

COVID-19 Response, Refreshed Strategy and Capital Structure

21 May 2020

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- 1 Sky has made considerable progress on its strategy with total subscribers having increased by 205,823 since Sky's H1 FY20 result to 1,000,391 total subscribers at 30 April 2020, above Sky's 2020 target of 1 million subscribers. Subscriber growth has been achieved both organically and through the Lightbox acquisition
- 2 There has been an increase in entertainment viewership, and NEON and Lightbox streaming subscribers have increased since H1 FY20 by 235,837 at 30 April 2020¹
- 3 Up until now, COVID-19 has resulted in a significant reduction of live sports, however Sky's ability to offer a strong line-up of entertainment, news and historic sporting content, coupled with a range of complimentary package upgrade offers, has minimised net downgrades from satellite sport packages to 8% of the base and net satellite churn to 1.0% (in line with pre COVID-19 levels)²
- 4 Sky is excited about the return of live sport under Alert Level 2. However, the return of sport is expected to be gradual, and plans for international competitions are uncertain. Discussions with key sports rights holders are continuing and for some of these sports contracts Sky has the right to an equitable reduction of fees payable. Accordingly, Sky is currently withholding certain payments whilst negotiating with affected sports bodies with a view to ensuring the future health of its key sports partnerships
- 5 Sky's net working capital³ has decreased \$14m since H1 FY20. This, coupled with operational cash flows, has allowed Sky's net debt⁴ to reduce to \$159m as at 30 April 2020
- 6 Sky currently expects FY20 EBITDA of \$155–175m and NPAT of \$20–25m.⁵ This excludes any potential non-cash impairments arising from assessment of carrying value of assets
- 7 Sky has presented a FY21 scenario which is dependent on the availability of live sports content and must be assessed against the highly uncertain economic impact of COVID-19. Under this scenario, Sky's best estimate at this time is an EBITDA range of \$100–130m and NPAT range of \$5–15m⁵

1. Includes third party bundled wholesale subscribers from the Lightbox acquisition, which account for approximately 70% of the growth in these subscribers

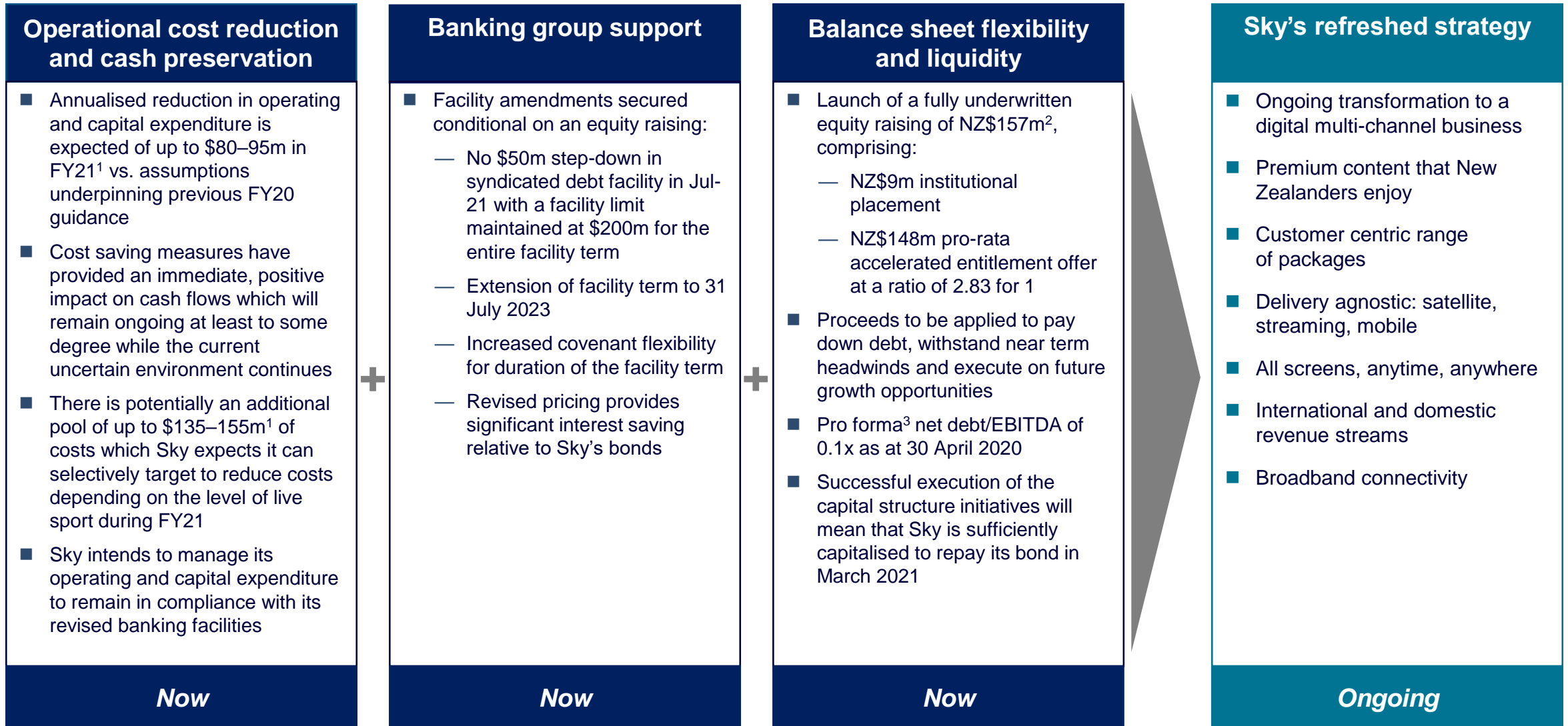
2. COVID-19 disruption for Sky is assessed by the business as occurring from 15 March 2020 to 30 April 2020 (being the latest available period presented in this document)

3. Net working capital is calculated as: Receivables, Prepayments and Programming Rights Inventory less Payables and Accruals

4. Net debt is defined as bank borrowings and bonds less cash

5. FY20 revised guidance and FY21 scenario assume Sky reduces costs based on Sky's reasonable expectation of a negotiated reduction in sports programming rights costs broadly proportionate to the content delivered. NPAT assumes net equity raise proceeds of NZ\$148m, and is prior to any non-cash adjustments

Comprehensive response to strengthen Sky's balance sheet and reposition for its refreshed strategy



1. FY21 scenarios assumes Sky reduces costs based on Sky's reasonable expectation of a negotiated reduction in sports programming rights costs broadly proportionate to the content delivered

2. Including proceeds of NZ\$148m (net of transaction costs)

3. Net debt includes proceeds of NZ\$148m (net of transaction costs) and calculated using LTM EBITDA to 30 April 2020, including May–June 2019 adjusted for the impacts of IFRS16 and one off accounting items have been excluded, including redundancy costs, strategic consultancy costs and content write-offs

COVID-19 response and short term strategic focus



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Summary of COVID-19 impact on Sky



COVID-19 and the associated restrictions on movement, travel and gatherings has made a significant amount of live sports content unavailable, but has also resulted in an uplift in entertainment viewership and subscribers



Increased demand for entertainment content

- New Zealand's lockdown has resulted in greater entertainment viewing as people stay at home
- Sky's entertainment streaming services, NEON and Lightbox have recorded strong growth

Increased viewership and stable satellite churn

- Consistent with trends in TV consumption during the COVID-19 outbreak, Sky's total viewership has increased by 10% in April 2020 compared to April 2019¹
- While the Level 4 lockdown restricted the installation of new satellite customers, recent improvements in satellite churn have continued



Pause in live sports content

- Sports customers are not being served with full live sport content at this time as a result of the reduction in sport being played around the world, however it is currently expected that play may recommence on a gradual basis
- Sky Sport Now streaming customer numbers have initially held up well, down 8.2%², with the wide range of library and non-live sport content providing subscribers with an extensive range of sporting content. RugbyPass subscribers are also down 1.5%². We are expecting higher levels of paused subscriptions as access to live sport continues to be disrupted
- While international travel restrictions are likely to continue for some time, the move to Level 2 restrictions in New Zealand has enabled Rugby and Netball to confirm the commencement of domestic-only competitions from June 2020. We also expect the gradual recommencement of other domestic sports in New Zealand, and potential offshore based competitions

Reduced advertising and commercial revenue

- Sky experienced a decline in advertising revenues in April 2020 of 36% (\$1.4m) compared to April 2019. Further reductions in advertising revenue can be expected as the impacts of COVID-19 continue to impact businesses across the country
- A number of commercial customers (e.g. pubs, clubs, hotels) have been adversely impacted by border closures and gathering restrictions, and Sky has proactively suspended charging a number of commercial customers. Commercial revenues have declined 68% (\$3.1m) in April 2020 compared to April 2019

1. Source: Nielsen Television Audience Measurement, measured as the average number of programme viewers as a proportion of New Zealanders aged 5+ years.

Traditional broadcast TV viewership increase. Excludes Prime

2. COVID-19 disruption window from 15 March 2020 to 30 April 2020

Sky has adjusted its focus to reflect the current environment and expects to implement cost saving initiatives of up to \$80–95m in FY21

During the COVID-19 disruption period Sky has focussed on:

- Leveraging the depth and breadth of entertainment content to grow subscribers
- Adapting sports offerings to ensure maximum value is provided to customers (including bundling of entertainment content)
- Planning and tooling the business for an extended period of disruption, with an absolute focus on cash preservation
- Rapidly implementing the above measures given the business transformation was already underway

Cost response in FY21 to COVID-19 vs. previous FY20 guidance¹

- If the current environment persists and sport is disrupted for an extended period, Sky intends to manage its operating costs and capital expenditure to help ensure continued positive free cash flow generation
- If conditions improve and sporting content begins to return, operating expenses and capital expenditure are expected to increase, however Sky anticipates a related increase in revenue at that time and also anticipates a similar or better level of free cash flow generation

	FY21 savings (\$m)
Programming operations	20 – 25
Other expenses	25 – 30
Total operating expense savings	45 – 55
Capital expenditure savings	35 – 40
Total savings	80 – 95

- In addition to the costs identified above, a further potential pool of up to \$135-155m² of operating and capital expenditure savings have been identified and can be selectively implemented in FY21, subject to the duration of live sport disruption

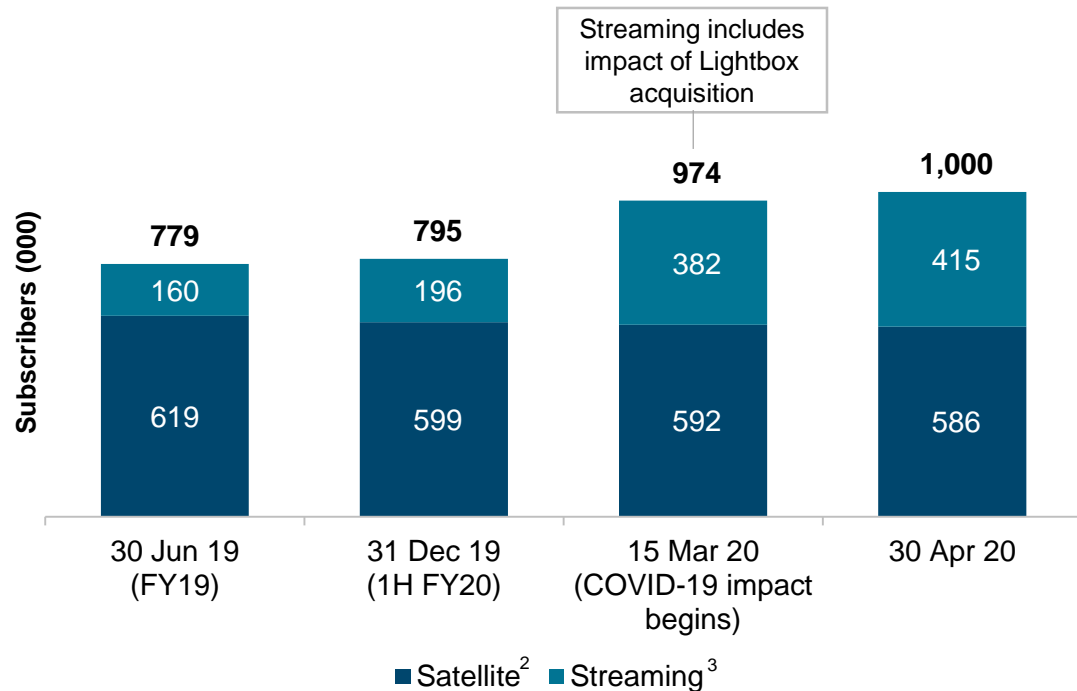
1. Cost assumptions underpinning the previous FY20 guidance provided to the market on 18 November 2019

2. Assumes Sky reduces costs based on Sky's reasonable expectation of a negotiated reduction in sports programming rights costs broadly proportionate to the content delivered

Total Sky subscribers have continued to grow during COVID-19

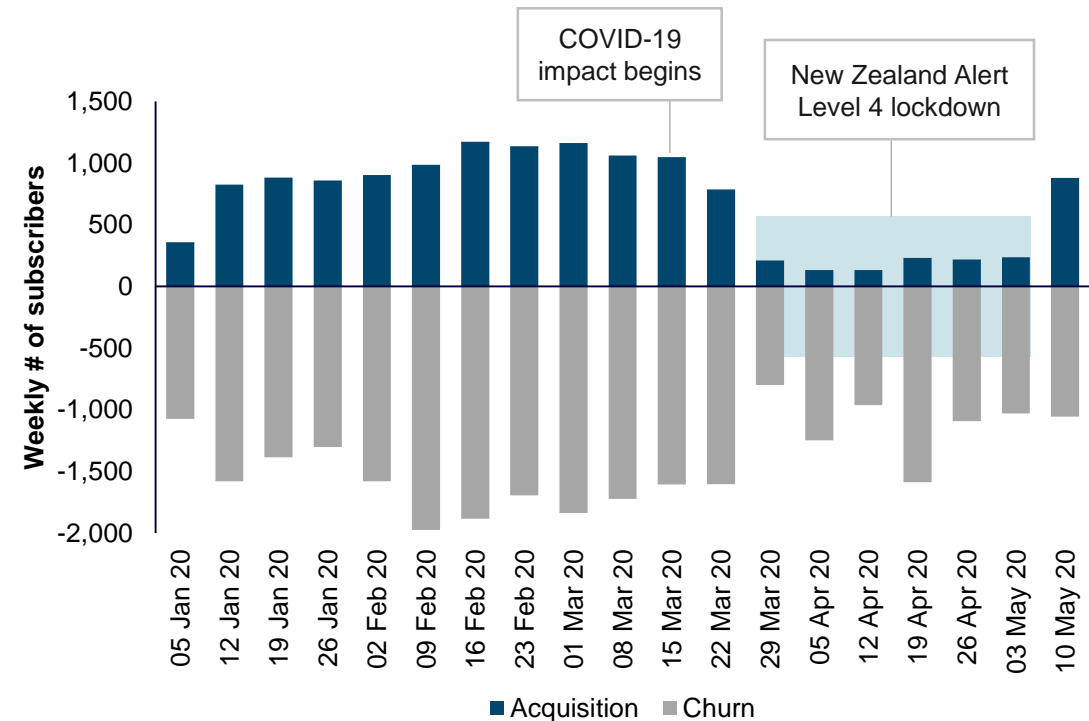


Total subscriber¹ growth of 2.7% since COVID-19 disruption began, 8.6% growth in streaming



- Satellite subscribers have decreased by 1.0% since 15 March 2020, contributed to by the inability to acquire new customers during the Level 4 lockdown (see RHS)
- Streaming subscribers have grown by 8.6% since 15 March 2020, with NEON and Lightbox together attracting ~38k additional subscribers, with a further ~38k on trials

Satellite acquisition reduced and churn stable during lockdown



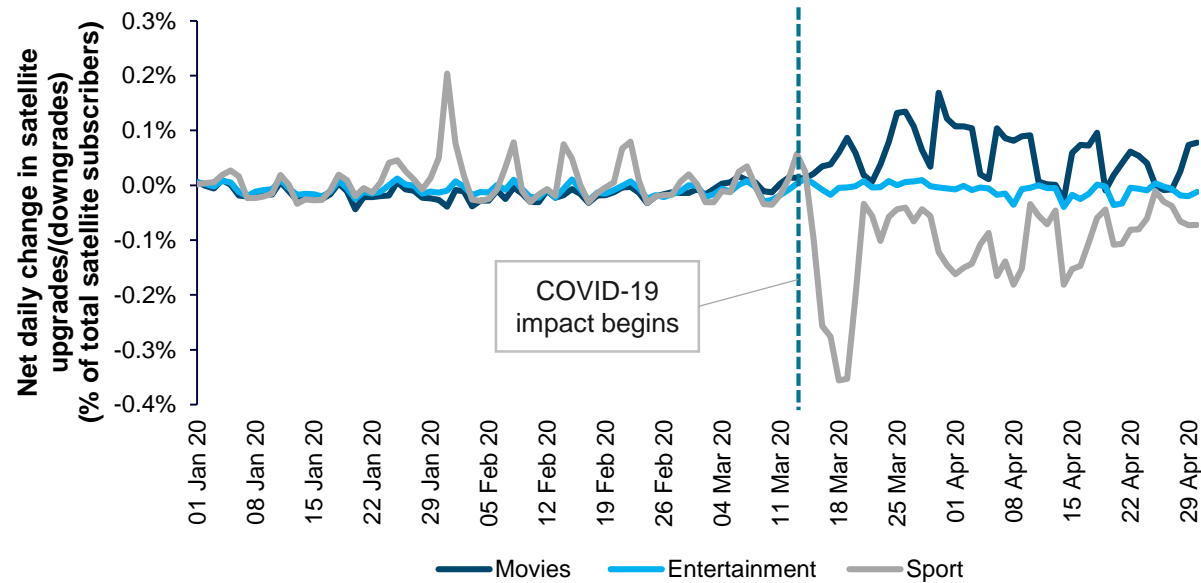
- Satellite customer churn has remained at pre COVID-19 levels, despite the unavailability of live sport
- Sports subscribers have been proactively offered package upgrades for entertainment and movies, to mitigate downgrades and churn

1. Subscribers do not include users that are on free trials but do include subscribers secured as part of the existing Lightbox wholesale arrangement
 2. Satellite comprises Sky Residential, Commercial and Vodafone reseller customers
 3. Streaming comprises NEON, Lightbox, Sky Sport Now, RugbyPass and retransmission customers (supplied via Vodafone). A portion of Lightbox subscribers are subject to a wholesale agreement with Spark

Satellite ARPU has been impacted by sport package downgrades, but is being supported by movie upgrades



Movie upgrades are partially offsetting sport downgrades (during COVID-19)



- Paying movie package subscriber numbers have been positively impacted by COVID-19 with upgrades materially exceeding downgrades as demand for entertainment content has increased due to the unavailability of live sport and the lockdown
- Sport downgrades spiked when it was first understood that COVID-19 would impact live sport (15–20 March), however have since levelled as Sky proactively offered package upgrades
- Net Sport downgrades have been limited to 8% of the sports base²

Satellite subscriber ARPU¹ has decreased by <1%



- Satellite ARPU has decreased to ~\$82 per month, primarily driven by subscribers downgrading sport packages

1. Satellite subscriber average revenue per user is the monthly average revenue for Sky residential customers
 2. COVID-19 disruption window from 15 March 2020 to 30 April 2020

Financial summary

\$m	FY19A ¹	FY20 revised guidance	FY21 scenario
Revenue	795	730 – 750	610 – 640
EBITDA	267	155 – 175	100 – 130
NPAT²	66	20 – 25	5 – 15
Capex	76	55 – 65	40 – 50

Commentary

- Sky's FY21 scenario is based on the following key assumptions:
 - Some live sport returns in H1 FY21 but with restrictions on movement and gatherings remaining in place. A return to full live sport is assumed in H2 FY21
 - Advertising and commercial revenue remains suppressed as a result of the impact of COVID-19 in H1 FY21, returning to more normal levels in H2 FY21
 - Satellite customer gross churn remains stable at pre COVID-19 levels with lower ARPU reflecting sports customer downgrades
 - Costs reduce based on Sky's reasonable expectation of a negotiated reduction in sports programming costs broadly proportionate to the content delivered
- The FY21 scenario is dependent on the highly uncertain economic impact of COVID-19 and to the particular impacts highlighted in the key risks disclosure on pages 26 to 31 of this presentation
- In addition to the FY21 scenario presented, Sky has modelled a scenario where no live sport content is available in FY21 and Sky withholds substantially all sports content payments³, and in this case costs are expected to be managed to maintain positive NPAT and remain in compliance with its revised banking facilities
- NPAT in the FY20 revised guidance and FY21 scenarios is prior to any non-cash adjustments and excludes any potential impairments
- The initiatives outlined, including the equity raise, are expected to ensure that Sky has sufficient capital to undertake the next phase of its strategic plan

1. FY19A EBITDA and NPAT are adjusted for the impact of IFRS16 and exclude \$670m of goodwill impairment

2. FY20 revised guidance and FY21 scenario NPAT assume net equity raise proceeds of NZ\$148m. NPAT presented is prior to any non-cash adjustments

3. Assumes Sky reduces costs based on Sky's reasonable expectation of a negotiated reduction in sports programming rights costs broadly proportionate to the content delivered

Refreshed strategic focus following resolution of COVID-19



Sky has an exciting future as a modern, digital, consumer-led multi-media business



Sky's goal is to connect our customers with the sport and entertainment content they love, in ways that work for them

We aim to delight our customers across all platforms and devices, and we're innovating in the digital space to meet current and future customer needs

We focus on securing the rights that matter, and use customer insight to drive our decisions

We are transforming into a modern multi-media company, with four strategic pillars

Sky's strategic pillars



Satellite

- **Strengthen** our significant core business through continued reliable delivery and enhanced value perception



Streaming

- **Grow** our entertainment and sports streaming business. We are using digital innovation to improve the customer experience and move to a lower-cost model



Broadband connectivity

- **Grow** customer relationships with broadband offers, differentiated on quality, service and price



RugbyPass

- **Develop** and grow an international rugby content business and become the online destination for fans globally

Sky provides access to a broad range of premium content



The Home of Sport



A World of Entertainment



Sky will have business segments with diversified maturities and outlooks, targeting different types of customers



	EXISTING BUSINESSES		NEW BUSINESSES	
	VALUABLE CORE	CURRENT GROWTH OPPORTUNITY	FUTURE GROWTH OPPORTUNITIES	
	 Satellite	 Streaming	 Broadband connectivity	 RugbyPass
Customer value proposition	Traditional offering with broad content selection on reliable delivery platform	Access to premium content on different customer devices	One stop shop for connectivity and content	A global leading source of rugby dedicated content
Long-term strategic objective	<ul style="list-style-type: none"> Continue to deliver Sky's premium content to the homes of New Zealanders Enhance customer value perception 	<ul style="list-style-type: none"> Deliver content conveniently to customers Drive engagement with younger and more technologically advanced audiences 	<ul style="list-style-type: none"> Reduce churn across the business Add incremental margin to Sky's business 	<ul style="list-style-type: none"> Build scale in global rugby content business Partner with other global organisations with expertise to deliver value to RugbyPass and Sky
Current customers (as at 30 Apr 20)	585,815 subscribers	414,576 subscribers	<i>New business line</i>	
Potential customers	4.95m² NZ population		1.8m³ households	5m+¹ unique monthly users
Estimated market size (p.a.)	\$1.4bn⁵ NZ television market		\$5.3bn⁶ NZ total telco retail revenues	
				338m⁴ rugby fans worldwide

1. Google Analytics & Facebook Insights as at November 2019. 2. StatsNZ estimate as at 31 Dec 19. 3. StatsNZ estimate as at 2018. 4. Nielsen/World Rugby 2018. 5. IBIS World Television Broadcasting in New Zealand report. 6. NZ Commerce Commission 2019 Telecommunications monitoring report

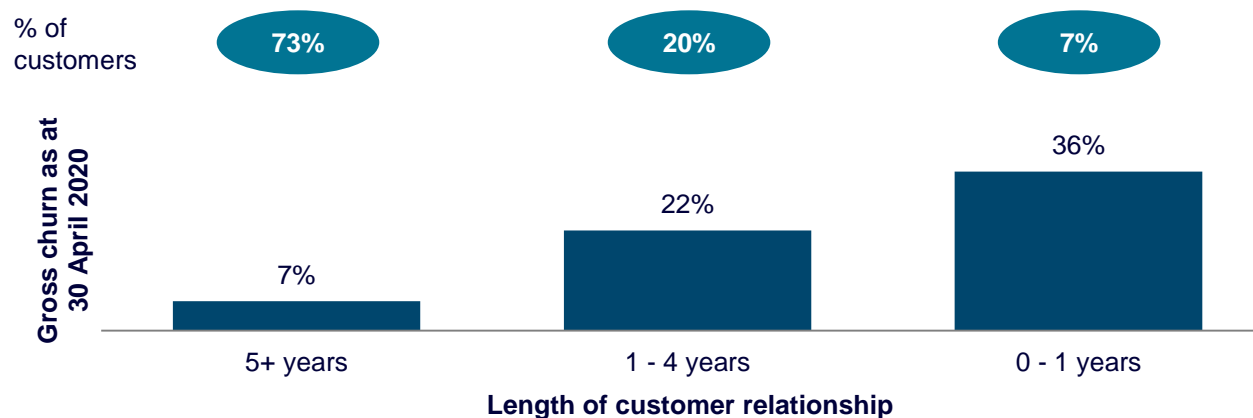
Sky's satellite offering continues to deliver value to its significant customer base



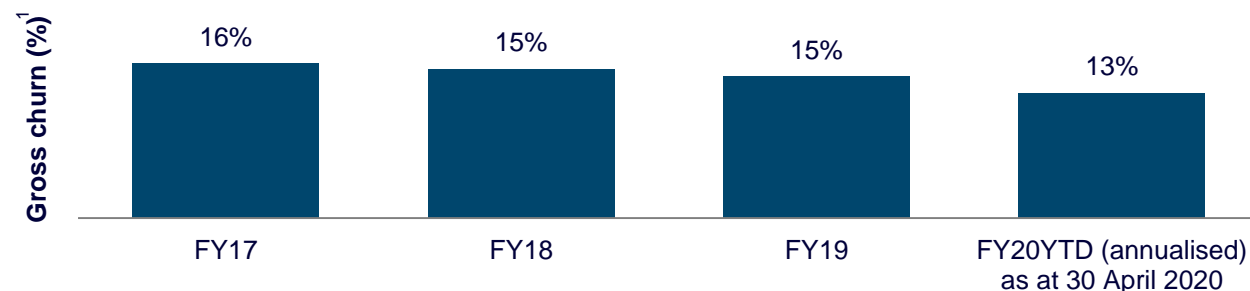
Satellite delivery to the home remains core to Sky's offering

- ✓ Cost effective delivery for customers
- ✓ Valuable customers with high ARPU
- ✓ Coverage to substantially all of the country
- ✓ Remains an important delivery option to customers (especially where broadband is unreliable)
- ✓ Increased value offering with additional HD channels and enhanced Sky Go as a companion streaming service

Sky's satellite offering has low churn in the majority of customers...



... and improving overall gross churn trends



1. Gross churn means total disconnects for residential satellite customers, excluding Vodafone reseller customers

Sky's streaming offering delivers content enjoyed by New Zealanders



Scaling towards a sustainable lower-cost model

- Significant progress achieved – from zero to 414,576 subscribers¹ (including acquired Lightbox subscribers) since launch in 2015
- Streaming less capital intensive than traditional satellite business
- Lower ARPU but lower cost to serve
- Larger addressable market of individual customer relationships
- Opportunity to partner with other subscription businesses (energy and telcos)
- Leveraging rights content to broadest audience
- Developing a single platform for all streaming products offering an enhanced user experience together with lower cost and complexity

Strategy



- Two services streaming premium entertainment content to New Zealanders
- Merging platforms and content in mid-2020 to secure brand presence and scale
- Continue to secure and deliver premium content to drive customer growth



- Market leading sports streaming service with extensive content range – showcasing 50+ sports
- Move towards flexible content packaging and additional revenue streams



- Sky content available to satellite customers on the go
- Considering evolution from satellite companion app to a standalone product

1. As at 30 April 2020, excludes Sky Go users

Broadband – FY21 likely launch

- Leverage Government investment in UFB¹ and Sky's well-known brand
- Retention benefits for Sky's significant satellite base
- Grow streaming market share with broadband bundle
- Use of 3rd party network platform to minimise investment
- Differentiated customer offering:
 - Built for streaming entertainment and sport
 - Competitive everyday price

Mobile – Considering market entry

- Operate as a MVNO²
- Target customers in non-traditional Sky segments
- Offer bundled products to add incremental margin and make customers 'stickier'
- Preference to align with 5G rollout for performance
- Complements and enables streaming proposition

Opportunity to reduce churn and capture incremental connectivity margin






Go to market strategy designed to minimise capital investment and leverage variable cost model

RugbyPass is the world's largest rugby audience business



Overview of RugbyPass

- Aggregated rugby media platform, launched in 2016, and positioned to monetise rugby across global markets
- Engaged reach of 33 million¹ rugby fans monthly, exclusive rights held in 64 countries for current rights cycle

	AUDIENCE MEDIA BUSINESS			PREMIUM RUGBY CONTENT	
Customer value proposition	Audience / Publishing  Free editorial and social	Content Production  Documentaries, interviews, analysis, video and audio	Media Services  B2B; connecting rugby bodies to audiences	Subscription Streaming  Streaming video live or on demand	RugbyPass TV  Bundled or À la Carte
	Revenue model Advertising (programmatic, branded content, premium display/video), non-rights subscription, media agency fees			Revenue model Subscription, advertising, B2B, commercial premises	
Opportunities	Global data-rich audience, monetise a scale sports network in tier 1 and 2 rugby markets			Extract value from secondary rugby markets	
	<i>Current focus</i>			<i>Future opportunity subject to securing rights</i>	

Strategic model to deliver value

Current focus model

- Leverage engagement profile and scale to accelerate revenue
- Provide access to global audience and monetise core international rugby markets
- Diversified revenue model expected to reach break even within two to three years

Long term strategy

- Develop Rugby's largest global database
- Become a multi-faceted media business leveraging RugbyPass IP
- Build a scale subscriber business in both audience and, subject to securing rights, streaming

1. Aggregated social media engagement as at November 2019

- Growth in digital streaming customers is substantially **less capital intensive**
- Sky will continue to seek to **optimise its asset base** and investigate divesting non-core assets where Sky is not the most efficient owner
- Long-term **EBITDA margin** objective of >20%
- Long-term **cash flow generation** objective of 7–10% of revenue
- The Board currently intends to reinvest available free cash flow during FY20 and FY21, and will re-evaluate the commencement of dividend payments in FY22

Capital structure



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Equity raising details



Offer size and structure	<ul style="list-style-type: none"> NZ\$157m fully underwritten equity raising, comprising: <ul style="list-style-type: none"> NZ\$9m institutional placement (“Placement”) NZ\$148m pro-rata accelerated entitlement offer (“Entitlement Offer”) at a ratio of 2.83 for 1 Approximately 1,310m new Sky shares will be issued under the equity raising
Application price	<ul style="list-style-type: none"> NZ\$0.12 per new share (“Application Price”), representing: <ul style="list-style-type: none"> 30.4% discount to TERP¹ of NZ\$0.17 63.6% discount to last close price of NZ\$0.33 as at 20 May 2020 The Australian dollar application price for eligible retail shareholders has been set at A\$0.11, using the prevailing AUD/NZD exchange rate on 20 May 2020
Institutional Entitlement Offer	<ul style="list-style-type: none"> Eligible institutional shareholders will be invited to take up their entitlements in an accelerated Institutional Entitlement Offer The Entitlement Offer is non-renounceable and any entitlements not taken up will lapse
Retail Entitlement Offer	<ul style="list-style-type: none"> Eligible retail shareholders in New Zealand and Australia will be sent offer materials and invited to take up their entitlements in a Retail Entitlement Offer Eligible retail shareholders may also apply for additional new shares in excess of their entitlement at the Application Price, up to a maximum of 20% over their pro rata entitlement The rights will not be quoted on the NZX or ASX and there will be no shortfall bookbuild for those entitlements not taken up by eligible retail shareholders or the entitlements of ineligible retail shareholders (the Entitlement Offer is non-renounceable and any entitlements not taken up will lapse)
Ranking	<ul style="list-style-type: none"> New shares issued under the Entitlement Offer will rank equally with existing Sky ordinary shares from the date of issue
Underwriting	<ul style="list-style-type: none"> The equity raising is fully underwritten by Forsyth Barr Group Limited and Goldman Sachs New Zealand Limited on customary terms for an offer of this nature
Record date	<ul style="list-style-type: none"> The Entitlement Offer is open to existing eligible Sky shareholders on the register as at 7:00pm NZT on the Record Date of Monday 25 May 2020
Board support	<ul style="list-style-type: none"> Sky’s Directors intend to take up their direct entitlements, to the extent that they are eligible to participate in the Entitlement Offer

1. TERP is the Theoretical Ex-Rights Price at which Sky ordinary shares would trade immediately after the ex-rights date for the Entitlement Offer. TERP is calculated with reference to Sky’s closing share price of NZ\$0.33 on 20 May 2020 and includes all new shares issued under the equity raising. TERP is a theoretical calculation only and the actual price at which Sky ordinary shares will trade immediately after the ex-rights date for the Entitlement Offer will depend on many factors and may not be equal to TERP

Pro forma liquidity position

(NZ\$m)	Liquidity (30 April 2020)	Impact of equity raise (net of transaction costs)	Pro forma liquidity (30 April 2020)
Drawn bank debt	166	(148)	18
Bonds	100		100 ¹
Cash	107		107
Available undrawn debt	34		182
Total liquidity	141		289
Net debt / LTM EBITDA²	0.8x		0.1x

Sources & Uses

Sources (NZ\$m)	Uses (NZ\$m)
Gross proceeds from equity raise	Paydown debt to allow repayment of Bonds in March 2021
	Transaction costs and financing fees
Total sources	Total uses
157	148
	9
157	157

1. The bonds will be repaid out of available liquidity as at 31 March 2021

2. LTM EBITDA to 30 April 2020, including May–June 2019 adjusted for the impacts of IFRS16 and one off accounting items have been excluded including redundancy costs, strategic consultancy costs and content write-offs

Equity raising timetable



Event	Date
Announcement of equity raising and trading halt pre market open	Thursday, 21 May 2020
Record date for the Entitlement Offer	Monday, 25 May 2020
Institutional Entitlement Offer and Placement	
Institutional Entitlement Offer and Placement opens	Thursday, 21 May 2020
Institutional Entitlement Offer and Placement closes	Friday, 22 May 2020
Trading halt lifted and shares recommence trading on NZX and ASX on an 'ex-entitlement' basis	Monday, 25 May 2020
ASX settlement	Friday, 29 May 2020
NZX settlement, NZX and ASX allotment and commencement of trading of new shares	Tuesday, 2 June 2020
Retail Entitlement Offer	
Retail Entitlement Offer opens	Wednesday, 27 May 2020
Offer Document despatched to Eligible Retail Shareholders	Wednesday, 27 May 2020
Retail Entitlement Offer closes	Tuesday, 9 June 2020
Announcement of results of Retail Entitlement Offer	Friday, 12 June 2020
ASX settlement	Monday, 15 June 2020
NZX settlement, NZX and ASX allotment and commencement of trading of new shares on NZX	Tuesday, 16 June 2020
Commencement of trading of new shares on ASX	Wednesday, 17 June 2020

Key risks relating to the equity raising



This section outlines the key risks Sky has identified relating to the equity raise. These risks may affect the future operating and financial performance of Sky and the Sky share price. Like any investment, there are risks associated with an investment in Sky's shares. Please note that this Section does not (and does not purport to) set out all of the risks related to an investment in Sky shares, the future operating or financial performance of Sky, the equity raise or general market or industry risks. Some risks may be unknown and other risks, currently believed to be immaterial, could turn out to be material

Investors should be aware that the spread of COVID-19, its effect on the global economy and actions taken in response by the New Zealand government, and other governments around the world, has had a material adverse effect on Sky, its financial performance and position, liquidity, financial condition and operations. It is not currently clear when these negative impacts will begin to abate. It is also likely that there will be further unforeseen negative impacts as COVID-19 continues to affect the world. There is no certainty as to the severity or likelihood of any such unforeseen impacts arising nor whether any mitigating action will be effective or can be taken

In light of the COVID-19 pandemic, extra caution should be taken when assessing the risks associated with investment. The rapidly changing COVID-19 situation is bringing unprecedented challenges to global financial markets, and the economy as a whole. Capital markets have seen equity securities suffer from spikes in volatility and significant price decline

Before deciding whether to invest in Sky shares, you must make your own assessment of the risks associated with an investment in Sky, including the inherent uncertainties as to the impact of COVID-19 noted above, and consider whether such an investment is suitable for you having regard to publicly available information (including this presentation), your personal circumstances and following consultation with a financial or other professional adviser

Programming rights

- Sky's premium content suppliers continue to be impacted by COVID-19
- The ability of sports codes to deliver live sports in the format assumed at the time of entering into the supply agreements is being impacted by COVID-19 and Government responses all around the world. Live sport content has effectively stopped with only limited return underway or scheduled at this stage. It remains unclear when a full schedule of live sport will resume and the impact of what any modified format on resumption might have on the appeal or value of that content to Sky and its current or potential subscribers. If the content available on resumption is significantly less appealing or valuable or if live sport resumes later than anticipated by Sky, it may have a material adverse effect on Sky's financial performance, as sport remains a key part of Sky's product offering and its continued attractiveness to customers
- COVID-19 has seen a dramatic and sudden fall in sports codes' revenues drawn from broadcast licence fees, sponsorship, ticket sales and merchandising. There is accordingly general uncertainty around whether sports codes will remain financially viable with little live sport being played on a global basis for the time being. Sky remains committed to working with its sport code partners. However, even with Sky's support, COVID-19 may seriously affect codes and could change the type and value of live sport output and/or the availability of rights to that content. Where international travel restrictions also disrupt what sports are played, that too could change the value to Sky and its current or potential subscribers of the live sport on offer post COVID-19
- Sky is working closely with many contractual counterparties to seek to agree an appropriate equitable reduction in payments, or other appropriate concessions to payment terms or discounts in response to the cessation of live sport. FY21 scenarios assume Sky reduces costs based on Sky's reasonable expectation of a negotiated reduction in sports programming rights costs broadly proportionate to the content not delivered and that Sky adjusts payment terms to monthly payments and/or to better link payment amounts to content delivery. However, the extent to which Sky will have to make payments, and the extent to which live sport (or other mitigation measures) will be available, is currently uncertain. If Sky is not able to achieve the assumed cost reductions or agree better payment terms, it may have a material adverse effect on Sky's anticipated financial performance
- While our key entertainment partner deals are currently unaffected, we do have concerns about the ability of our partners to deliver new content as studio production has been disrupted which may result in an adverse impact to either or both of the volume and quality of the content being offered to Sky whether as part of an existing output deal or as an open-market purchase. There is a risk that scarcity of new content and the change to charging mechanisms for content will increase the price of open-market buying of content due to the buying approach that is being adopted by the 'global streamers' such as Netflix, Apple and Amazon Prime
- Sky has a number of key entertainment content contract renewal negotiations underway. A renewal of any key content agreement – even with longer term partners – is not without risk as each counterparty looks to address the cost and benefits to be achieved in the renewal during a multi-year view. Sky is cognisant of the new reality where previously separately contracted agreements are effectively being negotiated as one due to the amalgamation of some studios and licensors under one distribution umbrella. Sky is also alive to the increased challenge of securing appropriate rights to some content as studios and licensors look to their own direct to consumer services or plans or to global platforms (such as Netflix and Apple). If Sky is unable to renew these key contracts it may result in a reduction in its revenue or Sky may face increased costs if the cost of content is increased under a renewed contract

Key risks relating to the equity raising (cont.)



Customer risk	<ul style="list-style-type: none">• The spread of COVID-19 and the measures taken by governments in response have had a negative impact on the New Zealand economy and New Zealanders' freedom of movement and freedom to gather. Sky's customers include both residential and commercial businesses across our satellite, streaming and advertising services• As a generally discretionary spending item, the negative impact across the New Zealand economy may in turn have a material adverse effect on Sky's financial performance if its customers are either unable or unwilling to continue to subscribe to Sky's products or if it cannot attract new customers (either directly or via its wholesale arrangements)• Sky's commercial revenues, currently discounted for commercial customers impacted by COVID-19, are expected to start to return once the Government lowers COVID-19 social gathering restrictions at Level 2 and below. However, there is a risk that Sky's commercial revenues do not recover which would have a material adverse impact on Sky's financial performance• Sky's advertising revenue is currently depressed, as a large portion of Sky's advertising revenue is captured around sporting events and there remains a risk that advertising revenues stay depressed for longer, which would have a material adverse impact on Sky's financial performance• There is a risk that Lightbox bundled wholesale subscribers do not continue their subscriptions when those arrangements expire in January 2021. These subscribers account for approximately 55% of total entertainment streaming customers as at 30 April 2020
Business disruption risk	<ul style="list-style-type: none">• Operational cost optimisation measures have been carefully considered, so as to minimise disruption to Sky's core operations. While Sky is proactively and carefully considering all of the actions it takes in response to COVID-19, these actions and the impact of COVID-19 may negatively affect the ability of Sky to operate effectively, which may in turn have a material adverse effect on Sky's financial and operating performance• Sky's trading performance as the impact of COVID-19 continues may be worse than anticipated, whether due to subdued customer demand or the need for greater discounting and customer incentives than anticipated, cost reductions having a negative impact on Sky's ability to continue operations or other unforeseen factors. If these factors arise, they could have a material adverse effect on Sky's financial position and performance
Risks specific to new initiatives	<ul style="list-style-type: none">• Sky is currently undertaking a number of transformational cost out initiatives, including headcount reductions. To the extent that these cost savings are not fully achieved, there may be a material adverse effect on the FY20 guidance and FY21 scenario presented• Sky is proposing to undertake a number of new initiatives to establish its long-term strategy as a modern digital multi-media business. While Sky believes it has appropriate expertise and resources in place to enable it to successfully complete these initiatives, there remain unforeseen risks and other market risks, common to any new enterprise, which may mean the anticipated benefits of the new business plan are delayed or not realised. If Sky is less successful in achieving these initiatives than anticipated, it may have a material adverse effect on its financial performance and position

Capital sufficiency and banking support

- Sky has undertaken a capital sufficiency modelling exercise to assist in determining the optimal equity raise size. Based on its modelling, Sky expects to have sufficient liquidity to meet capital requirements under what Sky considers to be realistic downside scenarios which continue through to the end of FY21
- The model is based on what Sky considers to be a conservative set of assumptions and considers multiple scenarios for the resumption of sport in particular. However, there remains a risk that the negative impacts of the COVID-19 pandemic far exceed Sky's downside scenarios, and live sport content is delayed for longer, customer numbers reduce materially because of prevailing economic conditions, or cost out assumptions cannot be met. In the event of this scenario materialising, Sky may have insufficient liquidity to meet capital and operational requirements. Sky would reassess balance sheet strength and may seek to access additional equity or debt funding which could have adverse effects on Sky's operating performance and earnings
- Sky is working with its existing banking group and has agreed removal of the \$50m facility limit step-down in July 2021 (limit maintained at \$200m), relaxation of certain covenants and extension of existing facilities to July 2023, subject to successful completion of a minimum NZ\$80m equity raising (net of transaction costs) and completion of documentation of the amendments. If the equity raise is not successfully completed, for example because the underwriting agreement is terminated prior to the allotment of the Institutional Entitlement Offer and Placement, Sky would need to consider alternative options including additional equity or debt funding, or a refinancing of existing debt facilities. If Sky was unable to access these alternative options, Sky would be likely to breach its currently available banking headroom upon repayment of the \$100m of bonds maturing in March 2021. If this breach occurred, Sky would be unlikely to retain the support of its banks, including for any necessary covenant or headroom relief, and may have to refinance its debt on less favourable terms which could have an adverse effect on Sky's financial position and performance
- Sky's model indicates that the retention of the facility limit of \$200m, relaxation of certain covenants and extension of facilities to July 2023 (subject to successful completion of a minimum NZ\$80m equity raising) will provide Sky with sufficient headroom until at least the end of FY21, including for the repayment of Sky's SKT020 bonds on 31 March 2021. However, there remains a risk that the impact of COVID-19 on Sky is worse than anticipated and may result in non-compliance with covenants or otherwise trigger an event of default under Sky's facilities, and Sky is unable to obtain further support from its banking group. If this occurred, Sky may need to refinance its existing debt on less favourable terms or take other actions to achieve compliance with its covenants, which may have a material adverse effect on its financial and operating performance

Key risks relating to the equity raising (cont.)



Impairment risk

- Sky had \$547m of assets recorded on its balance sheet as at 31 December 2019 for programming rights inventory and goodwill. There is a risk that these assets may be considered impaired. Further information on the assumptions currently underlying the carrying value of goodwill was set out in Note 12 of Sky's recent interim report for the 6 months ended 31 December 2019. At 20 May 2020 the share price of Sky was NZ\$0.33 indicating a potential impairment of goodwill; however this is only one factor to take into account, and is not necessarily representative of the future value of the business. Sky continues to review the underlying assumptions based on the latest available information and will form an opinion at the time of finalising its next financial statements later in 2020. It is possible that the carrying value of the assets may be considered impaired at that time and a non-cash charge to the profit and loss could occur.

Satellite risk

- Sky's current primary satellite is operating as required. In order to protect the ongoing delivery of Sky's satellite delivery, Sky currently has access to a back-up satellite which is also operating as required. In December 2018, Sky entered into an extension of its satellite service agreement with Optus for a further ten year duration from 2021. The agreement is conditional on Optus taking sufficient steps to procure the successful launch of a new satellite to replace the existing primary satellite within an acceptable timeframe. In January 2020, Optus indicated there may be a delay to the launch of a replacement satellite from the expected deployment in 2022 to late 2023, noting that the primary satellite is due to become end of life in 2024 and the back-up satellite is due to become end of life in 2025. Sky is working with Optus and other satellite organisations to ensure that there is continuity of service. While Sky considers the risk of a disruption to continuity of service due to a delayed launch of a replacement satellite, or failure to agree a new supply arrangement, or the transition to a new satellite or satellite provider to be unlikely, should this occur it would have a material adverse impact on Sky's financial and operating performance.

This document does not constitute an offer of New Shares of the Company in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person, and the New Shares may not be offered or sold, in any country outside New Zealand or Australia except to the extent permitted below.

Canada (British Columbia, Ontario and Quebec provinces)

This document constitutes an offering of New Shares only in the Provinces of British Columbia, Ontario and Quebec (the "Provinces") and to those persons to whom they may be lawfully distributed in the Provinces, and only by persons permitted to sell such New Shares. This document is not, and under no circumstances is to be construed as, an advertisement or a public offering of securities in the Provinces. This document may only be distributed in the Provinces to persons that are "accredited investors" within the meaning of NI 45-106 – *Prospectus Exemptions*, of the Canadian Securities Administrators.

No securities commission or similar authority in the Provinces has reviewed or in any way passed upon this document, the merits of the New Shares or the offering of New Shares and any representation to the contrary is an offence.

No prospectus has been, or will be, filed in the Provinces with respect to the offering of New Shares or the resale of such securities. Any person in the Provinces lawfully participating in the offer will not receive the information, legal rights or protections that would be afforded had a prospectus been filed and receipted by the securities regulator in the applicable Province. Furthermore, any resale of the New Shares in the Provinces must be made in accordance with applicable Canadian securities laws which may require resales to be made in accordance with exemptions from dealer registration and prospectus requirements. These resale restrictions may in some circumstances apply to resales of the New Shares outside Canada and, as a result, Canadian purchasers should seek legal advice prior to any resale of the New Shares.

The Company as well as its directors and officers may be located outside Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon the Company or its directors or officers. All or a substantial portion of the assets of the Company and such persons may be located outside Canada and, as a result, it may not be possible to satisfy a judgment against the Company or such persons in Canada or to enforce a judgment obtained in Canadian courts against the Company or such persons outside Canada.

Any financial information contained in this document has been prepared in accordance with generally accepted accounting practice in New Zealand and also comply with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board. Unless stated otherwise, all dollar amounts contained in this document are in New Zealand dollars.

Statutory rights of action for damages and rescission

Securities legislation in certain of the Provinces may provide purchasers with, in addition to any other rights they may have at law, rights of rescission or to damages, or both, when an offering memorandum that is delivered to purchasers contains a misrepresentation. These rights and remedies must be exercised within prescribed time limits and are subject to the defenses contained in applicable securities legislation. Prospective purchasers should refer to the applicable provisions of the securities legislation of their respective Province for the particulars of these rights or consult with a legal adviser.

The following is a summary of the statutory rights of rescission or to damages, or both, available to purchasers in Ontario. In Ontario, every purchaser of the New Shares purchased pursuant to this document (other than (a) a "Canadian financial institution" or a "Schedule III bank" (each as defined in NI 45-106), (b) the Business Development Bank of Canada or (c) a subsidiary of any person referred to in (a) or (b) above, if the person owns all the voting securities of the subsidiary, except the voting securities required by law to be owned by the directors of that subsidiary) shall have a statutory right of action for damages and/or rescission against the Company if this document or any amendment thereto contains a misrepresentation. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against the Company. This right of action for rescission or damages is in addition to and without derogation from any other right the purchaser may have at law. In particular, Section 130.1 of the Securities Act (Ontario) provides that, if this document contains a misrepresentation, a purchaser who purchases the New Shares during the period of distribution shall be deemed to have relied on the misrepresentation if it was a misrepresentation at the time of purchase and has a right of action for damages or, alternatively, may elect to exercise a right of rescission against the Company, provided that (a) the Company will not be liable if it proves that the purchaser purchased the New Shares with knowledge of the misrepresentation; (b) in an action for damages, the Company is not liable for all or any portion of the damages that the Company proves does not represent the depreciation in value of the New Shares as a result of the misrepresentation relied upon; and (c) in no case shall the amount recoverable exceed the price at which the New Shares were offered.

Section 138 of the *Securities Act* (Ontario) provides that no action shall be commenced to enforce these rights more than (a) in the case of any action for rescission, 180 days after the date of the transaction that gave rise to the cause of action or (b) in the case of any action, other than an action for rescission, the earlier of (i) 180 days after the purchaser first had knowledge of the fact giving rise to the cause of action or (ii) three years after the date of the transaction that gave rise to the cause of action. These rights are in addition to and not in derogation from any other right the purchaser may have.

Certain Canadian income tax considerations. Prospective purchasers of the New Shares should consult their own tax adviser with respect to any taxes payable in connection with the acquisition, holding or disposition of the New Shares as any discussion of taxation related matters in this document is not a comprehensive description and there are a number of substantive Canadian tax compliance requirements for investors in the Provinces.

Language of documents in Canada. Upon receipt of this document, each investor in Canada hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the New Shares (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.*

European Union (Denmark, Germany and the Netherlands)

This document has not been, and will not be, registered with or approved by any securities regulator in Denmark, Germany or the Netherlands. Accordingly, this document may not be made available, nor may the New Shares be offered for sale, in Denmark, Germany and the Netherlands except in circumstances that do not require a prospectus under Article 1(4) of Regulation (EU) 2017/1129 of the European Parliament and the Council of the European Union (the "Prospectus Regulation").

In accordance with Article 1(4)(a) of the Prospectus Regulation, an offer of New Shares in Denmark, Germany and the Netherlands is limited to persons who are "qualified investors" (as defined in Article 2(e) of the Prospectus Regulation).

Hong Kong

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "SFO"). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the New Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO and any rules made under that ordinance).

No advertisement, invitation or document relating to the New Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the New Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted New Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any of the contents of this document, you should obtain independent professional advice.

Norway

This document has not been approved by, or registered with, any Norwegian securities regulator under the Norwegian Securities Trading Act of 29 June 2007. Accordingly, this document shall not be deemed to constitute an offer to the public in Norway within the meaning of the Norwegian Securities Trading Act of 2007.

The New Shares may not be offered or sold, directly or indirectly, in Norway except to "professional clients" (as defined in the Norwegian Securities Trading Act of 29 June 2007 no. 75 (Section 10-6) and including non-professional clients having met the criteria for being deemed to be professional and for which an investment firm has waived the protection as non-professional in accordance with the procedures in this regulation).

Singapore

This document and any other materials relating to the New Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of New Shares, may not be issued, circulated or distributed, nor may the New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) of Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) an "accredited investor" (as defined in the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire New Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

Appendix: Foreign selling restrictions (cont.)



Switzerland

The offering of the New Shares in Switzerland is exempt from requirement to prepare and publish a prospectus under the Swiss Financial Services Act ("FinSA") because such offering is made to professional clients within the meaning of the FinSA only and the New Shares will not be admitted to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. This Offering Memorandum does not constitute a prospectus pursuant to the FinSA, art. 652a, or art. 752 of the Swiss Code of Obligations (in its version applicable during the transitory period after entering into force of FinSA on January 1, 2020) or a listing prospectus within the meaning of art. 27 et seqq. of the SIX Listing Rules (in their version enacted on January 1, 2020, and to be applied during the transitory period), and no such prospectus has been or will be prepared for or in connection with the offering of the New Shares.

United Arab Emirates

Neither this document nor the New Shares have been approved or passed on in any way by the Emirates Securities and Commodities Authority ("ESCA") or any other governmental authority in the United Arab Emirates. The Company has not received authorisation from the ESCA or any other governmental authority to market or sell the New Shares within the United Arab Emirates. This document does not constitute, and may not be used for the purpose of, an offer of securities in the United Arab Emirates. No services relating to the New Shares, including the receipt of applications, may be rendered within the United Arab Emirates.

No offer or invitation to subscribe for New Shares is valid, or permitted from any person, in the Abu Dhabi Global Market or the Dubai International Financial Centre.

United Kingdom

Neither the information in this document nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("FSMA")) has been published or is intended to be published in respect of the New Shares.

This document is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of the FSMA) in the United Kingdom, and the New Shares may not be offered or sold in the United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) of the FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the issue or sale of the New Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended ("FPO"), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together "relevant persons"). The investments to which this document relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

United States

This document does not constitute an offer to sell, or the solicitation of an offer to buy, securities in the United States, and may not be distributed to any person in the United States.

The Entitlements and the New Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (**US Securities Act**) and may not be offered or sold, directly or indirectly, in the United States except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act and applicable securities laws of any state or other jurisdiction of the United States.