing bank debt facilities at Completion if required (but excluding the $100 million of bonds which will remain outstanding at and following Completion), and to fund the Combined Group’s ongoing working capital needs following Completion, SKY will, subject to Completion occurring contemporaneously, incur the New Debt. The New Debt will replace all of SKY’s existing debt facilities at Completion other than bonds outstanding at that time. SKY has entered into a facility agreement with Vodafone Overseas Finance Limited for the New Debt, being an amount not exceeding $1.8 billion. The Board considers that the terms of the New Debt offered by Vodafone Overseas Finance Limited are attractive, but have retained the right to replace this debt, or the revolving credit facility portion of it, from one or more third parties subject to certain conditions. For more details of the New Debt see section 7 headed “Details of the Proposed Transaction and transaction documents” under the sub-heading “Summary of Acquisition funding” on page 50 of the Notice of Meeting and Explanatory Memorandum.

3. **SKY Group finance costs** are based on floating rates for the unhedged portion of SKY’s current bank loan and floating rate bonds and 6.25% for the fixed rate bonds. Borrowings of $188 million are fixed at an average rate of 4.64%. The reduction in finance expense in FY 2017 is due to a planned reduction in the debt facility. Historical finance costs include realised and unrealised exchange gains/losses on foreign currency payables and foreign currency hedges. SKY’s policy is to hedge foreign currency purchases in the prospective period. It is assumed there are no foreign exchange gains or losses on these transactions.

4. **New Debt loan interest** has been assumed at a rate of 4.2% based on New Zealand swap rates with a margin of 1.65%. The interest rate is assumed to be fixed for five years. The assumed interest also includes interest on the drawn and undrawn revolving credit facility. The Combined Group Net Interest Bearing Debt is assumed to increase by the value of the interest on New Debt funded through the revolving credit facility as part of the Loan Facility Agreement.

6.9 SPECIFIC ASSUMPTIONS UTILISED FOR PREPARATION OF PFI (CONTINUED)

WORKING CAPITAL

In NZD millions	Pro forma historical 30 Jun 2015	Pro forma prospective 30 Jun 2016	PFI 30 Jun 2017
Media and Entertainment			
Trade and other receivables	69.5	69.8	70.2
Programme rights inventory	72.8	78.7	74.8
Trade and other payables	(183.2)	(189.6)	(190.5)
Capital additions creditors	(1.0)	(9.4)	(9.4)
Total Media and Entertainment working capital	**(41.9)**	**(50.5)**	**(54.9)**
Telecommunications			
Trade and other receivables	239.7	244.7	254.9
Inventories	26.9	29.4	30.9
Trade and other payables, and current provisions	(381.6)	(361.1)	(375.0)
Capital additions creditors	(50.1)	(49.4)	(50.6)
Total Telecommunications working capital	**(165.1)**	**(136.4)**	**(139.8)**
Total Combined Group working capital	**(207.0)**	**(186.9)**	**(194.7)**

Note: Working capital reflects the balances in the balance sheet at each year end (pre elimination of inter-company transactions). The movement between the two periods does not necessarily represent the movement in working capital for cash flow purposes due to the removal of non-cash items. Media and Entertainment working capital balances exclude derivative financial instruments and current borrowings.

MEDIA AND ENTERTAINMENT WORKING CAPITAL BALANCES

Trade and other receivables assumes normal receipt terms and impairment provisioning based on historical levels. Receivable days outstanding by customer type has been applied to assumed sales.

Programme rights inventory relates to programmes that are assumed to be available where the rights period has commenced at the balance date consistent with the historical recognition period adopted by SKY Group. The programme rights are amortised proportionately over the period they relate to on the basis of their expected screening dates. The programme rights inventory balance represents the unexpired portion of rights which have not yet been screened. The prospective programme rights are based on historical movements taking into account adjustments for prepaid rights for the Summer Olympics and large sports contracts such as SANZAAR, NRL and New Zealand Cricket.

Trade and other payables assumes normal payment terms, one month in arrears for operating expenses. Programme rights creditors are based on historical levels with adjustments for large sports contracts. Other payables include subscriptions in advance, employee entitlements, GST payable and accruals. These are based on historical creditor days.

TELECOMMUNICATIONS WORKING CAPITAL BALANCES

Trade and other receivables, which consists of amounts billed and accrued in relation to customer revenues, assumes normal receipt terms and impairment provisioning based on historical levels with the forecast balances based on receivable days outstanding being applied to assumed sales revenues. The forecast balances at 30 June 2016 and 2017 include the assumed impact of interest free handset revenues.

Inventories assumes maintaining a base underlying level of inventory adjusted for anticipated major handset launches and price inflation.

Trade and other payables which includes supplier costs received and accruals for operating costs and capital investments, assumes normal payment terms which vary depending on the supplier and category, assuming a consistent mix of terms. It also includes the current portion of long term provisions for liabilities such as make good obligations and onerous leases. The FY 2017 trade and other payables balance includes an earn-out payment in relation to WorldxChange. This liability has been accounted for on the assumption that the earn-out performance thresholds may be met. This liability was included in non-current provisions in FY 2016.

6.9 SPECIFIC ASSUMPTIONS UTILISED FOR PREPARATION OF PFI (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used to hedge SKY Group's exposure to foreign exchange and interest rate risks. SKY purchases programme rights, certain operating expenditure such as the satellite lease and its decoders in USD and AUD. All assumed and committed foreign exchange costs as well as variable rate interest payments are hedged in accordance with the guidelines established in SKY Group's treasury policy.

SKY Group's financial instruments are hedge accounted and fully effective historically. The PFI is based on the position as at 29 February 2016 and assumes no valuation differences from that date and no ineffectiveness. Assumed rates are USD 0.6853 and AUD 0.9222. Vodafone NZ Group has foreign currency exposures but these have not historically been hedged using derivative financial instruments.

DIVIDENDS

SKY's historical policy has been to payout at least 50% of its earnings as dividends. Dividend payments for FY 2015 totalled $131.1 million (30 cents per Share) and for FY 2014 totalled $112.8 million (29 cents per Share). For FY 2016, dividends of 30 cents per Share totalling $132.2 million, which includes the supplementary dividend of $14.9 million, have already been paid by SKY.

Following Completion, the Board's current intention, which is aligned with Vodafone's expectations, is to pay an annual dividend of 85-100% of Free Cash Flow subject to the Board's assessment of 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 prudent balance sheet. Assuming an illustrative 1 July 2016 Completion Date, the intended payout range would be equivalent to total declared dividends of between 31.9 cents and 37.5 cents per Share for the FY 2017 period (based on Underlying Free Cash Flow per Share of 37.5 cents for the FY 2017 period). Note that this dividend amount is hypothetical given the Completion Date is likely to be later than the assumed date of 1 July 2016.

For the prospective FY 2017 period, dividends of 30 cents per Share totalling $238.4 million are assumed to be paid ($253.3 million inclusive of the supplementary dividend of $14.9 million), reflecting an assumed FY 2016 final dividend of $0.15 per Share in or around September 2016 and an FY 2017 interim dividend of $0.15 per Share. These assumptions are consistent with and should be read in conjunction with the Combined Group's Dividend Policy as described in section 4 headed "Overview of the Combined Group" on pages 26 to 35 of the Notice of Meeting and Explanatory Memorandum.

Dividend payments are typically made in March and September and are assumed to be fully imputed with any related supplementary dividend paid. Therefore the final dividend for FY 2017 has not been captured in the FY 2017 prospective period given it would be paid during September 2017 and relates to the FY 2018 period.

INCOME TAX EXPENSE, INCOME TAX PAYABLE AND DEFERRED TAX ASSETS AND LIABILITIES

Income tax expense is calculated at 28% of net profit adjusted for permanent differences. Deferred tax is the difference between tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax balances assume that all temporary differences will reverse in the following year other than the long term portion relating to property, plant and equipment and SKY's Optus lease. The deferred tax liability arising from the Acquisition fair value of brand and customer relations is assumed to be recovered through use. Income tax payable is based on income tax on net profit at 28% adjusted for the timing differences on deferred tax and the payments made during the year.

As part of the Proposed Transaction accounting Vodafone NZ Group's opening current income tax position has been assumed to be $nil.

6.10 COMBINED GROUP SENSITIVITY ANALYSIS

The PFI provided in this Appendix Two and the Notice of Meeting and Explanatory Memorandum is based on estimates and assumptions that are affected by economic and competitive uncertainties, many of which are beyond the control of the Combined Group.

The following table summarises the sensitivities of certain assumptions to certain key variables. The data is for information purposes only and is not intended to be indicative of the complete range of variations that may be experienced.

Each assumption presented in the table below is taken in isolation and therefore care should be taken in interpreting the information, as possible movements in one assumption may affect movements in other variables, the impacts of which have not been included in the results.

FOR THE YEAR ENDING 30 JUNE 2017		Sensitivity	Impact on EBITDA		Impact on net profit	
In NZD millions	Notes	range	+	-	+	-
Media and Entertainment						
Subscriber numbers	1	+/-3%	8.3	(7.9)	6.0	(5.8)
ARPU	2	+/-2%	11.6	(11.8)	8.5	(8.6)
Exchange rates	3	+/-7%	5.3	(6.8)	3.9	(5.0)
Telecommunications						
Customer base	4	+/-3%	12.2	(13.3)	8.8	(9.5)
ARPU	5	+/-2%	29.7	(29.7)	21.4	(21.4)
Fixed access mix (NGA v copper) due to the differing input costs and therefore resulting margins	6	+/-10%	5.1	(5.1)	3.6	(3.6)
Exchange rates	7	+/- 7%	5.0	(5.0)	3.6	(3.6)

FOR THE YEAR ENDING 30 JUNE 2016		Sensitivity	Impact on EBITDA		Impact on net profit	
In NZD millions	Notes	range	+	-	+	-
Media and Entertainment						
Subscriber numbers	1	+/-2%	0.7	(0.7)	0.5	(0.5)
ARPU	2	+/-2%	1.9	(1.9)	1.4	(1.4)
Exchange rates	3	+/-7%	0.2	1.3	0.2	1.0
Telecommunications						
Customer base	4	+/-3%	4.4	(4.4)	3.2	(3.2)
ARPU	5	+/- 2%	9.9	(9.9)	7.1	(7.1)
Fixed access mix (NGA v copper) due to the differing input costs and therefore resulting margins	6	+/- 10%	n/a	n/a	n/a	n/a
Exchange rates	7	+/- 7%	1.7	(1.7)	1.2	(1.2)

Note: As the year ending 30 June 2016 is comprised of actual results to 29 February 2016 and prospective information for the four months from March to June 2016, the sensitivity analysis for the year ending 30 June 2016 relates to the four months of March to June 2016 only.

6.10 COMBINED GROUP SENSITIVITY ANALYSIS (CONTINUED)

1. **Media and Entertainment subscriber numbers (all SKY)** – models a change in Media and Entertainment subscriber numbers. The increase/decrease in subscribers is sensitised evenly across FY 2017. The change in subscriber numbers impacts subscriber and installation revenues as well as variable programming costs and subscriber management costs with a net impact on EBITDA and net profit.

2. **Media and Entertainment ARPU** – models a change in Media and Entertainment ARPU. A change in ARPU could be achieved through a range of permutations and the sensitivity assumes it eventuates through a change in mix of both fixed cost and variable products. A change affects subscriber revenue as well as variable content costs and consequently EBITDA and net profit.

3. **Media and Entertainment exchange rates for the USD and AUD** – SKY currently has some costs which are incurred in USD and AUD. These costs are mostly programming costs, certain operating expenditure, Optus and satellite feeds and capital expenditure. A change affects programming and transmission costs and therefore EBITDA and net profit.

4. **Telecommunications customer base** – the potential impact of a movement in total customer volumes spread equally across all Enterprise and Consumer customers. It is assumed that operating costs are incurred to planned levels, such that shortfalls to volume do not result in cost savings in the short term. The sensitivity analysis does however capture the incremental operating costs from higher levels of customer acquisitions, as additional support will be required to manage any increase in call volumes.

5. **Telecommunications ARPU** – models a change in the potential impact of a movement in price or plan mix applied equally across all Consumer and Enterprise telecommunications products.

6. **Telecommunications fixed access mix** – the potential impact of a change in planned access type mix between VNGS Access (UFB and Vodafone NZ Group's HFC Network) and copper (Chorus wholesale) due to differing input costs. No sensitivity analysis has been performed for this assumption for FY 2016 as the movement in the March to June 2016 period doesn't include the significant mix change that occurs during FY 2017.

7. **Telecommunications exchange rates** – Vodafone NZ Group is primarily exposed to the Euro, the USD and the Philippine peso, with small exposure to the AUD, GBP and Swiss Franc. These exposures relate to the purchase of capital equipment, the procurement of devices (handsets, modems etc.), and operating costs such as call centre, roaming interconnect costs (net of roaming interconnect revenue), and bandwidth. In some cases the exchange rate volatility exposure can be passed through to customers (e.g. handset and terminal costs). The charges payable by the Combined Group to Vodafone Group under the Vodafone Services Agreements are to be denominated in NZD. The capital expenditure exposure in FY 2017 to movements in the exchange rate of +/- 7% is +/- $3.3 million.

GOODWILL

Goodwill is not subject to amortisation and is tested at each reporting date for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill will be allocated to the Combined Group's separate cash generating units, being Telecommunications and Media and Entertainment, and will be tested based on the most recent financial information prepared by management for each cash generating unit. The value in use calculation is most sensitive to changes in customer numbers, churn rates, foreign exchange rates and discount rates. The PFI has assumed that for the year ending 30 June 2017 a reasonably possible change in any of the above sensitivities would not result in an impairment of goodwill.

7.0 INDEPENDENT LIMITED ASSURANCE REPORT ON THE COMBINED GROUP'S PRO FORMA HFI, PRO FORMA PFI AND PFI

13 June 2016

The Directors
SKY Network Television Limited
10 Panorama Rd
Mt. Wellington
Auckland, NZ

Building a better working world

Dear Directors

INDEPENDENT LIMITED ASSURANCE REPORT ON THE COMBINED GROUP'S PRO FORMA HFI, PRO FORMA PFI AND PFI

1. Introduction

We have been engaged by SKY to report on the pro forma HFI, pro forma PFI and PFI of the Combined Group, being SKY Group and Vodafone NZ Group, for inclusion in the Notice of Meeting and Explanatory Memorandum document for Shareholders, to be dated on or about 13 June 2016.

The Notice of Meeting and Explanatory Memorandum to be issued by SKY, in respect of the Proposed Transaction of acquiring all of the shares in Vodafone NZ from Vodafone paid through a combination of cash and the issue of Consideration Shares to Vodafone which will result in Vodafone becoming a majority shareholder in SKY, holding 51% of all SKY Shares.

Expressions and terms defined in the Notice of Meeting and Explanatory Memorandum have the same meaning in this report.

2. Scope

Combined Group Pro Forma HFI

SKY have requested Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") to review the following pro forma consolidated HFI of the Combined Group as set out in section 4.0 headed "Combined Group consolidated pro forma financial information" in Appendix Two of the Notice of Meeting and Explanatory Memorandum:

- the Combined Group pro forma unaudited consolidated historical summarised income statement for the year ended 30 June 2015 and the 6 months ended 31 December 2015;
- the Combined Group pro forma unaudited consolidated historical summarised balance sheet as at 30 June 2015 and 31 December 2015; and
- the Combined Group pro forma unaudited consolidated historical summarised statement of cash flows for the year ended 30 June 2015 and the 6 months ended 31 December 2015.

(Hereafter the 'Combined Group Pro Forma HFI').

The Combined Group Pro Forma HFI has been derived from the HFI of SKY Group and Vodafone NZ Group, and adjusted for the effects of pro forma adjustments described in section 4.5 headed "Notes to the selected consolidated pro forma financial information" in Appendix Two of the Notice of Meeting and Explanatory Memorandum.

The HFI of SKY Group has been derived from the financial report of the SKY Group for the year ended 30 June 2015, which was audited by PricewaterhouseCoopers in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. PricewaterhouseCoopers issued an unqualified audit opinion on the financial report.

The HFI of Vodafone NZ Group has been derived from the financial report of the Vodafone NZ Group for the year ended 31 March 2015, which was audited by PricewaterhouseCoopers in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. PricewaterhouseCoopers issued an unqualified audit opinion on the financial report.

The Combined Group Pro Forma HFI has been prepared in accordance with the recognition and measurement principles contained in GAAP other than it reflects certain adjustments to remove the capital structure of SKY Group and Vodafone NZ as per the basis of preparation in section 4.2 "Basis of preparation" in Appendix Two of the Notice of Meeting and Explanatory Memorandum.

Due to its nature, the Combined Group Pro Forma HFI does not represent SKY's nor the Combined Group's actual or prospective financial position, financial performance, and cash flows.

Combined Group Pro Forma PFI

SKY have requested Ernst & Young Transaction Advisory Services to review the following pro forma PFI of the Combined Group as set out in section 4.0 "Combined Group consolidated pro forma financial information" in Appendix Two of the Notice of Meeting and Explanatory Memorandum:

- the Combined Group pro forma consolidated prospective summarised income statement for the year ending 30 June 2016;
- the Combined Group pro forma consolidated prospective summarised balance sheet as at 30 June 2016; and
- the Combined Group pro forma consolidated prospective summarised statement of cash flows for the year ending 30 June 2016.

(Hereafter the 'Combined Group Pro Forma PFI').

The Combined Group Pro Forma PFI has been derived from the PFI for SKY Group and Vodafone NZ Group, after adjusting for the effects of the pro forma adjustments described in section 4.5 "Notes to the selected consolidated pro forma financial information" in Appendix Two of the Notice of Meeting and Explanatory Memorandum. The Directors' best-estimate assumptions underlying the PFI of SKY Group and Vodafone NZ Group are described in section 6.8 "General assumptions utilised for preparation of PFI" and in section 6.9 "Specific assumptions utilised for preparation of PFI" in Appendix Two of the Notice of Meeting and Explanatory Memorandum.

The Combined Group Pro Forma PFI has been prepared using principles derived from Financial Reporting Standard (FRS-42) "Prospective Financial Statements" to the extent applicable given the pro forma nature of that PFI including adjustments to remove the capital structure of SKY Group and Vodafone NZ Group and present the Combined Group as if it had already been combined as per the basis of preparation for the Combined Group Pro Forma PFI set out in section 4.2 "Basis of preparation" in Appendix Two of the Notice of Meeting and Explanatory Memorandum.

Due to its nature, the Combined Group Pro Forma PFI does not represent the Combined Group's actual or prospective financial performance and cash flows for the year ending 30 June 2016 nor the financial position as at 30 June 2016.

Combined Group PFI

SKY have requested Ernst & Young Transaction Advisory Services to review the following PFI of the Combined Group as set out in section 6.0 "Consolidated PFI of the Combined Group" in Appendix Two of the Notice of Meeting and Explanatory Memorandum:

- the Combined Group prospective consolidated statement of comprehensive income for the year ending 30 June 2017;
- the Combined Group prospective consolidated balance sheets as at 1 July 2016 and 30 June 2017;
- the Combined Group prospective consolidated statement of changes in equity for the year ending 30 June 2017; and
- the Combined Group prospective consolidated summarised statement of cash flows for the year ending 30 June 2017.

(Hereafter the 'Combined Group PFI').

(Collectively, the 'Combined Group Financial Information').

The Combined Group PFI has been derived from the PFI for SKY Group and Vodafone NZ Group prepared in accordance with the requirements of Financial Reporting Standard (FRS-42) Prospective Financial Statements (except for the assumed Completion Date) as per the basis of preparation set out in section 6.2 "Basis of preparation" in Appendix Two of the Notice of Meeting and Explanatory Memorandum. The Directors' best-estimate assumptions underlying the PFI of SKY Group and Vodafone NZ Group are described in section 6.8 "General assumptions utilised for preparation of PFI" and in section 6.9 "Specific assumptions utilised for preparation of PFI" in Appendix Two of the Notice of Meeting and Explanatory Memorandum.

The Combined Group Financial Information is presented in Appendix Two of the Notice of Meeting and Explanatory Memorandum in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by New Zealand Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Companies Act 1993 and the Financial Reporting Act 2013.

3. Directors' Responsibility

As described in section 4.2 "Basis of preparation" and section 6.2 "Basis of preparation" in Appendix Two of the Notice of Meeting and Explanatory Memorandum, the Directors are responsible for the preparation and presentation of:

- the Combined Group Pro Forma HFI, including the basis of preparation and the selection and determination of pro forma adjustments made to the HFI and included in the Combined Group Pro Forma HFI. This includes responsibility for its compliance with applicable laws and regulations and for such internal controls as the Directors determine are necessary to enable the preparation of Combined Group Pro Forma HFI that is free from material misstatement, whether due to fraud or error; and
- the Combined Group Pro Forma PFI for the year ending 30 June 2016 and the Combined Group PFI for the year ending 30 June 2017, including the basis of preparation, the best-estimate assumptions underlying the Combined Group PFI and the Combined Group Pro Forma PFI and the selection and determination of the pro forma adjustments made to the prospective financial information and included in the Combined Group Pro Forma PFI. This includes responsibility for its compliance with applicable laws and regulations and for such internal controls as the Directors determine are necessary to enable the preparation of Combined Group Pro Forma PFI and the Combined Group PFI that is free from material misstatement, whether due to fraud or error.

4. Our Responsibility

Our responsibility is to express a limited assurance conclusion on:

- the Combined Group Pro Forma HFI based on the procedures performed and the evidence we have obtained; and
- the Combined Group PFI and the Combined Group Pro Forma PFI, the best-estimate assumptions underlying the Combined Group PFI and the Combined Group Pro Forma PFI, and the reasonableness of the Combined Group PFI and the Combined Group Pro Forma PFI itself, based on our limited assurance engagement.

We have conducted our engagement in accordance with International Standard on Assurance Engagements (New Zealand) 3000 *Assurance Engagement other than Audits or Reviews of Historical Financial Information*, issued by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board.

Our limited assurance procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other limited assurance procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the Combined Group Financial Information.

5. Conclusions

Combined Group Pro Forma HFI

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Combined Group Pro Forma HFI is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 4.2 "Basis of preparation" in Appendix Two of the Notice of Meeting and Explanatory Memorandum.

Combined Group Pro Forma PFI

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that:

- the Directors' best-estimate assumptions used in the preparation of the Combined Group Pro Forma PFI for the year ending 30 June 2016, and for the pro forma consolidated prospective summarised balance sheet of the Combined Group as at 30 June 2016, do not provide reasonable grounds for the Combined Group Pro Forma PFI; and
- in all material respects, the Combined Group Pro Forma PFI:
  - is not prepared on the basis of the Directors' best-estimate assumptions as described in section 6.8 "General assumptions utilised for preparation of PFI" and in section 6.9 "Specific assumptions utilised for preparation of PFI" in Appendix Two of the Notice of Meeting and Explanatory Memorandum; and
  - is not presented fairly in accordance with the stated basis of preparation, as described in section 4.2 "Basis of preparation" in Appendix Two of the Notice of Meeting and Explanatory Memorandum; and
- the Combined Group Pro Forma PFI itself is unreasonable.

Combined Group PFI

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that:

- the Directors' best-estimate assumptions used in the preparation of the Combined Group PFI for the year ending 30 June 2017, and for the consolidated balance sheet of the Combined Group as at 30 June 2017, do not provide reasonable grounds for the Combined Group PFI; and
- in all material respects, the Combined Group PFI:
  - is not prepared on the basis of the Directors' best-estimate assumptions as described in section 6.8 "General assumptions utilised for preparation of PFI" and in section 6.9 "Specific assumptions utilised for preparation of PFI" in Appendix Two of the Notice of Meeting and Explanatory Memorandum; and
  - is not presented fairly in accordance with the stated basis of preparation, as described in section 6.2 "Basis of preparation" in Appendix Two of the Notice of Meeting and Explanatory Memorandum; and
- the Combined Group PFI itself is unreasonable.

The Combined Group Pro Forma PFI and the Combined Group PFI has been prepared by management and adopted by the Directors in order to provide Shareholders with a guide to the potential financial performance of the Combined Group for the years ending 30 June 2016 and 30 June 2017. There is a considerable degree of subjective judgement involved in preparing prospective financial statements since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Combined Group Pro Forma PFI and Combined Group PFI since anticipated events or transactions frequently do not occur as expected and the variation may be material.

The Directors' best-estimate assumptions on which the Combined Group Pro Forma PFI and Combined Group PFI is based relate to future events and/or transactions that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the Combined Group. Evidence may be available to support the Directors' best-estimate assumptions on which the Combined Group Pro Forma PFI and Combined Group PFI is based however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the Directors' best-estimate assumptions. The limited assurance conclusions expressed in this report have been formed on the above basis.

Shareholders should be aware of the material risks and uncertainties in relation to an investment in the Combined Group, which are detailed in the Notice of Meeting and Explanatory Memorandum and the inherent uncertainty relating to the Combined Group Pro Forma PFI and Combined Group PFI. Accordingly, Shareholders should have regard to the investment risks as described in section 6 "Key risks" of the Notice of Meeting and Explanatory Memorandum. The sensitivity analysis described in section 6.10 "Combined Group sensitivity analysis" in Appendix Two of the Notice of Meeting and Explanatory Memorandum demonstrates the impact on the Combined Group Pro Forma PFI and Combined Group PFI of changes in key best-estimate assumptions. We express no opinion as to whether the Combined Group Pro Forma PFI and Combined Group PFI will be achieved.

We disclaim any assumption of responsibility for any reliance on this report, or on the Combined Group Pro Forma PFI and Combined Group PFI to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied on representations from certain members of management of SKY, that all material information concerning the prospects and proposed operations of the Combined Group has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

6. Restriction on Use

Without modifying our conclusions, we draw attention to section 4.0 "Combined Group consolidated pro forma financial information" and section 6.0 "Consolidated PFI of the Combined Group" in Appendix Two of the Notice of Meeting and Explanatory Memorandum, which describes the purpose of the Combined Group Financial Information. As a result, the Combined Group Financial Information may not be suitable for use for another purpose.

7. Consent

Ernst & Young Transaction Advisory Services has consented to the inclusion of this limited assurance report in the Notice of Meeting and Explanatory Memorandum in the form and context in which it is included.

8. Independence or Disclosure of Interest

Ernst & Young Transaction Advisory Services does not have any interests in the outcome of this Proposed Transaction other than in the preparation of this report for which normal professional fees will be received.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

ATaylor

Andrew Taylor
Partner

DIRECTORY

SKY

Sky Network Television Limited
10 Panorama Road
Mt Wellington
Auckland 1060

PO Box 9059
Newmarket
Auckland 1149
New Zealand

Tel: +64 9 579 9999
Website: www.sky.co.nz

Investor query hotline

Tel: 0800 378 300 (freephone within New Zealand);
1800 501 366 (freephone within Australia); or
+64 9 488 8777

Legal advisers to SKY

Buddle Findlay
PricewaterhouseCoopers Tower
188 Quay Street
Auckland 1010

Registrar

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna
Auckland 0622

Private Bag 92119
Auckland 1142

Tel: +64 9 488 8777
Fax: +64 9 488 8787
Email: enquiry@computershare.co.nz

Investigating Accountant

Ernst & Young Transaction Advisory Services Limited
Ernst & Young Building
2 Takutai Square, Britomart
Auckland 1010

Sky Network Television Limited
10 Panorama Road
Mt Wellington
Auckland 1060

PO Box 9059
Newmarket
Auckland 1149
New Zealand