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 million1 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 FY162 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”). 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”) 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.

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.

![Sky TV - Summary Performance](image)

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:

<table>
<thead>
<tr>
<th>Impact on Key Credit Metrics (times)</th>
<th>Sky TV</th>
<th>Combined Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Cover (FY17)</td>
<td>17.3</td>
<td>11.0</td>
</tr>
<tr>
<td>(Adjusted EBITDA/net interest)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Cover (Y17)</td>
<td>11.5</td>
<td>4.1</td>
</tr>
<tr>
<td>(Adjusted EBIT/net interest)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leverage Ratio (FY17)</td>
<td>1.1</td>
<td>2.0</td>
</tr>
<tr>
<td>(net debt/Adjusted EBITDA)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITA(^7) Leverage Ratio (FY17)</td>
<td>1.1</td>
<td>4.1</td>
</tr>
<tr>
<td>(net debt/Adjusted EBITA)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBIT Leverage Ratio (FY17)</td>
<td>1.6</td>
<td>5.4</td>
</tr>
<tr>
<td>(net debt/Adjusted EBIT)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gearing</td>
<td>15.4%</td>
<td>27.4%</td>
</tr>
<tr>
<td>(net debt/enterprise value(^9))</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 multiplies implied by share prices for the Combined Group in the range $4.50-5.00:

<table>
<thead>
<tr>
<th>Share Price Range ($)</th>
<th>4.50</th>
<th>4.60</th>
<th>4.70</th>
<th>4.80</th>
<th>4.90</th>
<th>5.00</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Implied Earnings Multiples – Combined Group</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multiple of adjusted EBITDA (times)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY16 (pro forma forecast)</td>
<td>6.5</td>
<td>6.6</td>
<td>6.7</td>
<td>6.8</td>
<td>6.9</td>
<td>7.0</td>
</tr>
<tr>
<td>FY17 (pro forma forecast)</td>
<td>6.5</td>
<td>6.6</td>
<td>6.8</td>
<td>6.9</td>
<td>7.0</td>
<td>7.1</td>
</tr>
<tr>
<td>Multiple of adjusted EBITA (times)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY16 (pro forma forecast)</td>
<td>13.9</td>
<td>14.1</td>
<td>14.3</td>
<td>14.5</td>
<td>14.7</td>
<td>14.9</td>
</tr>
<tr>
<td>FY17 (pro forma forecast)</td>
<td>13.3</td>
<td>13.5</td>
<td>13.7</td>
<td>13.9</td>
<td>14.1</td>
<td>14.3</td>
</tr>
<tr>
<td>Multiple of EBITDA – Capex(^{11}) (times)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY16 (pro forma forecast)</td>
<td>11.5</td>
<td>11.7</td>
<td>11.9</td>
<td>12.1</td>
<td>12.2</td>
<td>12.4</td>
</tr>
<tr>
<td>FY17 (pro forma forecast)</td>
<td>10.9</td>
<td>11.1</td>
<td>11.2</td>
<td>11.4</td>
<td>11.6</td>
<td>11.7</td>
</tr>
</tbody>
</table>

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 than 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:

<table>
<thead>
<tr>
<th>Sky TV - Valuation Summary ($ millions)</th>
<th>Detailed Report Section Reference</th>
<th>Value Range $ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business operations</td>
<td>6.1</td>
<td>2,300-2,500</td>
</tr>
<tr>
<td>Less: Net borrowings</td>
<td>6.5</td>
<td>(374)-(374)</td>
</tr>
<tr>
<td><strong>Value of equity</strong></td>
<td></td>
<td><strong>1,926-2,126</strong></td>
</tr>
<tr>
<td>Shares on issue (millions)</td>
<td>389.1</td>
<td>389.1</td>
</tr>
<tr>
<td><strong>Value of equity ($ per share)</strong></td>
<td></td>
<td><strong>4.95-5.46</strong></td>
</tr>
</tbody>
</table>

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:

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

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:

<table>
<thead>
<tr>
<th>Vodafone NZ – Implied Valuation Parameters</th>
<th>Variable ($ millions)</th>
<th>Range of Parameters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value range ($ millions)</td>
<td></td>
<td>3,400</td>
</tr>
<tr>
<td>Multiple of underlying EBITDA (times)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY16 (pro forma forecast)</td>
<td>453.4</td>
<td>7.5</td>
</tr>
<tr>
<td>FY17 (pro forma forecast)</td>
<td>480.914</td>
<td>7.1</td>
</tr>
<tr>
<td>Multiple of underlying EBITA (times)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY16 (pro forma forecast)</td>
<td>134.7</td>
<td>25.2</td>
</tr>
<tr>
<td>FY17 (pro forma forecast)</td>
<td>183.314</td>
<td>18.5</td>
</tr>
<tr>
<td>Multiple of EBITDA - Capex (times)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY16 (pro forma forecast)</td>
<td>215.8</td>
<td>15.8</td>
</tr>
<tr>
<td>FY17 (pro forma forecast)</td>
<td>274.814</td>
<td>12.4</td>
</tr>
</tbody>
</table>

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 revenue15. It also has a significant share of the fixed line

14 Before one off items of $1.6 million.
market (approximately 29% of connections\textsuperscript{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)

<table>
<thead>
<tr>
<th></th>
<th>Detailed Report Section Reference</th>
<th>Grant Samuel Estimates of Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Underlying Value – Sky TV</td>
<td>6.1</td>
<td>1,926</td>
</tr>
<tr>
<td>Underlying Value – Vodafone NZ</td>
<td>8.1</td>
<td>2,150</td>
</tr>
<tr>
<td>Relative Value Contributions – Sky TV</td>
<td></td>
<td>47.3%</td>
</tr>
<tr>
<td>Relative Value Contributions – Vodafone NZ</td>
<td></td>
<td>52.7%</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Value of the Consideration</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of shares to be issued (millions)</td>
<td>405.0</td>
<td>405.0</td>
</tr>
<tr>
<td>Underlying value per share ($ per share)</td>
<td>$4.95</td>
<td>$5.46</td>
</tr>
<tr>
<td>Aggregate value of shares ($ millions)</td>
<td>2,005</td>
<td>2,213</td>
</tr>
<tr>
<td>Cash consideration ($ millions)</td>
<td>1,250</td>
<td>1,250</td>
</tr>
<tr>
<td>Consideration value ($ millions)</td>
<td>3,255</td>
<td>3,463</td>
</tr>
</tbody>
</table>

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:
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:

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