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13 October 2017

Court approves convening of Scheme Meeting for 15 November 2017

Pepper Group Limited (“**Pepper**”) announces that the Australian Securities and Investments Commission has registered the Scheme Booklet in relation to the proposed acquisition of all of Pepper’s shares¹ by Red Hot Australia Bidco Pty Ltd (“**Bidco**”) by way of scheme of arrangement (“**Scheme**”). As announced on 10 August 2017² and 25 September 2017, Bidco is an entity owned by certain funds, clients or accounts managed or advised by KKR Credit Advisors (US) LLC or its affiliates (“**KKR Credit**”).

Yesterday, the Federal Court of Australia approved the convening of a meeting of Pepper shareholders (“**Scheme Meeting**”) to consider and vote on the Scheme, and approved the despatch of the Scheme Booklet to Pepper shareholders.

The Scheme Meeting will be held shortly after 10:00am on Wednesday, 15 November 2017 at Christie Offices, 100 Walker Street, North Sydney, NSW (immediately following the conclusion of a general meeting of Pepper Shareholders scheduled for 10:00am on that date at the same venue to consider and vote on proposed changes to Pepper’s Constitution (“**General Meeting**”).

A copy of the Scheme Booklet, which includes an Independent Expert’s Report and notices of the General Meeting and Scheme Meeting, is attached to this announcement.

Next Steps

Pepper shareholders should consider the Scheme Booklet before deciding how to vote at the General Meeting and Scheme Meeting.

Subject to shareholder and court approval and the other conditions of the Scheme being satisfied, the Scheme is expected to be implemented in December 2017.

Pepper is being advised by Citigroup and Jones Day. The Independent Board Committee is being advised by Highbury Partnership and Herbert Smith Freehills.

ENDS

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¹ Except those subject to the Retention Option

² See Pepper’s announcement of the Scheme dated 10 August 2017 (the “Scheme Announcement”).

Capitalised terms that are not defined herein have the meaning given to them in the Scheme Announcement

About Pepper Group Limited

Pepper Group offers a unique, diversified, global portfolio of financial services including Lending, Advisory and Asset Servicing across the residential and commercial property sectors - as well as in consumer, auto and equipment finance.

As a people focused lender, Pepper specialises in flexible loan solutions based on individual credit assessment. It enables us to support many borrowers who fall outside the credit criteria of the major banks. As a third party servicer, we administer loan books on behalf of other banks and financial institutions – when they don't have the capacity. We step in, using our own processes or expertise to administer loan payments or manage the arrears and recovery process.

Pepper is a global leader in alternative solutions with over 600,000 customers worldwide and \$53.3 billion in assets under management as at 30 June 2017 – comprising \$8.0 billion in lending assets and a servicing portfolio of \$45.3 billion.



Scheme Booklet

Pepper Group Limited ABN 55 094 317 665

For a scheme of arrangement between Pepper Group Limited and its shareholders in relation to the proposed acquisition by Red Hot Australia Bidco Pty Limited, an entity indirectly owned by certain funds, clients or accounts managed or advised by KKR Credit Advisors (US) LLC or its affiliates.

Your Directors unanimously recommend that you **APPROVE THE SCHEME BY VOTING IN FAVOUR OF THE RESOLUTIONS**, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders.



Financial Adviser



Financial Adviser to
the Independent Board Committee



Legal Adviser



Legal Adviser to
the Independent Board Committee

This is an important document and requires your immediate attention.
You should read it in its entirety before you decide whether or not to approve the Scheme
by voting in favour of the Resolutions.

If you are in doubt as to what you should do, you should consult your legal,
financial, tax or other professional adviser

Pepper Group Limited ABN 55 094 317 665

Contents

CONTENTS	1
IMPORTANT NOTICES	2
IMPORTANT DATES	5
LETTER FROM THE CHAIRMAN OF PEPPER	6
SCHEME OVERVIEW	11
WHAT YOU SHOULD DO	13
REASONS TO APPROVE THE SCHEME BY VOTING IN FAVOUR OF THE RESOLUTIONS	16
REASONS WHY YOU MAY NOT APPROVE THE SCHEME	20
POTENTIAL REASONS TO ELECT TO RECEIVE THE EQUITY ALTERNATIVE	22
POTENTIAL REASONS NOT TO ELECT TO RECEIVE THE EQUITY ALTERNATIVE	24
1 FREQUENTLY ASKED QUESTIONS	26
2 SUMMARY OF THE SCHEME	44
3 PROFILE OF PEPPER	63
4 PROFILE OF BIDCO AND HOLDCO	73
5 RISK FACTORS	96
6 ADDITIONAL INFORMATION CONCERNING THE SCHEME	108
7 GLOSSARY	126
ANNEXURE A – TAX ADVISER’S REPORT	148
ANNEXURE B – INDEPENDENT EXPERT’S REPORT	162
ANNEXURE C – SCHEME OF ARRANGEMENT	308
ANNEXURE D – DEED POLL	336
ANNEXURE E – NOTICE OF SCHEME MEETING	348
ANNEXURE F – NOTICE OF GENERAL MEETING	349
CORPORATE DIRECTORY	352

Shareholder Information Line

Pepper has established a Shareholder Information Line which Pepper Shareholders should call if they have any questions in relation to the Scheme.

The telephone number for the Shareholder Information Line is 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia). The Shareholder Information Line is open Monday to Friday from 9:00am to 5:00pm (Sydney time).

This Scheme Booklet contains important information about the Scheme and it will help you make an informed decision about how to vote.

Important notices

This Scheme Booklet contains important information

This Scheme Booklet includes the explanatory statement required to be sent to Pepper Shareholders under Part 5.1 of the Corporations Act in relation to the Scheme.

The purpose of this Scheme Booklet is to explain the terms of the Scheme and the manner in which the Scheme will be considered and implemented (if approved by the Requisite Majority of Pepper Shareholders and by the Court) and to provide information as prescribed or which is otherwise material to the decision of Pepper Shareholders whether or not to approve the Scheme by voting in favour of the Resolutions. This document includes the explanatory statement for the Scheme required by section 412(1) of the Corporations Act.

You should read this document in its entirety before making a decision as to how to vote. You should also consult your legal, financial, tax or other professional adviser.

Status of Scheme Booklet

This Scheme Booklet is not a disclosure document required by Chapter 6D of the Corporations Act. Section 708(17) of the Corporations Act provides that an offer of securities does not need disclosure to investors under Part 6D.2 of the Corporations Act if it is made under a compromise or arrangement under Part 5.1 of the Corporations Act approved at a meeting held as a result of an order under section 411(1). Instead, Pepper Shareholders asked to vote on an arrangement at such a meeting must be provided with an explanatory statement as referred to above.

Responsibility for information

The Pepper Information has been prepared by Pepper and is the responsibility of Pepper. None of the Bidco Group Members, nor any of their directors, officers or advisers assume any responsibility for the accuracy or completeness of the Pepper Information.

The Bidco Information has been prepared by Bidco and is the responsibility of Bidco. Neither Pepper nor any of its Subsidiaries, Directors, its officers or advisers assume any responsibility for the accuracy or completeness of the Bidco Information.

PricewaterhouseCoopers (**PwC**) has prepared the Tax Adviser's Report (as set out in Annexure A to this Scheme Booklet) in relation to the Scheme and takes responsibility for that report. None of Pepper, its Subsidiaries, Directors, officers, employees or advisers, nor the Bidco Group Members and their respective officers, employees or advisers assume any responsibility for the accuracy or completeness of the information contained in the Tax Adviser's Report.

Grant Samuel & Associates Pty Limited (**Grant Samuel**) has prepared the Independent Expert's Report in relation to the Scheme contained in Annexure B and takes responsibility for that report. None of Pepper, its Subsidiaries, Directors, officers, employees or advisers, nor the Bidco Group Members and their respective officers, employees or advisers assume any responsibility for the accuracy or completeness of the information contained in the Independent Expert's Report, except in the case of Pepper in relation to the information it has provided to Grant Samuel.

ASIC and ASX involvement

A copy of this Scheme Booklet has been reviewed by ASIC for the purposes of section 411(2) of the Corporations Act. ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. ASIC's policy in relation to statements under section 411(17)(b) of the Corporations Act is that it will not provide such a statement until the Second Court Date. This is because ASIC will not be in a position to advise the Court until it has had an opportunity to observe the entire Scheme process. If ASIC provides that statement, it will be produced to the Court on the Second Court Date.

A copy of this Scheme Booklet has been lodged with ASX and registered by ASIC pursuant to section 412(6) of the Corporations Act.

Neither ASIC nor ASX nor any of their respective officers take any responsibility for the contents of this Scheme Booklet.

Forward looking statements

Certain statements in this Scheme Booklet relate to the future. These statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements to be materially different from expected future results, performance or achievements expressed or implied by those statements. These statements reflect only views held as at the date of this Scheme Booklet. Additionally, statements of intention in this Scheme Booklet reflect present intentions as at the date of this document and may be subject to change.

Other than as required by law, none of Pepper, its Directors or officers, KKR, the Bidco Group Members, nor any of their respective Affiliates, directors or officers, nor any other person gives any representation, assurance or guarantee that the events expressed or implied in any forward looking statements in this Scheme Booklet will actually occur and you are cautioned not to place undue reliance on any forward looking statement.

Subject to any continuing obligations under law or the ASX Listing Rules, Pepper and the Directors disclaim

any obligation or undertaking to disseminate after the date of this Scheme Booklet any updates or revisions to any forward looking statements to reflect any change in expectations in relation to those statements or change in events, conditions or circumstances on which a statement is based.

Investment advice

The information contained in this Scheme Booklet does not constitute financial product advice. In preparing this Scheme Booklet, Pepper has not taken into account the objectives, financial situation or needs of individual Pepper Shareholders. It is important that you consider the information in this Scheme Booklet in light of your particular circumstances. You should also consult your legal, financial, tax or other professional adviser.

Important notice associated with Court order under section 411(1) of the Corporations Act

The fact that under section 411(1) of the Corporations Act the Court has ordered that a meeting be convened and has approved the explanatory statement required to accompany the notice of the meeting does not mean that the Court:

- (a) has formed any view as to the merits of the proposed Scheme or as to how Pepper Shareholders should vote (on this matter Pepper Shareholders must reach their own decision); or
- (b) has prepared, or is responsible for the content of, the explanatory statement.

The order of the Court that the Scheme Meeting be convened is not, and should not be treated as, an endorsement by the Court of, or any other expression of opinion by the Court on, the Scheme.

Notice of Meetings

The Notice of Scheme Meeting is set out in Annexure E.

The Notice of General Meeting (at which Pepper Shareholders will be asked to approve the Constitution Amendment Resolution) is set out in Annexure F.

Notice of Second Court Hearing

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the vote at the Scheme Meeting.

Any Pepper Shareholder may appear at the Second Court Hearing expected to be held at 4.15pm on Monday, 20 November 2017 at the Federal Court of Australia Law Courts Building, Queens Square, Sydney.

Shareholders outside Australia

This Scheme Booklet is subject to Australian disclosure requirements.

The release, publication or distribution of this Scheme Booklet in jurisdictions other than Australia may be restricted by law or regulation in those jurisdictions and persons who come into possession of it should seek advice on and observe any restrictions. Any failure to

comply with those restrictions may constitute a violation of applicable laws or regulations.

This Scheme Booklet has been prepared solely in accordance with Australian law and the information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations of a jurisdiction outside of Australia.

A Scheme Shareholder whose address shown in the Register is a place outside Australia or New Zealand as at the Scheme Record Date will be an Ineligible Foreign Shareholder unless Pepper and Bidco agree otherwise in writing.

If you are an Ineligible Foreign Shareholder, you will not receive the Equity Alternative. If you elect to receive either the Scrip Option or the Retention Option, your election will be invalid and have no effect, and you will receive the Cash Payments for all of your Pepper Shares.

Important notice to Pepper Shareholders in the United States

The Holdco Shares to be issued pursuant to the Scheme have not been, and will not be, registered under the U.S. Securities Act of 1933 (the Securities Act), or the securities laws of any other jurisdiction, and may not be offered or sold in the U.S. or to "U.S. Persons" (as defined in Regulation S under the Securities Act) unless the securities are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. The Holdco Shares issued pursuant to the Scheme will be issued in reliance on the exemption from the registration requirements of the Securities Act provided by Section 3(a)(10) thereof.

For the purpose of qualifying for the exemption provided by Section 3(a)(10) of the Securities Act, Holdco will advise the Court that its making of an order approving the Scheme will be relied on by Holdco as an approval of the Scheme, following hearings on its fairness to Pepper shareholders, at which court hearings all Pepper Shareholders are entitled to attend in person or through counsel to support or oppose the making of an order approving the Scheme and with respect to which notification has been given to all Pepper shareholders.

U.S. Pepper Shareholders should note that the offer of Holdco Shares is made in respect of shares of an Australian company in accordance with the laws of Australia. The Scheme is subject to disclosure requirements of Australia that are different from those of the United States. For example, certain financial statements included in this Scheme Booklet have been prepared in accordance with Australian Accounting Standards and/or IFRS and may not be comparable to the financial statements of U.S. companies. Australian companies must comply with Australian Accounting Standards, which contain Australian equivalents to IFRS. There are differences between Australian Accounting Standards and U.S. generally accepted

accounting principles that may be material to such financial information.

It may be difficult for you to enforce your rights and any claim you may have arising under U.S. federal securities laws, since Pepper and Holdco are located in Australia and many of their respective officers and directors are residents of Australia. You may not be able to sue Pepper or Holdco or their respective officers or directors in Australia for violations of the U.S. securities laws. It may be difficult to compel Pepper or Holdco and its affiliates to subject themselves to a U.S. court's jurisdiction.

This Scheme Booklet has not been filed with or reviewed by the U.S. Securities and Exchange Commission or any state securities authority and none of them has passed upon or endorsed the merits of the Scheme or the accuracy, adequacy or completeness of this Scheme Booklet. Any representation to the contrary is a criminal offence.

The Holdco Shares to be issued pursuant to the Scheme to a Pepper Shareholder who is neither an affiliate, for the purposes of the Securities Act, of Pepper on or prior to the Effective Date nor an affiliate of Holdco after the Effective Date may be resold without restriction under the Securities Act (subject to the terms of the Shareholders Deed). Pepper Shareholders who are affiliates of Pepper on or prior to the Effective Date or affiliates of Holdco after the Effective Date will be subject to certain restrictions under the Securities Act on the resale of any Scrip Option received by them pursuant to the Scheme. For the purposes of the Securities Act, an affiliate of either Pepper or Holdco is any person who directly or indirectly controls, or is controlled by, or is under common control with a Pepper or Holdco entity. Whether a person is an affiliate of either Pepper or Holdco for the purposes of the Securities Act depends on the circumstances, but affiliates generally include officers, directors and significant shareholders. Persons who believe that they may be affiliates of either Pepper, or after the Effective Date, Holdco, should consult their own legal advisers prior to any sale of the Holdco Shares received upon the implementation of the Scheme.

Tax implications of the Scheme

If the Scheme becomes Effective and is implemented, there will be tax consequences for Scheme Shareholders which may include tax being payable on any gain on disposal of Pepper Shares and in respect of the Special Dividend.

For further detail regarding the general Australian tax consequences of the Scheme and the Special Dividend for certain Pepper Shareholders, refer to the Tax Adviser's Report set out in Annexure A of this Scheme Booklet. The tax consequences of the Scheme and the Special Dividend may vary depending on the nature and characteristics of each Pepper Shareholder and their specific circumstances including whether they are tax resident in a jurisdiction other than Australia. Accordingly, Pepper Shareholders should seek professional tax advice on the consequences of the Scheme and the Special Dividend in relation to their particular circumstances.

Privacy

Pepper, Bidco Group Members and the Pepper Registry may collect personal information in the process of implementing the Scheme. This information may include the names, contact details and security holdings of

Pepper Shareholders and the names of persons appointed by a Pepper Shareholder to act as proxy, attorney or corporate representative of the Pepper Shareholder at the Meetings. The collection of some of this information is required or authorised by the Corporations Act.

The primary purpose of collecting this information is to assist Pepper and Bidco Group Members to conduct the Meetings and to implement the Scheme. Personal information of the type described above may be disclosed to the Pepper Registry, print and mail service providers, authorised securities brokers and Related Bodies Corporate of Pepper and each Bidco Group Member.

Pepper Shareholders have certain rights to access personal information that has been collected. They should contact the Pepper Registry in the first instance, if they wish to access their personal information.

Pepper Shareholders who appoint a named person to act as their proxy, attorney or corporate representative should ensure that they inform that person of these matters.

Interpretation

Capitalised terms used in this Scheme Booklet are defined in the Glossary.

A reference to a Section or Annexure is a reference to a section of, or annexure to, this Scheme Booklet, unless otherwise stated.

Some of the documents reproduced in the annexures to this Scheme Booklet have their own defined terms, which are sometimes different from those in the Glossary.

Any diagrams, charts, graphs and tables appearing in this Scheme Booklet are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this document. A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Scheme Booklet are subject to the effect of rounding. Accordingly, their actual calculation may differ from the calculations in this Scheme Booklet.

The financial amounts in this Scheme Booklet are expressed in Australian currency unless otherwise stated. A reference to \$, A\$ and AUD and cents is to Australian currency, unless otherwise stated. A reference to US\$ and USD is to the currency of the United States of America.

All times referred to in this Scheme Booklet are references to times in Sydney, Australia, unless otherwise stated.

Pepper's website

The content of Pepper's website does not form part of this Scheme Booklet and Pepper Shareholders should not rely on that content.

Date

This Scheme Booklet is dated 13 October 2017.

Important dates

Date	Event
Thursday, 9 November 2017 at 5.00pm (Sydney time)	Election Date Latest time and date for Eligible Pepper Shareholders to make an election for either the Scrip Option or the Retention Option (in either case, subject to scale back)
Friday, 10 November 2017	Expected ASX announcement of election results, including whether any scale back may apply (on an indicative basis only as the final amount of any scale back will not be known until after the Scheme Record Date)
Monday, 13 November 2017 at 10.00am (Sydney time)	Latest time and date for receipt of Proxy Forms for the Meetings
Monday, 13 November 2017 at 7.00pm (Sydney time)	Meeting Record Date for determining eligibility to vote at the Meetings
Wednesday, 15 November 2017 at 10.00am (Sydney time)	The General Meeting and the Scheme Meeting to be held at Christie Offices, 100 Walker Street, North Sydney (with the Scheme Meeting to be held immediately following the conclusion of the General Meeting)
If the Resolutions are approved by the Requisite Majorities of Pepper Shareholders at the Meetings	
Monday, 20 November 2017 at 4.15pm (Sydney time)	Second Court Date for approval of the Scheme
Tuesday, 21 November 2017	Effective Date Court order is lodged with ASIC and Scheme takes effect Last day of trading in Pepper Shares on the ASX
Thursday, 23 November 2017 at 7.00pm (Sydney time)	Special Dividend Record Date¹ Record date for determining entitlement to Special Dividend
Monday, 27 November 2017 at 7.00pm (Sydney time)	Scheme Record Date Record date for determining entitlement to Scheme Consideration
Tuesday, 28 November 2017	Expected ASX announcement of final election results, including whether any scale back applies
Monday, 4 December 2017	Implementation Date and Special Dividend Payment Date Date of payment of the Special Dividend Payment of the Cash Consideration (by either cheque or electronic funds transfer to the nominated bank accounts) Issue of Holdco Shares to Eligible Pepper Shareholders who have made a valid election to receive the Scrip Option (subject to any scale back)

Note: all dates stated above or throughout this Scheme Booklet are indicative only and (among other things) are subject to all necessary approvals from the Court. Any changes to the above timetable (which may include an earlier or later date for the Second Court Date) will be announced through ASX and notified on Pepper's website (www.pepper.com.au).

¹ See Section 2.4 for information regarding the Special Dividend and circumstances in which it may be paid.

Letter from the Chairman of Pepper

13 October 2017

Dear Pepper Shareholder,

I am pleased to provide you with this Scheme Booklet in relation to a proposal by Red Hot Australia Bidco Pty Limited (**Bidco**), an entity indirectly owned by certain funds, clients or accounts managed or advised by KKR Credit Advisors (US) LLC or its affiliates (**KKR Credit**), to acquire all of the Pepper Shares² by way of scheme of arrangement (referred to in this Scheme Booklet as the **Scheme**).

Overview

On 10 August 2017, Pepper announced that it had entered into a Scheme Implementation Deed with Bidco in relation to the Scheme. This followed Pepper's initial announcement of KKR Credit's non-binding, conditional and incomplete proposal on 5 July 2017. On 25 September 2017, Pepper announced the receipt of an improved proposal from KKR Credit and that it had entered into an amending deed with Bidco to give effect to the improved proposal in relation to the Scheme.

If the Scheme is approved and implemented, Pepper Shareholders (other than those who make a valid election for the Equity Alternative described below) will receive cash payments equal to \$3.70 per Pepper Share (**Cash Payments**) in respect of all of their Pepper Shares, comprising:

- the **Cash Consideration of \$3.60** for each Pepper Share they hold as at the Scheme Record Date; and
- a **fully franked Special Dividend of 10 cents** for each Pepper Share they hold as at the Special Dividend Record Date.

As an alternative to receiving the Cash Payments in respect of all of their Pepper Shares, Eligible Pepper Shareholders may (subject to the conditions described below) elect to receive the Equity Alternative with respect to all of their Pepper Shares. Under the Equity Alternative, Eligible Pepper Shareholders may elect either:

- to receive one share in Red Hot Australia Holdco Pty Limited (**Holdco**), which is the owner of 100% of the shares in Bidco, for each Pepper Share they hold as at the Scheme Record Date (**Scrip Option**); or
- to retain all of the Pepper Shares they hold as at the Scheme Record Date (**Retained Pepper Shares**) (**Retention Option**). Under the Retention Option, Bidco may compulsorily acquire the Retained Pepper Shares at any time in the 3 year period from the Implementation Date for a cash amount per Retained Pepper Share equal to the then fair market value of a Holdco Share.

Ineligible Foreign Shareholders (being those Scheme Shareholders with an address shown in the Pepper Registry (as at the Scheme Record Date) that is outside Australia or New Zealand) will not be entitled to elect to receive the Equity Alternative³ (please refer to the heading 'Equity Alternative' in this letter, and also page 14 and Section 2.11 for more information).

Any election for the Equity Alternative may be subject to a scale back as described in Section 2.5. Pepper Shareholders who make a valid election for the Equity Alternative will not receive the Special Dividend unless there is a scale back, in which case they will receive the Special Dividend in respect of those Pepper Shares they held as at the Special Dividend Record Date which will be, or will be deemed to be, exchanged for the Cash Consideration under the Scheme.

Payment of the Special Dividend is subject to the Scheme becoming Effective, Pepper Shareholders approving at the General Meeting certain amendments to the Pepper Constitution to enable the Special Dividend to be paid and the Pepper Board declaring or determining the Special Dividend.

² Except the Retained Pepper Shares the subject of the Retention Option.

³ Unless Pepper and Bidco agree in writing that it is lawful and not unduly onerous or impracticable to issue Holdco Shares to that Scheme Shareholder if the Scheme Shareholder elects the Equity Alternative.

As a separate matter, Pepper paid a fully franked interim dividend for the half-year ended 30 June 2017 of 3 cents cash per Pepper Share on 5 October 2017 (**Interim Dividend**). The Scheme Consideration will not be reduced by the Interim Dividend.

Directors' recommendation and voting intentions

Your Directors have carefully considered KKR Credit's proposal (including the improvement to that proposal, as announced to ASX on 25 September 2017) and unanimously recommend that Pepper Shareholders approve the Scheme by voting in favour of the Resolutions. Each Director intends to vote in favour of the Resolutions in respect of all Pepper Shares they own or control. As at the date of this Scheme Booklet, your Directors hold or control in aggregate approximately 34.2% of all Pepper Shares on issue⁴.

The Directors' recommendation and voting intentions as set out above are subject to no Superior Proposal emerging and the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders.

Independent Expert's conclusion

The Pepper Board commissioned Grant Samuel to prepare an Independent Expert's Report for the Scheme. The Independent Expert has assessed the value of a Pepper Share to be between \$3.52 and \$4.02 and concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Pepper Shareholders, in the absence of a Superior Proposal. The Independent Expert's Report is included in Annexure B of this Scheme Booklet and I strongly encourage you to read it.

Independent Board Committee

An Independent Board Committee (**IBC**) (comprising Melanie Willis (Chair), Matthew Burlage and Des O'Shea) was established to consider the Scheme and, if applicable, will consider any Competing Proposal, subject to the exclusivity restrictions applicable to Pepper in relation to alternative proposals in the Scheme Implementation Deed (see Section 6.3(b)(iv) for details).

Pepper undertook an extensive process managed by Citi to maximise shareholder value and evaluated numerous alternatives and proposals from a range of potential local and global players. Potential bidders were offered the opportunity to undertake limited due diligence to firm up their respective offers. These offers were evaluated across a number of criteria, as well as comparison to status quo (taking into account future capital requirements) and KKR Credit's offer was selected on the basis of it delivering the highest cash payment to Pepper Shareholders.

The IBC engaged its own financial and legal advisers to assist it with its review of the various transaction proposals that had been received, and to assist the IBC oversee the negotiation of transaction terms with KKR Credit.

Cash Payments

The Cash Payments of \$3.70 per Pepper Share to each Pepper Shareholder receiving the Cash Consideration in respect of any Pepper Shares they hold (either because they have not made a valid election for the Equity Alternative, or because of the operation of the scale backs as described in Section 2.5) provide those Pepper Shareholders with an opportunity to realise immediate and certain value for their Pepper Shares at a significant premium to Pepper's trading prices prior to 26 May 2017, being the trading day prior to speculation in the media that Pepper may be the subject of a change of control transaction.

The Cash Payments of \$3.70 per Pepper Share value Pepper's fully diluted equity⁵ at approximately \$697.0 million and represent a:

- 29.1% premium to the 1 month VWAP of Pepper Shares up to and including 26 May 2017⁶ of \$2.87;
- 32.7% premium to the 3 month VWAP of Pepper Shares up to and including 26 May 2017 of \$2.79; and
- 48.7% premium to the 12 month VWAP up to and including 26 May 2017 of \$2.49.

⁴ Excluding certain incentive shares held directly or indirectly by Mr Michael Culhane (equal to approximately 0.39% of all Pepper Shares on issue) in respect of which he does not currently have voting rights.

⁵ Fully diluted equity includes the 184,342,671 Pepper Shares on issue as at 10 October 2017 plus an additional 4,028,803 unvested performance rights.

⁶ Being the trading day prior to speculation in the media that Pepper may be the subject of a change of control transaction.

Equity Alternative

The default form of consideration under the Scheme is the Cash Consideration which, together with the Special Dividend, provides Pepper Shareholders with the opportunity to receive Cash Payments of \$3.70 per Pepper Share for all of their Pepper Shares. However, subject to certain conditions, Eligible Pepper Shareholders may instead choose the Equity Alternative, under which Pepper Shareholders may elect to receive either the Scrip Option or the Retention Option. Such an election by a Pepper Shareholder must be in respect of all of their Pepper Shares held as at the Scheme Record Date. The Equity Alternative enables Eligible Pepper Shareholders to maintain an interest in the Pepper business if they wish to do so.

Eligible Pepper Shareholders who make a valid election for the Scrip Option will receive one Holdco Share for each Pepper Share they hold (subject to the scale back described below). The Scrip Option is not available to Ineligible Foreign Shareholders. The Retention Option provides an alternative to the Scrip Option. It is available to any Pepper Shareholder who is not an Ineligible Foreign Shareholder and who makes a declaration (as set out in the Election Form) that the receipt of a Holdco Share as Scheme Consideration by them would result in tax becoming payable in a jurisdiction other than Australia or New Zealand for that Pepper Shareholder or its associate (including a beneficiary of a trust of which the Pepper Shareholder is the trustee) without the benefit of Roll-over Relief⁷ (with that Pepper Shareholder also being required to provide a copy of a certificate from their professional tax adviser certifying the accuracy of such declaration). Any Pepper Shareholders who make a valid election to receive the Retention Option will (subject to the potential scale backs described below) retain all of their Pepper Shares on the basis that, following implementation of the Scheme, Holdco will explore alternative means of acquiring those Retained Pepper Shares in a manner which has less adverse tax consequences including, potentially, some deferral of tax.⁸ The Retention Option is also subject to the possibility that Retained Pepper Shares will be compulsorily acquired by Bidco at any time in the 3 year period from the Implementation Date for a cash amount per Retained Pepper Share equal to the then fair market value of a Holdco Share, if they have not otherwise been acquired by Holdco or its nominee.

You should obtain advice from a professional tax adviser as to whether you satisfy the criteria referred to above.

If a Pepper Shareholder lodges an Election Form to receive either the Scrip Option or the Retention Option and the election is invalid for any reason whatsoever (including because they are not an Eligible Pepper Shareholder), that Election Form will have no effect and they will receive the Cash Payments for all of their Pepper Shares.

Scale back if maximum elections for Retention Option exceeded

The Retention Option is subject to a pro rata scale back if valid elections by Eligible Pepper Shareholders holding an aggregate of 9.9% or more of total Scheme Shares make this election. As a result, Scheme Shares subject to the scale back will be transferred to Bidco under the Scheme for the Cash Consideration.

Scale back if maximum elections for Equity Alternative exceeded

There will be a separate pro rata scale back if valid elections for the Equity Alternative⁹ relate to more than 48.5% of total Scheme Shares (**Maximum Election Cap**). If scaling back is required, Eligible Pepper Shareholders who have made valid elections:

- for the Scrip Option will receive a reduced number of Holdco Shares, and the balance of their Scheme Consideration in the form of the Cash Consideration; and
- for the Retention Option will transfer any Pepper Shares subject to the scale back to Bidco under the Scheme and receive the Cash Consideration solely in respect of those Pepper Shares.

This will ensure that KKR Credit will hold an equity interest in the Pepper Group on implementation of the Scheme of no less than 51.5%.

⁷ The term 'Roll-over Relief' refers to the situation in which the tax law of a country allows a shareholder to disregard or defer an amount of income or gain that would otherwise arise for tax purposes in relation to the disposal of, or other dealing in, an asset.

⁸ There can be no assurance that Holdco will be able to identify and/or implement such alternative means of Holdco acquiring any or all Retained Pepper Shares.

⁹ Calculated after the 9.9% Retention Option scale back, if applicable.

Interaction of the Retention Option and maximum election scale backs

Depending on the level of Retention Option and Scrip Option elections, it is possible that separate scale backs in respect of both of those options may need to be applied. If that is the case:

- the Retention Option scale back will be applied first (that is, if Pepper Shareholders holding more than the Retention Cap make valid elections for the Retention Option); and
- if, after taking into account the Retention Option scale back, valid elections for the Equity Alternative have been made by Pepper Shareholders holding more than 48.5% of Pepper Shares, then:
 - a pro rata scale back will apply to Pepper Shareholders who made Scrip Option elections, in order to satisfy the Maximum Election Cap, however the percentage scale back under this limb can be no greater than the percentage scale back under the Retention Option scale back (eg. if 1 out of every 10 Scheme Shares held by those validly electing the Retention Option were subject to the Retention Option scale back, then no more than 1 out of every 10 Scheme Shares held by those validly electing the Scrip Option may be subject to the scale back under this limb); and
 - if, after the preceding scale backs, the number of Scheme Shares subject to the Equity Alternative still exceeds the Maximum Election Cap, a pro rata scale back of all those Scheme Shares held by Pepper Shareholders who have made valid elections will apply so that the number of Pepper Shares equals the Maximum Election Cap.

Minimum Election Condition Precedent

It is also a condition of the Scheme that Pepper Shareholders holding in aggregate at least 35.11% of the total Pepper Shares elect to take the Equity Alternative (**Minimum Election Condition Precedent**)¹⁰.

Mr Michael Culhane, Group Chief Executive Officer (who controls 4.5% of total Pepper Shares¹¹), Mr Cameron Small, Group Chief Financial Officer (who controls 1.2% of total Pepper Shares¹²) and myself (who controls 29.7% of Pepper Shares) have each advised Pepper that we intend to vote in favour of the Resolutions, to make an election for the Equity Alternative, and to not dispose of, or purport or agree to dispose of, any of the Pepper Shares we control until and including the Implementation Date otherwise than pursuant to the Scheme, in each case in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders.¹³ Accordingly, your Directors are satisfied that there is a reasonable basis to expect that the Minimum Election Condition Precedent will be satisfied.

Risks of electing the Equity Alternative

The value of the Equity Alternative is less certain than the Cash Payments. It is also important to understand that any investment in unlisted shares in Holdco or in an unlisted Pepper following implementation of the Scheme would represent a fundamentally different investment than your current investment in Pepper as an ASX listed company. Your unlisted scrip will be relatively illiquid, part of a minority position, and will have a materially different risk and investment profile to your existing investment in Pepper as an ASX listed company. There is no assurance that the future value of Holdco Shares or Retained Pepper Shares will be equal to or higher than the value of the Cash Payments. Eligible Pepper Shareholders who elect to receive the Equity Alternative will also become parties to the Shareholders Deed, the terms of which may not be acceptable to you. Accordingly, you should carefully read Sections 4, 5.2 and 5.3 and the Tax Adviser's Report (set out in Annexure A) and obtain appropriate legal, financial, tax or other professional advice before making any election to receive either the Scrip Option or the Retention Option. A full copy of the Shareholders Deed, as amended by the parties since it was lodged with ASX on 10 August 2017, may be obtained by calling the Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) or

¹⁰ Refer to Section 2.6 which provides details in relation to the Minimum Acceptance Condition Precedent being amended to change the minimum acceptance level from 35% to 35.11%.

¹¹ Excluding certain incentive shares held directly or indirectly by Mr Michael Culhane (equal to approximately 0.39% of all Pepper Shares on issue) in respect of which he does not currently have voting rights.

¹² Excluding certain incentive shares held directly or indirectly by Mr Cameron Small (equal to approximately 0.25% of all Pepper Shares on issue) in respect of which he does not currently have voting rights.

¹³ As stated in Pepper's ASX announcement dated 25 September 2017, a copy of which will be provided to Pepper Shareholders within two Business Days upon request.

from Pepper's website: www.pepper.com.au/about/shareholder-centre

Meetings to approve the Scheme

The Scheme can only be implemented if it is approved by the Requisite Majority of Pepper Shareholders, and if it is subsequently approved by the Court. The Scheme is also subject to a number of Conditions Precedent which are outlined in Section 2.3, including approval of the Constitution Amendment by Pepper Shareholders. This approval will be sought at a General Meeting of Pepper Shareholders that is scheduled to be held at Christie Offices, 100 Walker Street, North Sydney on 15 November 2017 at 10.00am (Sydney time). The Scheme Meeting, at which Pepper Shareholders are able to consider approving the Scheme, will be held on the same date immediately following the conclusion of the General Meeting. If you do not wish to or are unable to attend the Meetings on this day, you may appoint a proxy, attorney or, in the case of a corporate Pepper Shareholder or proxy, a corporate representative to attend the Meetings and to vote on your behalf.

Further information in relation to the Scheme is contained in this Scheme Booklet. I encourage you to read it in its entirety as it contains important information that will need to be considered before you vote on the Resolutions. You should also consult your legal, financial, tax or other professional adviser before making any investment decision in relation to your Pepper Shares.

If you have any questions about the Scheme or any other matter in this Scheme Booklet, you should contact Pepper's Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) between 9.00am and 5.00pm (Sydney time) Monday to Friday.

On behalf of the Pepper Board, I would like to take this opportunity to thank you again for your continued support of Pepper.

Yours sincerely



Seumas Dawes
Chairman
Pepper Group Limited

Scheme overview

What is the Scheme?

- The Scheme is for Bidco to acquire all of the Pepper Shares (other than any Retained Pepper Shares) by way of scheme of arrangement.
- If the Scheme is approved and implemented, Pepper Shareholders (other than those who have made a valid election for the Equity Alternative) will receive **Cash Payments equal to \$3.70** per Pepper Share in respect of all of their Pepper Shares, comprising:
 - the **Cash Consideration of \$3.60** for each Pepper Share held by a Pepper Shareholder as at the Scheme Record Date; and
 - a **fully franked Special Dividend of 10 cents** for each Pepper Share held by a Pepper Shareholder as at the Special Dividend Record Date.
- As an alternative to receiving the Cash Payments for all of their Pepper Shares, Eligible Pepper Shareholders can make an election to receive the **Equity Alternative** in respect of all of their Pepper Shares. Under the Equity Alternative, Eligible Pepper Shareholders can elect to receive either:
 - the **Scrip Option** – one Holdco Share for each Pepper Share they hold as at the Scheme Record Date; or
 - the **Retention Option** – under this option, a Qualifying Tax Payer can elect to retain all of the Pepper Shares they hold as at the Scheme Record Date on the basis that Holdco will explore alternative means for acquiring those shares in a manner which has less adverse tax consequences (and subject to the possibility that Bidco may compulsorily acquire the Retained Pepper Shares at any time in the 3 year period from the Implementation Date for a cash amount per Retained Pepper Share equal to the then fair market value of a Holdco Share). There is no guarantee that a less adverse acquisition will occur and Retained Pepper Shareholders will remain at risk of having to dispose of their Retained Pepper Shares in a way that results in adverse Australian tax consequences, adverse foreign tax consequences or both.
- Any election for the Equity Alternative may be subject to a scale back as described in Section 2.5. Pepper Shareholders who make a valid election for the Equity Alternative will not receive the Special Dividend unless there is a scale back, in which case they will receive the Special Dividend in respect of those Pepper Shares they held as at the Special Dividend Record Date which will be, or will be deemed to be, exchanged for the Cash Consideration under the Scheme.

What is the recommendation of the Pepper Directors and what is the conclusion of the Independent Expert?

- The Pepper Directors unanimously recommend that Pepper Shareholders approve the Scheme by voting in favour of the Resolutions, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders.
- The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Pepper Shareholders, in the absence of a Superior Proposal.
 - The Independent Expert has valued Pepper at \$3.52 to \$4.02 per Pepper Share.
 - The Cash Payments of \$3.70 per Pepper Share are within the valuation range of the Independent Expert.

What are the reasons for approving the Scheme by voting in favour of the Resolutions?

- The Directors unanimously recommend that you approve the Scheme by voting in favour of the Resolutions, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders
- Each Director intends to vote in favour of the Resolutions in respect of all the Pepper Shares they own or control (in aggregate approximately 34.2% of all Pepper Shares on issue¹⁴), in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders
- The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Pepper Shareholders, in the absence of a Superior Proposal
- The Cash Payments of \$3.70 per Pepper Share represent an attractive premium to historical trading prices of Pepper Shares
- The Cash Payments of \$3.70 per Pepper Share provide you with certainty of value for your Pepper Shares
- The Cash Payments of \$3.70 per Pepper Share provide Pepper Shareholders with the opportunity to access full liquidity in respect of their Pepper Shares
- The Scrip Option provides flexibility for Eligible Pepper Shareholders to maintain an indirect interest in the privatised Pepper with the potential benefit of Roll-over Relief to the extent that Holdco Shares are received
- No Superior Proposal has emerged as at the date of this Scheme Booklet despite Pepper having undertaken an extensive process to maximise shareholder value and evaluate numerous alternatives and proposals from a range of potential local and global players
- If the Scheme does not proceed, and no Superior Proposal emerges, Pepper Shareholders will continue to be subject to the specific risks associated with Pepper's business and general market risks
- If the Scheme does not proceed, and no Superior Proposal emerges, the price of Pepper Shares may fall and Pepper will require a significant amount of equity capital in the near term (refer to page 19 and "Frequently Asked Question" 6.5 for more information regarding anticipated capital requirements prior to the end of 2017)
- No brokerage or stamp duty will be payable on the transfer of your Pepper Shares

What are the possible reasons for not approving the Scheme?

- You may disagree with your Directors' recommendation and/or the conclusion of the Independent Expert
- You may consider that there is the potential for a Superior Proposal to be made in the foreseeable future
- The tax consequences of the Scheme may not suit your current financial position
- You may wish to maintain your direct investment in Pepper as an ASX listed company

¹⁴ Excluding certain incentive shares held directly or indirectly by Mr Michael Culhane (equal to approximately 0.39% of all Pepper Shares on issue) in respect of which he does not currently have voting rights.

What you should do

Step 1: Read this Scheme Booklet in its entirety

This Scheme Booklet contains information that is material to your decision whether or not to approve the Scheme by voting in favour of the Resolutions. Accordingly, you should read this Scheme Booklet in its entirety before making a decision on how to vote on the Resolutions. You should also consult your legal, financial, tax or other professional adviser. Answers to some common questions are contained in Section 1 of this Scheme Booklet titled "Frequently asked questions".

If you have any questions, please contact the Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia). The Shareholder Information Line is open Monday to Friday between 9.00am and 5.00pm (Sydney time).

Step 2: Vote on the Resolutions

Proxy Forms and powers of attorney must be lodged by 10.00am (Sydney time) on Monday, 13 November 2017.

The Meetings at which Pepper Shareholders will vote on whether to approve the Scheme and the Constitution Amendment will be held at Christie Offices, 100 Walker Street, North Sydney on Wednesday, 15 November 2017 at the following times:

Meeting	Time
General Meeting	10.00am
Scheme Meeting	Immediately following the conclusion of the General Meeting

As a Pepper Shareholder, it is your right to vote on whether the Scheme proceeds. Your vote is important and you are strongly encouraged to vote on the Resolutions. **The Scheme will only become Effective if the Constitution Amendment is approved by Pepper Shareholders. Similarly, the Constitution Amendment will only take effect if the Scheme is approved by Pepper Shareholders.**

A Pepper Shareholder can vote by doing one of the following:

- **vote in person** – by attending the Meetings;
- **vote by proxy** – by completing and returning to the Pepper Registry the enclosed Proxy Forms for the Meetings, which must be received by the Pepper Registry at:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

so that it is received by no later than 10.00am (Sydney time) on Monday, 13 November 2017. **(Please note that the above address is different to the address for returning an Election Form, as specified below).**

Alternatively, you can lodge your proxy online at www.investorvote.com.au by no later than 10.00am (Sydney time) on Monday, 13 November 2017;

- **vote by attorney** – by providing the Pepper Registry the original (or certified copy) of the instrument appointing an attorney by no later than 10.00am (Sydney time) on Monday, 13 November 2017 (unless a copy has already been provided to the Pepper Registry); or
- **vote by corporate representative** – (in the case of a body corporate) by appointing a corporate representative to act as its representative. The appointment must comply with section 250D of the Corporations Act. A corporate Pepper Shareholder or corporate proxy should obtain a "Certificate of Appointment of Corporate Representative" form from the Pepper Registry, and complete and sign the form in accordance with the instructions on it. The corporate representative must attend the Meetings in person.

Step 3: Decide whether you wish to elect to receive the Equity Alternative

YOU CAN IGNORE THIS STEP IF YOU WISH TO RECEIVE THE CASH PAYMENTS FOR ALL OF YOUR PEPPER SHARES. YOU DO NOT NEED TO MAKE AN ELECTION IF YOU WISH TO RECEIVE THE CASH PAYMENTS FOR ALL OF YOUR PEPPER SHARES.

If the Scheme becomes Effective, unless you have validly elected to receive the Equity Alternative, you will receive the Cash Payments for all of your Pepper Shares.

However, if you are an Eligible Pepper Shareholder and would like to make an election to receive either the Scrip Option or the Retention Option in respect of all of your Pepper Shares, you will need to complete an Election Form and return it to the Pepper Registry at:

Computershare Investor Services Pty Limited
GPO Box 2115
Melbourne VIC 3001
Australia

so that it is received by the Pepper Registry prior to 5.00pm (Sydney time) on the Election Date (Thursday, 9 November 2017).

Pepper Shareholders may contact the Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) Monday to Friday between 9.00am and 5.00pm (Sydney time) to request that an Election Form be sent to them.

Any election for the Equity Alternative may be subject to a scale back as described in Section 2.5. Pepper Shareholders who make a valid election for the Equity Alternative will not receive the Special Dividend (and in making that Election are agreeing in writing that they will not receive the Special Dividend in relation to the Pepper Shares held by them) unless there is a scale back, in which case they will receive the Special Dividend in respect of those Pepper Shares they held as at the Special Dividend Record Date which will be, or will be deemed to be, exchanged for the Cash Consideration under the Scheme.

Eligibility requirements for the Scrip Option

In order to make a valid election for the Scrip Option, you must be a Pepper Shareholder who is not an Ineligible Foreign Shareholder.

Ineligible Foreign Shareholders will not receive the Scrip Option even if they make an election for the Scrip Option. Any Election Form received by the Pepper Registry from an Ineligible Foreign Shareholder will be invalid. If you are a Pepper Shareholder whose address as shown in the Pepper Register is a place outside Australia or New Zealand and wish to receive the Scrip Option you should contact the Shareholder Information Line to enquire as to whether you may be an Eligible Pepper Shareholder.

A Pepper Shareholder who makes an invalid Scrip Option election will, if the Scheme becomes Effective, receive the Cash Payments in respect of all of their Pepper Shares.

Eligibility requirements for the Retention Option

In order to make a valid election for the Retention Option, you must be a Qualifying Tax Payer. A Qualifying Tax Payer is any Pepper Shareholder who is not an Ineligible Foreign Shareholder and who has:

- declared to Pepper (as set out in the Election Form) that if Holdco Shares were to be issued to them as Scheme Consideration, it would result in tax becoming payable in a jurisdiction other than Australia or New Zealand for that Pepper Shareholder or its associate (including a beneficiary of a trust of which the Pepper Shareholder is the trustee) without the benefit of Roll-over Relief; and
- lodged with their Election Form a copy of a certificate from their professional tax adviser (in the form prescribed by Pepper) certifying that the declaration made by them (as set out in the Election Form) is correct.

A Pepper Shareholder who makes an invalid Retention Option election will, if the Scheme becomes Effective, receive the Cash Payments in respect of all of their Pepper Shares.

A Pepper Shareholder who does not make an election for the Equity Alternative, who makes an invalid election or who becomes a Pepper Shareholder after the Election Date, will receive the Cash Payments in respect of all of their Pepper Shares.

Once made, you may vary, withdraw or revoke your election by lodging a replacement Election Form so that it is received by the Pepper Registry by no later than 5.00pm (Sydney time) on the Election Date (being Thursday, 9 November 2017). The last valid Election Form received by the Pepper Registry before 5.00pm (Sydney time) on the Election Date will be used to determine your election and will apply to all Pepper Shares which you hold on the Scheme Record Date.

You should read this Scheme Booklet in full before electing either the Scrip Option or the Retention Option under the Equity Alternative. In particular, you should carefully read Sections 4, 5.2 and 5.3 and the Tax Adviser's Report (set out in Annexure A) and the Independent Expert's Report in Annexure B. You should also obtain appropriate legal, financial, tax or other professional advice before electing either the Scrip Option or the Retention Option.

Reasons to approve the Scheme by voting in favour of the Resolutions

This Section sets out the reasons why the Directors consider that you should approve the Scheme by voting in favour of the Resolutions. Whilst the Directors acknowledge that there are reasons to vote against the Resolutions (see the following Section titled “Reasons why you may not approve the Scheme”), they believe that the reasons to approve the Scheme by voting in favour of the Resolutions significantly outweigh the reasons to not approve the Scheme.

✓ **The Directors unanimously recommend that you approve the Scheme by voting in favour of the Resolutions, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders**

The Directors unanimously recommend that you approve the Scheme by voting in favour of the Resolutions at the upcoming Meetings on 15 November 2017, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders. In reaching their recommendation, the Directors have assessed the Scheme having regard to the reasons to vote in favour of, or against, the Resolutions, as set out in this Scheme Booklet, and Pepper’s current strategic plans.

✓ **Each Director intends to vote in favour of the Resolutions in respect of all the Pepper Shares they own or control, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders**

Each Director intends to vote in favour of the Resolutions in respect of all Pepper Shares they own or control (in aggregate approximately 34.2% of all Pepper Shares on issue¹⁵), in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders. The interests of the Directors in Pepper Shares are set out in Section 6.1.

✓ **The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Pepper Shareholders, in the absence of a Superior Proposal**

The Directors appointed Grant Samuel as Independent Expert to prepare an Independent Expert’s Report providing an opinion as to whether the Scheme is in the best interests of Pepper Shareholders.

The Independent Expert has valued Pepper at \$3.52 to \$4.02 per Pepper Share. The Cash Payments of \$3.70 per Pepper Share are within the valuation range of the Independent Expert.

Accordingly, the Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Pepper Shareholders, in the absence of a Superior Proposal.

The Independent Expert has also identified a number of factors that should be considered when assessing the Scheme:

- the Cash Payments represent a 25.4% premium over the price of Pepper Shares on 26 May 2017, being the trading day prior to speculation in the media that Pepper might be the subject of a change of control transaction;
- in the absence of the Scheme or any alternative offer (or speculation as to any offer), it is likely that, under current market conditions and its current ownership structure, Pepper Shares would trade at prices below the Cash Payments of \$3.70 per Pepper Share; and
- the Scheme is the culmination of an extensive process over a period of time that involved consideration by the IBC (which engaged its own financial and legal advisers) of a number

¹⁵ Excluding certain incentive shares held directly or indirectly by Mr Michael Culhane (equal to approximately 0.39% of all Pepper Shares on issue) in respect of which he does not currently have voting rights.

of proposals from a range of local and global potential bidders. The original proposal from KKR (which was subsequently improved, as announced to ASX on 25 September 2017) delivered the highest cash payment and the greatest certainty for Pepper Shareholders.

The Independent Expert has stated that, for Eligible Pepper Shareholders, the decision to elect the Scrip Option and hold Holdco Shares (or elect the Retention Option and continue to hold Pepper Shares) is independent of a decision to approve the Scheme by voting in favour of the Resolutions. The Independent Expert has identified a number of factors that Pepper Shareholders should consider before making any election for the Equity Alternative.

Pepper Shareholders should carefully review the Independent Expert's Report in its entirety before deciding whether to approve the Scheme by voting in favour of the Resolutions and prior to making any election for the Equity Alternative. A copy of the Independent Expert's Report is included in Annexure B of this Scheme Booklet.

✓ **The Cash Payments of \$3.70 per Pepper Share represent an attractive premium to historical trading prices of Pepper Shares**

The Cash Payments of \$3.70 per Pepper Share represent a significant premium over historical trading prices of Pepper Shares.

Since early 2016 up to 26 May 2017, being the trading day prior to speculation in the media that Pepper may be the subject of a change of control transaction, Pepper Shares have not traded above \$3.00 per Pepper Share. The Cash Payments of \$3.70 per Pepper Share are \$1.10 above Pepper's IPO price.

Figure 1: offer price premiums to undisturbed share price¹⁶



✓ **The Cash Payments of \$3.70 per Pepper Share provide you with certainty of value for your Pepper Shares**

The Cash Payments of \$3.70 per Pepper Share provide you with certainty of value for your Pepper Shares (subject to the Scheme becoming Effective) and the opportunity for you to realise certain value in the near term which may not be achieved if the Scheme does not proceed. The certainty of the Cash Payments should be compared with the risks and the uncertainties of remaining a Pepper Shareholder should the Scheme not proceed, which include, but are not limited to, the risks set out in Section 5.2.

If the Scheme proceeds, the certainty of the Cash Payments should also be compared with the risks and the uncertainties of electing the Equity Alternative, which include, but are not limited to, the risks set out in Sections 5.2 and 5.3.

¹⁶ Up to and including 26 May 2017, being the trading day prior to speculation in the media that Pepper may be the subject of a change of control transaction. VWAPs based on cumulative trading volume.

✓ **The Cash Payments of \$3.70 per Pepper Share provide Pepper Shareholders with the opportunity to access full liquidity in respect of their Pepper Shares**

The market in Pepper Shares is relatively illiquid.

Since Pepper listed on ASX in July 2015 up to Pepper announcing its entry into the Scheme Implementation Deed on 10 August 2017, total daily trading volume for Pepper Shares has only exceeded 1% of total Pepper Shares on issue on seven occasions.

The Cash Payments of \$3.70 per Pepper Share provide Pepper Shareholders (other than those who make a valid election for the Equity Alternative) with access to full liquidity in circumstances where some Pepper Shareholders presently face limited opportunities to achieve full liquidity in respect of their Pepper Shares, or may only do so at discounts to the applicable prevailing share price.

✓ **The Scrip Option provides flexibility for Eligible Pepper Shareholders to maintain an indirect interest in the privatised Pepper with the potential benefit of Roll-over Relief to the extent that Holdco Shares are received**

The Scheme provides flexibility for Eligible Pepper Shareholders to elect to receive the Scrip Option instead of the Cash Payments in respect of all of their Pepper Shares, and thereby maintain an ownership interest in the Pepper business following implementation of the Scheme (although the extent of this interest could be diluted in the event that any scale back applies).

Eligible Pepper Shareholders who make a valid Scrip Option election will receive one Holdco Share for each Pepper Share held as at the Scheme Record Date (subject to a possible scale back as described in Section 2.5). Refer to Section 2.4(b)(i) for further details on the Scrip Option.

CGT Roll-over Relief should operate to defer any capital gain that would otherwise arise from the transfer of the Pepper Shares to the extent that Eligible Pepper Shareholders who are residents of Australia for income tax purposes receive Holdco Shares for the transfer of their Pepper Shares and choose for Roll-over Relief to apply. Please refer to the Tax Adviser's Report at Annexure A for further information.

You should read this Scheme Booklet in full before electing the Scrip Option. In particular, you should carefully read Sections 4, 5.2 and 5.3 and the Tax Adviser's Report (set out in Annexure A) and the Independent Expert's Report in Annexure B. You should obtain appropriate legal, financial, tax or other professional advice before electing the Scrip Option.

✓ **No Superior Proposal has emerged as at the date of this Scheme Booklet despite Pepper having undertaken an extensive process to maximise shareholder value and evaluate numerous alternatives and proposals**

KKR Credit's original proposal was the superior proposal provided to Pepper following a broad and rigorous process managed by Citi over several months which included numerous alternatives and proposals from a number of local and global bidders. KKR Credit's original proposal (which was subsequently improved, as announced to ASX on 25 September 2017) was selected on the basis of it delivering the highest cash payment to Pepper Shareholders.

Furthermore, since Pepper's initial announcement on 5 July 2017 regarding its discussions with KKR Credit, KKR Credit's original proposal and its improved proposal (as announced to ASX on 25 September 2017) have been widely publicised and no Superior Proposal has emerged.

✓ **If the Scheme does not proceed, and no Superior Proposal emerges, Pepper Shareholders will continue to be subject to the specific risks associated with Pepper's business and general market risks**

There are a number of specific risks associated with Pepper's business and general market risks that Pepper Shareholders will continue to be subject to if the Scheme does not proceed. These include risks relating to a fall in the Pepper Share price, an inability by Pepper to access funding, regulatory changes for funders of Pepper's business, Pepper's regulatory and licence compliance, capital and liquidity requirements applicable to Pepper's business, early termination or non-renewal of Pepper's servicing contracts, Pepper's portfolio performance and increased competition in the lending and servicing markets. Further details of these risks are set out in Section 5.2.

✓ **If the Scheme does not proceed, and no Superior Proposal emerges, the price of Pepper Shares may fall and Pepper will require a significant amount of equity capital in the near term**

If the Scheme is not implemented, Pepper Shares will remain quoted on the ASX and will continue to be subject to market volatility, including as a result of general stock market movements, and the impact of general economic conditions. As such, if the Scheme is not implemented and no Superior Proposal emerges, it is possible that the price at which Pepper Shares trade will fall.

The Independent Expert has stated that: “In the absence of the Scheme or any alternative offer (or speculation as to any offer) it is likely that, under current market conditions and its current ownership structure, Pepper shares would trade at prices below the cash payments under the Scheme of \$3.70 per share”.

As previously announced to ASX, Pepper anticipates that it will require at least \$150 million in equity capital to fund the business plan, including approximately \$65 million required for the acquisition of Banco Primus. If the Scheme is not approved, Pepper estimates it will be required to raise this capital from investors by 31 December 2017 (although it should also be noted, particularly by those Pepper Shareholders considering the Equity Alternative, that Holdco similarly intends to conduct an equity raising prior to the end of 2017, in order to raise at least some of the equity capital required to fund Pepper’s business plan).

Where the Scheme is not approved and Pepper proceeds with a capital raising, there is no certainty that this capital raising can be secured in the public market. However, if a capital raising is successful, it may cause the price of Pepper Shares to fall.

Pepper listed on ASX in July 2015 at \$2.60 per Pepper Share. On 26 May 2017, the trading day prior to speculation in the media that Pepper may be the subject of a change of control transaction, the Pepper Share price closed at \$2.95 per Pepper Share. Over the 18 months leading up to and including 26 May 2017 the closing prices of Pepper Shares have been between a high of \$3.55 per Pepper Share on 29 December 2015 and a low of \$2.19 per Pepper Share on 29 February 2016.

Figure 2: Pepper 18-month share price performance to 26 May 2017



✓ **No brokerage or stamp duty will be payable on the transfer of your Pepper Shares**

You will not incur any brokerage or stamp duty on the transfer of your Pepper Shares to Bidco under the Scheme.

Reasons why you may not approve the Scheme

Although the Pepper Board unanimously recommends that Pepper Shareholders approve the Scheme by voting in favour of the Resolutions, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders, this Section sets out the factors which may lead a Pepper Shareholder to vote against the Resolutions.

x You may disagree with your Directors' recommendation and/or the conclusion of the Independent Expert

Notwithstanding the unanimous recommendation of the Pepper Directors and the Independent Expert's opinion that the Scheme is in the best interests of Pepper Shareholders, you may believe that the Scheme is not in your best interests.

x You may consider that there is the potential for a Superior Proposal to be made in the foreseeable future

It is possible that a more attractive proposal for Pepper Shareholders could materialise in the future, such as a takeover bid or scheme of arrangement with a higher offer price than the Cash Payments.

The Directors are, at present, not aware of any alternative proposal for Pepper despite having undertaken an extensive process to maximise shareholder value and having evaluated numerous alternatives and proposals from a range of potential local and global players.

As set out in Section 6.3(b)(iv), under the Scheme Implementation Deed, Pepper is bound by customary exclusivity obligations, including in relation to alternative proposals.

x The tax consequences of the Scheme may not suit your current financial position

Implementation of the Scheme and receipt of the Special Dividend may trigger adverse or unwanted tax consequences for certain Pepper Shareholders.

Pepper Shareholders who only receive Cash Consideration for the disposal of their Pepper Shares will not be entitled to CGT Roll-over Relief in respect of any capital gain arising from the disposal of the Pepper Shares to Bidco.

Pepper Shareholders who receive some Cash Consideration and some Holdco Shares and who are residents of Australia for income tax purposes will only be eligible for partial CGT Roll-over Relief in respect of any capital gain arising from the disposal of the Pepper Shares to Bidco. This would include Pepper Shareholders who make a Scrip Option election and are subject to the scale back provisions.

Pepper Shareholders who are tax resident in a foreign jurisdiction and do not make a Retention Option election may be exposed to adverse tax consequence in that foreign jurisdiction in addition to the impact under Australian tax law (for example, being taxed on any gain on sale of the Pepper Shares and / or being taxed on the Special Dividend under foreign law).

Pepper Shareholders who receive the fully franked Special Dividend and are Australian tax residents may have to pay additional income tax after the application of any available franking offset. The Special Dividend may also be treated as part of the proceeds received on disposal of the Pepper Shares and so reduce the amount of any capital loss that a Pepper Shareholder might otherwise realise from the disposal.

Pepper Shareholders should read the taxation considerations outlined in the Tax Adviser's Report set out in Annexure A of this Scheme Booklet. The tax treatment may vary depending on the nature and characteristics of each Pepper Shareholder and their specific circumstances, including whether they are tax resident in a jurisdiction outside Australia. Accordingly, Pepper Shareholders should seek professional tax advice in relation to their particular circumstances.

x You may wish to maintain your direct investment in Pepper as an ASX listed company

You may wish to maintain your direct investment in Pepper as an ASX listed company in order to have an investment in a publicly listed company with the specific characteristics of Pepper, including in respect of capital structure and potential dividend stream.

The Scrip Option offers Eligible Pepper Shareholders the opportunity to invest in Holdco, a newly formed, unlisted Australian company that will indirectly hold all of the Pepper Shares (other than any Retained Pepper Shares) via Bidco. Alternatively, the Retention Option allows Eligible Pepper Shareholders to retain their Pepper Shares in a privatised Pepper if their receipt of a Holdco Share as Scheme Consideration would result in tax becoming payable in a jurisdiction other than Australia or New Zealand for that Pepper Shareholder or its associate (including a beneficiary of a trust of which the Pepper Shareholder is the trustee) without the benefit of Roll-over Relief.

An investment in Holdco or electing to retain your shares in an unlisted Pepper following implementation of the Scheme is not the same as an investment in Pepper as an ASX listed company, and if you elect either the Scrip Option or the Retention Option, your investment will have different characteristics and a different risk profile than your current investment in Pepper.

Holdco Shares and Retained Pepper Shares will be unlisted and illiquid, and subject to the terms and conditions set out in the Shareholders Deed. As such, protections available to Pepper Shareholders under the ASX Listing Rules and Australian corporate law for listed public companies (including in relation to takeovers and acquisitions of substantial holdings and certain minority protection rights) will not apply to holders of Holdco Shares or Retained Pepper Shares.

Furthermore, there is no guarantee that a Retained Pepper Shareholder will be able to participate in a future roll-over transaction which allows for a continued indirect interest in Pepper and also results in an amount of income or gain that would arise under Australian tax laws or foreign tax laws being deferred or disregarded. It is possible that Retained Pepper Shareholders may be compelled to dispose of their Retained Pepper Shares for cash at a future point in time. Such a disposal may give rise to adverse taxation consequences under Australian tax law, foreign tax laws or both.

Apart from confirming that a Retained Pepper Shareholder will not have a CGT event occur in respect of their Pepper Shares in connection with the Scheme, and highlighting certain tax matters relating to the treatment of the Special Dividend (in the case of a scale back), this Scheme Booklet does not otherwise seek to address the tax position of Retained Pepper Shareholders under Australian tax laws or foreign tax laws.

Further information on the Equity Alternative and an investment in Holdco or Pepper following implementation of the Scheme is provided in Sections 4, 5.2 and 5.3 and the Tax Adviser's Report (set out in Annexure A) and the Independent Expert's Report in Annexure B. You should also obtain appropriate legal, financial, tax or other professional advice before electing either the Scrip Option or the Retention Option.

Further, if the Scheme is implemented and you receive the Cash Payments for all of your Pepper Shares, you will cease to hold an interest in Pepper. This will mean that you will not participate in the future performance of Pepper, including any benefits that may result from being a Pepper Shareholder. Accordingly, you will not retain any exposure to Pepper's assets or have the potential to share in the value that could be generated by Pepper or its business in the future.

Potential reasons to elect to receive the Equity Alternative

✓ You might wish to retain an investment that has exposure to Pepper

If you make a valid election for the Scrip Option, you will receive Holdco Shares in an unlisted company that will provide an ongoing financial exposure to Pepper and you will become a party to the Shareholders Deed. Similarly, if you make a valid election for the Retention Option to retain your Pepper Shares, you will become party to the Shareholders Deed. Bidco has stated that it intends for Pepper to be delisted from ASX following implementation of the Scheme (see Section 4.4(b)). While you will retain an ownership interest in the Pepper business under the Equity Alternative, your exposure to Pepper will have different risks and a different investment and financial profile than your existing investment in Pepper as an ASX listed company.

Please refer to Sections 4.6 and 4.7 which set out a summary of the Shareholders Deed and summarise the rights attaching to Holdco Shares and the conditions that will apply to the Retained Pepper Shares. Please also refer to Sections 5.2 and 5.3 which sets out a summary of the risks relating to holding Holdco Shares and Retained Pepper Shares. A full copy of the Shareholders Deed, as amended by the parties since it was lodged with ASX on 10 August 2017, may be obtained by calling the Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) or from Pepper's website: www.pepper.com.au/about/shareholder-centre.

✓ You may be eligible for CGT Roll-over Relief

Eligible Pepper Shareholders who elect to receive the Scrip Option and are Australian tax residents who would make a capital gain on the disposal of their Pepper Shares in exchange for Holdco Shares should be eligible to make a choice whether or not to apply CGT Roll-over Relief. Where such an Eligible Pepper Shareholder chooses to apply CGT Roll-over Relief, the capital gain that they would otherwise make on the disposal of their Pepper Shares should be disregarded under Australian income tax law. In these circumstances the cost base and reduced cost base of their Pepper Shares under Australian income tax law should be transferred to the Holdco Shares exchanged for those Pepper Shares.

Where a Pepper Shareholder receives a combination of Cash Consideration and Holdco Shares, i.e. where the scale back provisions apply and the Pepper Shareholder is a resident of Australia for income tax purposes, partial CGT Roll-over Relief will apply. This means that only part of the capital gain that arises from the disposal of their Pepper Shares is disregarded for Australian income tax purposes where Roll-over Relief is chosen.

Such Pepper Shareholders will also be paid a Special Dividend in respect of those Pepper Shares they held as at the Special Dividend Record Date which will be, or will be deemed to be, exchanged for the Cash Consideration under the Scheme as a result of the scale back provisions of the Scheme (as summarised in Section 2.5 of this Scheme Booklet).

Pepper has sought a class ruling from the Commissioner of Taxation in order to confirm the availability of CGT Roll-over Relief under Australian income tax law for Pepper Shareholders who are residents of Australia for income tax purposes (among other things) and a class ruling on certain tax considerations relating to the Special Dividend. A copy of these class rulings will be made available on the ATO website at www.ato.gov.au once issued. Pepper will also make an ASX announcement when the class rulings have been issued in final form.

Pepper Shareholders who make a valid Retention Option election should have no CGT event from the Scheme for Australian income tax purposes in relation to their Pepper Shares other than in relation to any Pepper Shares disposed of due to a scale back (in respect of which Roll-over Relief under Australian income tax law will not be available and tax consequences may arise in connection with the receipt of the Special Dividend which would happen where a scale back applies).

Pepper Shareholders should read the Australian taxation considerations outlined in the Tax Adviser's Report set out in Annexure A of this Scheme Booklet. The tax treatment may vary

depending on the nature and characteristics of each Pepper Shareholder and their specific circumstances, including whether they are a tax resident in a jurisdiction other than Australia. Accordingly, Pepper Shareholders should seek professional tax advice in relation to their particular circumstances.



You may benefit from a future exit by a Bidco Group Member

You may be in a position to participate in any future exit by a Bidco Group Member of its investment in Pepper if you hold Holdco Shares or Retained Pepper Shares at the time of that exit.

If the future value of Pepper at the time of exit is higher than the value of Pepper today, you may be able to participate in the benefit of the exit at that higher value. In those circumstances, you may realise greater value over the longer term through electing the Equity Alternative instead of receiving the Cash Payments for all of your Pepper Shares.

However, there is no assurance that the future value of Holdco Shares or Retained Pepper Shares will be equal to or higher than the value of the Cash Payments. Eligible Pepper Shareholders who elect to receive the Equity Alternative will also become parties to the Shareholders Deed. You should carefully read Sections 4, 5.2 and 5.3 and the Tax Adviser's Report (set out in Annexure A) and obtain appropriate legal, financial, tax or other professional advice before making any election to receive either the Scrip Option or the Retention Option.

As at the date of this Scheme Booklet, Holdco has not determined the timing of any potential exit or the exit mechanism. Any future value of Pepper will only be known at the time of any future exit. Refer to Section 4.4 for further details.

Potential reasons not to elect to receive the Equity Alternative

x The current and future value of the Holdco Shares received under the Equity Alternative may be materially less than the value of the Cash Payments

The Independent Expert has identified a number of factors that Pepper Shareholders should consider before making any election for the Scrip Option. In this regard, the Independent Expert has stated: “it is not possible to reliably estimate the value that might ultimately be realised for the shares. However, absent a subsequent sale of the business or other liquidity event, the realisable value per share would be expected to incorporate a substantial discount reflecting the illiquidity of the market for the shares. In these circumstances, shareholders could realise significantly less than the cash payments under the Scheme of \$3.70 per share”.

Refer to the Independent Expert’s Report in Annexure B and the views expressed therein in relation to the Scrip Option.

x The future value of Retained Pepper Shares may be materially less than the value of the Cash Payments

Pepper Shareholders who validly elect the Retention Option may have their Retained Pepper Shares compulsorily acquired by Bidco at any time in the 3 year period from the Implementation Date under the Shareholders Deed for a cash amount per Retained Pepper Share equal to the then fair market value of a Holdco Share, if they have not otherwise been acquired by Holdco or its nominee (see the “Post-Scheme acquisition of Pepper Shares” section of the table in Section 4.6(a) for further details). There is no assurance that the future value of Retained Pepper Shares (including the value realised under a compulsory transfer to Bidco) will be equal to or higher than the value of the Cash Payments.

x Pepper Shareholders who make a valid election for the Equity Alternative will not receive the Special Dividend other than in respect of those Pepper Shares which will be, or will be deemed to be, exchanged for the Cash Consideration under the Scheme as a result of a scale back(if any)

If the Scheme becomes Effective and is implemented, each Pepper Shareholder receiving Cash Consideration under the Scheme in respect of any Pepper Shares they hold (either because they have not made a valid election for the Equity Alternative, or because those Pepper Shares are subject to scale back as described in Section 2.5) will receive total Cash Payments of \$3.70 per Pepper Share as follows:

- the Cash Consideration of \$3.60 per Pepper Share for each of those Pepper Shares they hold as at the Scheme Record Date; and
- a fully franked Special Dividend of 10 cents for each of those Pepper Shares they hold as at the Special Dividend Record Date.

Pepper Shareholders who make a valid election for the Equity Alternative will not receive the Special Dividend unless there is a scale back (as described in Section 2.5), in which case they will receive the Special Dividend in respect of those Pepper Shares they held as at the Special Dividend Record Date which will be, or will be deemed to be, exchanged for the Cash Consideration under the Scheme.

Payment of the Special Dividend is subject to the Scheme becoming Effective, the Constitution Amendment Resolution being approved by the Requisite Majority of Pepper Shareholders at the General Meeting and the Pepper Board determining or declaring the Special Dividend.

✘ There are various restrictions on transferring or otherwise disposing of Holdco Shares and Retained Pepper Shares

Holdco is not publicly listed on a financial market and there will be no active market for the sale of Holdco Shares. Similarly, Bidco has indicated that it intends for Pepper to be delisted from the ASX following implementation of the Scheme.

If the Scheme is implemented, no disposal or transfer of Holdco Shares or Retained Pepper Shares will be permitted except in very limited circumstances as set out in the Shareholders Deed.

For more information, refer to the summary of the Shareholders Deed in Section 4.6. A full copy of the Shareholders Deed, as amended by the parties since it was lodged with ASX on 10 August 2017, may be obtained by calling the Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) or from Pepper's website:

www.pepper.com.au/about/shareholder-centre

✘ There are significant risks associated with holding Holdco Shares and Retained Pepper Shares

Sections 4.6 and 4.7, which set out the rights afforded to the holders of Holdco Shares and Retained Pepper Shares, should be carefully considered. In particular, you should consider the risks associated with an investment in Holdco (or Pepper following implementation of the Scheme) set out in Section 5.3, specifically:

- you will be subject to a different regulatory regime when compared to your current investment in Pepper;
- you will receive less information about Pepper than you currently receive;
- your investment in Holdco (or an unlisted Pepper if you hold Retained Pepper Shares) will be illiquid given there will be no active market for the sale and purchase of Holdco Shares or Retained Pepper Shares and you will be subject to the restrictions on transfer under the Shareholders Deed;
- you will be subject to the Shareholders Deed in respect of your Holdco Shares or Retained Pepper Shares (as the case may be), including significant disposal restrictions, drag along rights, compulsory transfer provisions, provisions which permit the issue of new Holdco securities that may dilute your interest in Pepper's business, and obligations to participate in and facilitate any future asset sale, trade sale or IPO of the Pepper business;
- in relation to dilution as a result of new Holdco security issues, please note in particular the proposed December 2017 capital raising, referred to in Section 4.4(h). To the extent that you decide not to take up some or all of the pro rata entitlements offered to you under this capital raising, this would result in a dilution of your Holdco shareholding;
- in the case of the Retained Pepper Shares, it is possible that Bidco may compulsorily acquire your Retained Pepper Shares at any time in the 3 year period from the Implementation Date under the Shareholders Deed for a cash amount per Retained Pepper Share equal to the then fair market value of a Holdco Share, if they have not otherwise been acquired by Holdco or its nominee, which may be lower than the Cash Payments; and
- you will be subject to other provisions in the Shareholders Deed the effect of which may result in an outcome that is not aligned with your interests or expectations.

1 Frequently asked questions

This Section 1 answers some commonly asked questions about the Scheme. This information is a summary only and is not intended to address all relevant issues for Pepper Shareholders. This Section 1 should be read subject to, and in conjunction with, the remainder of this Scheme Booklet.

Item ("FAQ")	Question	Answer	Further Information
1	Background and overview of the Scheme		
1.1	What is the Scheme?	The Scheme involves Bidco, an entity indirectly owned by KKR Credit, acquiring all of the Pepper Shares (other than the Retained Pepper Shares) for the Scheme Consideration by way of a 'scheme of arrangement'. See FAQ 2 for details of the Scheme Consideration.	Sections 2.1 and 2.2
1.2	What is a "scheme of arrangement"?	A scheme of arrangement is a way of implementing an acquisition of shares under the Corporations Act. It requires a vote in favour of the Scheme by the Requisite Majority of Pepper Shareholders at a meeting of Pepper Shareholders convened by the Court, followed by Court approval.	
1.3	Who are Bidco, Holdco and KCA?	Bidco is an unlisted Australian proprietary company wholly owned by Holdco, and was established for the purpose of acquiring Pepper Shares under the Scheme. Holdco is an unlisted Australian proprietary company indirectly owned by KKR Credit, and was established for the purpose of indirectly acquiring Pepper Shares under the Scheme. Holdco Shares are being offered as Scheme Consideration under the Scrip Option. KCA is an Affiliate of KKR & Co. KKR is a leading global investment firm that manages multiple alternative asset classes including private equity, energy, infrastructure, real estate, credit and, through its strategic partners, hedge funds. As at 30 June 2017, KKR had over US\$148.5 billion of assets under management worldwide.	Section 4
1.4	What approvals of Pepper Shareholders are required?	The Scheme can only proceed if: <ul style="list-style-type: none"> the Scheme is approved by the Requisite Majority of Pepper Shareholders at the Scheme Meeting as set out in FAQ 4.5; and the Constitution Amendment is approved by the Requisite Majority of Pepper Shareholders at the General Meeting as set out in Section 2.15. 	
1.5	What do your Directors recommend?	Your Directors unanimously recommend that you approve the Scheme by voting in favour	"Chairman's Letter",

		<p>of the Resolutions, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders.</p> <p>Each Director intends to vote the Pepper Shares they hold or control in favour of the Resolutions, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders. As at the date of this Scheme Booklet, your Directors hold or control in aggregate approximately 34.2% of all Pepper Shares on issue¹⁷.</p> <p>The reasons for the Directors' recommendation and other matters that you may wish to consider are outlined on pages 16 to 21 of this Scheme Booklet.</p>	<p>"Reasons to approve the Scheme by voting in favour of the Resolutions", "Reasons Why you may not approve the Scheme" on pages 16 to 21</p>
1.6	<p>What is the role and function of the Independent Board Committee?</p>	<p>The Independent Board Committee comprises Melanie Willis (Chair), Matthew Burlage and Des O'Shea (each of whom is an independent non-executive Pepper Director).</p> <p>Following approaches from various entities concerning possible change of control transactions involving Pepper and a structured process managed by Citi, the Pepper Board approved the formation of the Independent Board Committee as a sub-committee of the Pepper Board with responsibility for, among other things, overseeing discussions and negotiations relating to those proposals and overseeing Pepper's evaluation of and response to them. The Independent Board Committee considered the Scheme and, if applicable, will consider any Competing Proposal, subject to the exclusivity restrictions applicable to Pepper in relation to alternative proposals in the Scheme Implementation Deed (see Section 6.3(b)(iv) for details).</p> <p>The Independent Board Committee engaged its own financial adviser (Highbury Partnership) and legal adviser (Herbert Smith Freehills) to assist it with its review of the various transaction proposals received and to assist the Independent Board Committee in overseeing the negotiation of transaction terms with KKR Credit.</p>	
1.7	<p>What is the Independent Expert's conclusion on the Scheme?</p>	<p>The Independent Expert has concluded that the Scheme is fair and reasonable and, therefore, is in the best interests of Pepper Shareholders, in the absence of a Superior Proposal.</p> <p>The Independent Expert has valued Pepper at</p>	<p>Annexure B</p>

¹⁷ Excluding certain incentive shares held directly or indirectly by Mr Michael Culhane (equal to approximately 0.39% of all Pepper Shares on issue) in respect of which he does not currently have voting rights.

		\$3.52 to \$4.02 per Pepper Share. The Cash Payments of \$3.70 per Pepper Share are within the valuation range of the Independent Expert.	
1.8	Why should I approve the Scheme by voting in favour of the Resolutions?	Please refer to the Section headed "Reasons to approve the Scheme by voting in favour of the Resolutions" on page 16 for some of the reasons why the Directors recommend you vote in favour of the Resolutions.	Page 16
1.9	Why might I consider not approving the Scheme?	Please refer to the Section headed "Reasons why you may not approve the Scheme" on page 20 for some of the reasons why you may consider voting against the Resolutions.	Page 20
1.10	What are my options?	<p>You may:</p> <ul style="list-style-type: none"> • vote on the Resolutions at the Meetings (in person, or by proxy, attorney or, if applicable, corporate representative); • sell your Pepper Shares on market at any time before close of trading on ASX on the Effective Date. If you do so, you may incur brokerage costs; or • do nothing, in which case, if the Scheme becomes Effective and is implemented, you will receive the Cash Payments for all of your Pepper Shares and, if the Scheme does not become Effective and is not implemented, you will continue to hold your Pepper Shares. <p>If you are an Eligible Pepper Shareholder and you wish to elect the Equity Alternative instead of the Cash Payments for all of your Pepper Shares, you will need to complete and return an Election Form in accordance with the instructions on that form so that it is received by the Pepper Registry by no later than 5.00pm on the 9 November 2017. You do not need to complete an Election Form if you wish to receive the Cash Payments for all of your Pepper Shares.</p>	"What you should do" on page 13
1.11	Should I vote?	Voting is not compulsory. However, the Directors believe that the Scheme is important for all Pepper Shareholders and the Directors unanimously recommend that you approve the Scheme by voting in favour of the Resolutions, in the absence of a Superior Proposal and subject to the Independent Expert continuing to conclude that the Scheme is in the best interests of Pepper Shareholders.	
1.12	What happens if I do not vote or if I vote against the Scheme?	If you are a Pepper Shareholder as at the Scheme Record Date and the Scheme becomes Effective, your Pepper Shares will be transferred pursuant to the Scheme and you will be entitled to receive the Scheme	

		<p>Consideration for your Pepper Shares. This is so even if you did not vote, or voted against the Scheme.</p> <p>If the Scheme is not approved, you will remain a Pepper Shareholder.</p>	
2	The Scheme Consideration and the Special Dividend		
2.1	What is the Scheme Consideration?	<p>If the Scheme becomes Effective and is implemented, Pepper Shareholders (other than those who make a valid election for the Equity Alternative) will receive Cash Payments equal to \$3.70 per Pepper Share in respect of all of their Pepper Shares, comprising:</p> <ul style="list-style-type: none"> the Cash Consideration of \$3.60 for each Pepper Share held as at the Scheme Record Date; and a fully franked Special Dividend of 10 cents for each Pepper Share held as at the Special Dividend Record Date. <p>As an alternative to the Cash Payments in respect of all of their Pepper Shares, Eligible Pepper Shareholders may elect to receive the Equity Alternative. Under the Equity Alternative, Eligible Pepper Shareholders may elect to receive either:</p> <ul style="list-style-type: none"> the Scrip Option, under which they will receive one Holdco Share for each Pepper Share held as at the Scheme Record Date (see FAQ 2.4); or the Retention Option under which they will retain all of their Pepper Shares held as at the Scheme Record Date subject to certain conditions (see FAQ 2.5). <p>Any election for the Equity Alternative may be subject to a scale back (see FAQ 2.7). The Special Dividend will not be paid to Pepper Shareholders who make a valid election for the Equity Alternative, unless there is a scale back, in which case they will receive the Special Dividend in respect of those Pepper Shares they held as at the Special Dividend Record Date which will be, or will be deemed to be, exchanged for the Cash Consideration under the Scheme.</p> <p>If you are an Ineligible Foreign Shareholder, please see FAQ 2.12 as to what will occur under the Scheme.</p>	Section 2.4
2.2	What is the Special Dividend?	<p>Pepper expects to pay a fully franked Special Dividend of 10 cents cash per Pepper Share.</p> <p>Payment of the Special Dividend is subject to the Scheme becoming Effective, the Constitution Amendment Resolution being approved by Pepper Shareholders at the</p>	

		<p>General Meeting and the Pepper Board declaring or determining the Special Dividend.</p> <p>The Special Dividend will only be paid in respect of Scheme Shares that are exchanged or deemed to be exchanged for the Cash Consideration under the Scheme (including by reason of a scale back under the Equity Alternative).</p> <p>Please refer to the Tax Adviser's Report in Annexure A for high level comments on the expected taxation treatment of the Special Dividend.</p>	
2.3	<p>Do the Directors have any specific views or recommendations for Pepper Shareholders on the Equity Alternative?</p>	<p>No.</p> <p>The default form of consideration under the Scheme is the Cash Consideration which, together with the Special Dividend, provides Pepper Shareholders with the opportunity to receive Cash Payments of \$3.70 per Pepper Share for all of their Pepper Shares. Your Directors have recommended that you approve the Scheme by voting in favour of the Resolutions based on the quantum of the Cash Payments.</p> <p>Your Directors make no recommendation regarding the Equity Alternative except to note that Eligible Pepper Shareholders who are considering electing to receive the Equity Alternative should:</p> <ul style="list-style-type: none"> • be aware that the Special Dividend will not be paid to Pepper Shareholders who make a valid election for the Equity Alternative, unless there is a scale back, in which case they will receive the Special Dividend in respect of those Pepper Shares they held as at the Special Dividend Record Date which will be, or will be deemed to be, exchanged for the Cash Consideration under the Scheme; • be aware that Holdco intends to undertake a pro rata equity raising in December 2017 (in accordance with the Shareholders Deed), which may dilute the Holdco interests of Pepper Shareholders who do not accept some or all of their entitlements in respect of this equity raising; • carefully consider the information set out in Sections 4, 5.2 and 5.3 relating to the features and risks of Holdco Shares and Retained Pepper Shares that comprise the Scrip Option and Retention Option respectively; • refer to the Independent Expert's Report and the views expressed therein in relation to the Equity 	<p>"Potential reasons to elect to receive the Equity Alternative", "Potential reasons not to elect to receive the Equity Alternative", Sections 2.4, 4 and 5, and the Independent Expert's Report set out in Annexure B</p>

		<p>Alternative;</p> <ul style="list-style-type: none"> consider the potential taxation implications under Australian income tax law and foreign tax laws in connection with the Equity Alternative (see the Tax Adviser's Report set out in Annexure A); and obtain appropriate legal, financial, tax or other professional advice about whether an investment in Holdco Shares or Retained Pepper Shares is appropriate to their specific circumstances before deciding whether to make an election for the Scrip Option or the Retention Option. 	
2.4	What is the Scrip Option?	<p>If Pepper Shareholders validly elect to receive the Scrip Option, they will receive one Holdco Share for each Pepper Share they hold as at the Scheme Record Date (subject to a possible scale back – see FAQ 2.7).</p> <p>All Pepper Shareholders (other than Ineligible Foreign Shareholders) are eligible to receive the Scrip Option.</p> <p>If you make an invalid election for the Scrip Option and the Scheme is implemented, you will receive the Cash Payments in respect of all of your Pepper Shares.</p>	Section 2.4(b)(i)
2.5	What is the Retention Option?	<p>The Retention Option is an alternative to the Scrip Option, and is only available to any Pepper Shareholder who is a Qualifying Tax Payer (see FAQ 2.13).</p> <p>Eligible Pepper Shareholders who validly elect the Retention Option will retain all of their Pepper Shares (Retained Pepper Shares) on the basis that Holdco will explore alternative means of acquiring those shares in a manner which has less adverse tax consequences including, potentially, some deferral of tax. The Retention Option is subject to a possible scale back – see FAQ 2.7.</p> <p>There is no guarantee that Holdco will identify an acceptable form of future transaction.</p> <p>It is also possible that Bidco may compulsorily acquire the Retained Pepper Shares for a period following implementation of the Scheme - see FAQ 2.6.</p> <p>If Retained Pepper Shareholders are required to dispose of their shares in the future, they may be subject to adverse consequences under Australian tax laws, foreign tax laws or both.</p> <p>If you make an invalid election for the Retention Option and the Scheme is implemented, you will receive the Cash Payments in respect of all of your Pepper</p>	Section 2.4(b)(ii)

		Shares.	
2.6	How can Bidco compulsorily acquire Retained Pepper Shares following implementation of the Scheme?	<p>The Shareholders Deed provides that Holdco may determine by Holdco Board Special Majority that Bidco (or another Holdco Group Company) will acquire the Retained Pepper Shares at any time during the 3 year period following the Implementation Date, for a cash amount per Retained Pepper Share equal to the then fair market value of a Holdco Share, if they have not otherwise been acquired by Holdco or its nominee. The Shareholders Deed does not prescribe how the fair market value is determined in this circumstance, other than providing that it is to be determined by a Holdco Board Special Majority (acting reasonably). A Holdco Board Special Majority essentially requires the approval of one Holdco Director appointed by the KKR Investors and one Holdco Director appointed by the Original Pepper Shareholders.</p> <p>There is no assurance that the future value of Retained Pepper Shares (including the value realised under a compulsory transfer to Bidco) or Holdco Shares will be equal to or higher than the value of the Cash Payments.</p>	Section 2.4(b)(ii) and the "Post-Scheme acquisition of Pepper Shares" section of the table in Section 4.6(a)
2.7	What are the scale back conditions?	<p>The Retention Option is subject to a pro rata scale back if valid elections by Eligible Pepper Shareholders holding an aggregate of 9.9% or more of total Scheme Shares make this election. As a result, Scheme Shares subject to the scale back will be transferred to Bidco under the Scheme for the Cash Consideration.</p> <p>There will be a separate pro rata scale back if valid elections for the Equity Alternative¹⁸ relate to more than 48.5% of total Pepper Shares on a fully diluted basis. If scaling back is required, Pepper Shareholders who have made valid elections for the Scrip Option will receive a number of Holdco Shares less than the number of their Scheme Shares and the balance of their Scheme Consideration in the form of the Cash Consideration.</p> <p>As a result, KKR Credit will hold an equity interest in the Pepper Group on implementation of the Scheme of no less than 51.5%.</p> <p>Any scale back will be calculated as at the Scheme Record Date, the results of which will be announced to ASX.</p>	Section 2.5
2.8	How will fractional entitlements be treated?	Any entitlement of an Eligible Pepper Shareholder under the Scheme to be provided with or retain (as applicable) a fraction of a Holdco Share or Retained Pepper Share will be rounded down to the nearest whole number of Holdco Share or	Section 2.5(d)

¹⁸ Calculated after the 9.9% Retention Option scale back is applied.

		Retained Pepper Share (as applicable). Any cash amount payable to a Scheme Shareholder will be rounded down to the nearest whole cent.	
2.9	What is the Minimum Election Condition Precedent?	<p>The Minimum Election Condition Precedent is a Condition Precedent under the Scheme requiring that Pepper Shareholders holding at least 35.11% of the issued Pepper Shares elect the Equity Alternative.</p> <p>If the Minimum Election Condition Precedent has not been satisfied or waived by 8.00am on the Second Court Date, either party may terminate the Scheme Implementation Deed and the Scheme will not proceed.</p>	Section 2.6
2.10	When will I receive the Scheme Consideration and the Special Dividend, if paid?	<p>Scheme Shareholders will receive the Scheme Consideration and the Special Dividend as follows:</p> <ul style="list-style-type: none"> • in relation to any Special Dividend – payment will be made on the Special Dividend Payment Date (expected to be 4 December 2017); • in relation to any Cash Consideration payable – payment will be made on the Implementation Date (expected to be 4 December 2017); and • in relation to the provision of Holdco Shares under the Scrip Option – the Holdco Shares will be issued on the Implementation Date, with share certificates to be sent to you within five Business Days of that date. <p>Any cash payment to be made will be paid as follows:</p> <ul style="list-style-type: none"> • where a Scheme Shareholder has elected, prior to the relevant record date, to receive dividends by electronic funds transfer to the bank account nominated by the Scheme Shareholder – by transfer to that account; and • otherwise, by cheque for the relevant amount in Australian currency, dispatched by prepaid post. 	Section 2.10
2.11	Who is an Ineligible Foreign Shareholder?	<p>If your address, as shown in the Register as at the Scheme Record Date, is a place outside Australia or New Zealand, you will be an Ineligible Foreign Shareholder unless otherwise agreed in writing by Pepper and Bidco. If you are a Pepper Shareholder whose address as shown in the Pepper Register is a place outside Australia or New Zealand and wish to receive the Equity Alternative, you should contact the Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) Monday to Friday between 9.00am and 5.00pm (Sydney time) to enquire as to whether you</p>	Section 2.11

		may be an Eligible Pepper Shareholder.	
2.12	How will an Ineligible Foreign Shareholder be treated under the Scheme?	If you are an Ineligible Foreign Shareholder, you will not receive the Equity Alternative. If you elect to receive either the Scrip Option or the Retention Option, your election will be invalid and have no effect, and you will receive the Cash Payments for all of your Pepper Shares.	Sections 2.8 and 2.11
2.13	Who is a Qualifying Tax Payer?	A Qualifying Tax Payer is any Pepper Shareholder who is not an Ineligible Foreign Shareholder and who has; <ul style="list-style-type: none"> declared to Pepper (as set out in the Election Form) that if Holdco Shares were issued to them as Scheme Consideration, it would result in tax becoming payable in a jurisdiction other than Australia or New Zealand for that Pepper Shareholder or its associate (including a beneficiary of a trust of which the Pepper Shareholder is the trustee) without the benefit of Roll-over Relief; and lodged with their Election Form a copy of a certificate from their professional tax adviser (in the form prescribed by Pepper) certifying that the declaration made by them (as set out in the Election Form) is correct. 	"What you should do", page 13
3	Making an election in relation to the Equity Alternative		
3.1	How do I receive the Cash Payments?	If the Scheme becomes Effective and is implemented, you do not need to do anything to receive the Cash Payments for all of your Pepper Shares. Unless you elect the Equity Alternative, you will receive the Cash Payments for all of your Pepper Shares.	Sections 2.4(a)
3.2	How do I elect to receive the Equity Alternative?	If you are an Eligible Pepper Shareholder and wish to receive either the Scrip Option or the Retention Option, you need to complete an Election Form in accordance with the instructions set out in the form and return it to the Pepper Registry by no later than 5.00pm (Sydney time) on the Election Date (being 9 November 2017). Pepper Shareholders who do not make an election, who do not submit a valid election or who become a Pepper Shareholder after the Election Date, will receive the Cash Payments for all of their Pepper Shares.	"What should you do" on page 13 and Section 2.8
3.3	How can I obtain an Election Form?	To obtain an Election Form, Pepper Shareholders must contact the Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) Monday to Friday between 9.00am and 5.00pm (Sydney time) and request an Election Form.	"What should you do" on page 13 and Section 2.8

3.4	If I make an election, can I later withdraw or change it?	Yes. You may subsequently vary, withdraw or revoke an election by lodging a replacement Election Form so that it is received by the Pepper Registry by no later than 5.00pm (Sydney time) on the Election Date (being 9 November 2017). The last valid Election Form received by the Pepper Registry before 5.00pm (Sydney time) on the Election Date will be used to determine your election and will apply to all Pepper Shares which you hold on the Scheme Record Date (subject to a possible scale back – see FAQ 2.7).	“What should you do” on page 13 and Section 2.8
3.5	Can I elect the Equity Alternative in respect of some but not all of my Pepper Shares?	No, you can only elect either the Scrip Option or the Retention Option in exchange for all of the Pepper Shares that you hold as at the Scheme Record Date (subject to a possible scale back – see FAQ 2.7).	Section 2.8
3.6	What happens if I do not make an election in time or if the election is invalid?	If your election is not received by the Pepper Registry prior to 5.00pm (Sydney time) on the Election Date (being 9 November 2017), you will receive the Cash Payments for all of your Pepper Shares. If you make an invalid election or become a Pepper Shareholder after the Election Date, you will receive the Cash Payments for all of your Pepper Shares.	Section 2.8
3.7	What are the potential advantages and disadvantages of the Equity Alternative?	Please refer to the Sections headed “Potential reasons to elect to receive the Equity Alternative” on page 22 and “Potential reasons not to elect to receive the Equity Alternative” on page 24 for a summary of the potential advantages and disadvantages of the Equity Alternative. For a more fulsome description of the Holdco Shares and the Retained Pepper Shares, including the risks involved in holding those securities, see Sections 4.6, 4.7, 5.2 and 5.3. Note that the risks that apply to an investment in Holdco or an unlisted Pepper are materially different from those that apply to your existing investment in Pepper as an ASX-listed company.	Sections 4.6, 4.7, 5.2 and 5.3 and page 22 to 25
4	The Scheme Meeting, voting and approvals		
4.1	What is the Scheme Resolution?	The Scheme Resolution is a resolution to approve the Scheme. It will be voted on at the Scheme Meeting and is set out in the Notice of Scheme Meeting (Annexure E).	Annexure E
4.2	Who can vote?	If you are a Pepper Shareholder on the Meeting Record Date, being 13 November 2017 at 7.00pm (Sydney time), you will be entitled to vote on the Scheme Resolution.	“What you should do” on page 13
4.3	Where and when will the Scheme Meeting be held?	The Scheme Meeting to approve the Scheme is scheduled to be held immediately following the conclusion of the General Meeting at Christie Offices, 100 Walker Street, North	What you should do” on page 13

		Sydney, on 15 November 2017 at 10.00am (Sydney time).	
4.4	How do I vote on the Scheme Resolution?	<p>You may vote in person by attending the Scheme Meeting.</p> <p>Alternatively, if you do not want to, or cannot, attend in person, you can vote:</p> <ul style="list-style-type: none"> • by proxy: by completing and returning to the Pepper Registry the enclosed Scheme Proxy Form. The Scheme Proxy Form must be received by the Pepper Registry by no later than 10.00am (Sydney time) on 13 November 2017 or lodged online at www.investorvote.com.au by no later than 10.00am (Sydney time) on 13 November 2017; • by attorney: by providing the Pepper Registry the original (or a certified copy) of the instrument appointing an attorney by no later than 10.00am (Sydney time) on 13 November 2017 (unless a copy has already been provided to the Pepper Registry); or • by corporate representative: (in the case of a body corporate) by providing the Pepper Registry a copy of the certificate of appointment of the representative at the Scheme Meeting. The appointment must comply with section 250D of the Corporations Act. A corporate Pepper Shareholder or corporate proxy should obtain a "Certificate of Appointment of Corporate Representative" form from the Pepper Registry, and complete and sign the form in accordance with the instructions on it. The corporate representative must attend the Scheme Meeting in person. 	What you should do" on page 13 Section 2.16
4.5	What vote is required to approve the Scheme Resolution?	<p>The Scheme needs to be approved by the Requisite Majority of Pepper Shareholders at the Scheme Meeting, which is:</p> <ul style="list-style-type: none"> • at least 75% of the total number of votes cast on the Scheme Resolution at the Scheme Meeting; and • a majority in number (more than 50%) of Pepper Shareholders present and voting (in person or by proxy, corporate representative or attorney). 	Section 2.14
5	General Meeting, voting and approvals		
5.1	Why is the General Meeting being held?	One of the Conditions Precedent of the Scheme is that the Constitution Amendment Resolution is approved by the Requisite Majority of Pepper Shareholders.	Section 2.15 Annexure F

		<p>The General Meeting is being convened to seek approval of the Constitution Amendment Resolution.</p> <p>The Constitution Amendment Resolution is a resolution to approve amendments to rule 4.1(e) of the Pepper Constitution to permit the Pepper Board to determine the payment of the Special Dividend, being a selective dividend on only those Pepper Shares which are exchanged for Cash Consideration (as compared to a dividend that is paid equally on all Pepper Shares), provided that the Scheme Resolution is also approved by the Requisite Majority of Pepper Shareholders at the Scheme Meeting). The Special Dividend would only become payable upon the Scheme becoming Effective. Refer to Section 2.15 for the specific terms of the proposed amendments to the Pepper Constitution.</p> <p>The Constitution Amendment Resolution is set out in the Notice of General Meeting (Annexure F).</p>	
5.2	Who can vote?	If you are a Pepper Shareholder on the Meeting Record Date, being 13 November 2017 at 7.00pm (Sydney time), you will be entitled to vote on the Constitution Amendment Resolution.	"What you should do" on page 13
5.3	Where and when will the General Meeting be held?	The General Meeting to approve the Constitution Amendment Resolution is scheduled to be held at Christie Offices, 100 Walker Street, North Sydney, on 15 November 2017 at 10.00am (Sydney time).	What you should do" on page 13
5.4	How do I vote on the Constitution Amendment Resolution?	<p>You may vote in person by attending the General Meeting.</p> <p>Alternatively, if you do not want to, or cannot, attend in person, you can vote:</p> <ul style="list-style-type: none"> • by proxy: by completing and returning to the Pepper Registry the enclosed General Proxy Form. The General Proxy Form must be received by the Pepper Registry by no later than 10.00am (Sydney time) on 13 November 2017 or lodged online at www.investorvote.com.au by no later than 10.00am (Sydney time) on 13 November 2017; • by attorney: by providing the Pepper Registry the original (or a certified copy) of the instrument appointing an attorney by no later than 10.00am (Sydney time) on 13 November 2017 (unless a copy has already been provided to the Pepper Registry); or • by corporate representative: (in the case of a body corporate) by providing the Pepper Registry a copy of the certificate of appointment of the 	What you should do" on page 13 Section 2.16

		representative at the General Meeting. The appointment must comply with section 250D of the Corporations Act. A corporate Pepper Shareholder or corporate proxy should obtain a "Certificate of Appointment of Corporate Representative" form from the Pepper Registry, and complete and sign the form in accordance with the instructions on it. The corporate representative must attend the General Meeting in person.	
5.5	What vote is required to approve the Constitution Amendment Resolution?	The Constitution Amendment Resolution must be passed as a special resolution, i.e by at least 75% of the votes cast by Pepper Shareholders present and voting (in person or by proxy, corporate representative or attorney).	Section 2.15
5.6	What happens if the Constitution Amendment Resolution is approved but the Scheme Resolution is not approved?	If the Constitution Amendment Resolution is passed but the Scheme Resolution is not passed, the Pepper Constitution will not be amended, the Scheme will not proceed and the Special Dividend will not be paid.	
5.7	When will the result of the Meetings be known?	The results will be announced to the ASX shortly after conclusion of the Meetings, and will be accessible from ASX's website at www.asx.com.au . If the Scheme is approved by reason of the Resolutions being passed at the Meetings, the Scheme will not become Effective unless it is approved by the Court at the Second Court Date Hearing and the relevant Court order is lodged with ASIC.	
6	Implementation of the Scheme		
6.1	What will happen to Pepper if the Scheme becomes Effective and is implemented?	If the Scheme becomes Effective and is implemented all of the Pepper Shares (other than the Retained Pepper Shares) will be acquired by Bidco, and it is intended that Pepper will be delisted from ASX.	Sections 2.18 and 2.25
6.2	Are there conditions that need to be satisfied before the Scheme can proceed?	Implementation of the Scheme is subject to the satisfaction or (as applicable) waiver of a number of Conditions Precedent. These Conditions Precedent are summarised in Section 6.3(b)(i) and include: <ul style="list-style-type: none"> the obtaining of certain regulatory approvals, including from the Central Bank of Ireland, the Fair Trade Commission of Korea and the Financial Conduct Authority (UK); the cancellation, conversion, exercise, exchange, acquisition or amendment of the terms of Pepper performance rights and options (or entry into legally binding 	Section 6.3(b)(i)

		<p>arrangements for the cancellation, conversion, exercise, exchange, acquisition or amendment of the terms of these rights and options);</p> <ul style="list-style-type: none"> obtaining change of control consents from the counterparties to certain Pepper debt and warehouse facilities; approval of the Scheme by the Requisite Majority of Pepper Shareholders at the Scheme Meeting; approval of the Scheme by the Court; approval of the Constitution Amendment Resolution by the Requisite Majority of Pepper Shareholders at the General Meeting (in order to permit the payment of the Special Dividend); and the Special Dividend being declared or determined by the Pepper Board. <p>The Conditions Precedent are set out in full in clause 3.1 of the Scheme Implementation Deed. A full copy of the Scheme Implementation Deed, as amended by the parties since it was lodged with ASX on 10 August 2017, may be obtained by calling the Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) or from Pepper's website: www.pepper.com.au/about/shareholder-centre</p>	
6.3	When will the Scheme become Effective?	Subject to the satisfaction or, as applicable, waiver of the Conditions Precedent, the Scheme will become Effective on the Effective Date (expected to be 21 November 2017).	Section 2.19
6.4	When will Pepper Shares cease trading on the ASX?	If the Scheme becomes Effective, Pepper Shares are expected to cease trading on the ASX from the close of trading on the Effective Date (expected to be 21 November 2017).	Section 2.20
6.5	What happens if the Scheme is not approved?	<p>If the Scheme is not approved by the Requisite Majority of Pepper Shareholders, or the Court, the Scheme will not proceed.</p> <p>If the Scheme does not proceed:</p> <ul style="list-style-type: none"> the Scheme Consideration will not be provided to Scheme Shareholders; Bidco will not acquire the Scheme Shares; Pepper will continue to be listed on the ASX; and Pepper Shareholders will retain their Pepper Shares and continue to share in any benefits and risks of Pepper's ongoing business. <p>If the Scheme does not proceed, and no</p>	Section 2.28; Section 4.4(h)

		<p>Superior Proposal emerges, the price of Pepper Shares may fall.</p> <p>Pepper has a strong business model and management team. If the Scheme does not proceed, it is the Directors' current intention to continue operating Pepper in line with its previously stated objectives.</p> <p>Irrespective of whether or not the Scheme is implemented, it is anticipated that additional equity will be sought to be raised prior to the end of 2017, to provide funding for Pepper's business plan.</p> <p>If the Scheme is not approved, Pepper anticipates that it will require at least \$150 million in equity capital to be raised prior to 31 December 2017. There is no certainty that this capital raising can be secured in the public market. However, if a capital raising is successful it may cause the price of Pepper Shares to fall and may be dilutive to current shareholders.</p> <p>If the Scheme is approved, Holdco also intends to undertake an equity raising prior to 31 December 2017 (refer to Section 4.4(h) for further details).</p>	
7	Information about Bidco, Holdco, Holdco Shares and KCA		
7.1	Who is Bidco?	Bidco is a newly incorporated Australian proprietary company wholly owned by Holdco.	Section 4.2
7.2	Who is Holdco?	Holdco is a newly incorporated Australian proprietary company indirectly owned by KKR Credit.	Section 4.2
7.3	What is a Holdco Share?	A Holdco Share is a fully paid ordinary share in the capital of Holdco.	
7.4	What is a Retained Pepper Share?	A Retained Pepper Share is a Pepper Share retained by a Scheme Shareholder under the Retention Option.	
7.5	Who is KCA?	KCA is an affiliate of KKR & Co. KKR is a leading global investment firm that manages multiple alternative asset classes including private equity, energy, infrastructure, real estate, credit and, through its strategic partners, hedge funds. As at 30 June 2017, KKR had over US\$148.5 billion of assets under management worldwide.	Section 4.2
7.6	What are Bidco's intentions if the Scheme is implemented?	<p>If the Scheme is implemented, Bidco currently intends to:</p> <ul style="list-style-type: none"> • delist Pepper and subsequently seek to convert it into a proprietary company; • reconstitute the Pepper Board; • maintain its current head office in Sydney; • retain all present employees; 	Section 4.4

		<ul style="list-style-type: none"> replace Pepper's existing constitution with a constitution appropriate for a proprietary company; continue Pepper's existing business and provide support to Pepper for it to pursue organic and acquisition-based growth opportunities as appropriate; and undertake, in December 2017, a new pro rata equity issue in accordance with the Shareholders Deed to raise additional equity to support the existing business plan for Pepper (refer to Section 4.4(h) for further details). <p>Final decisions in relation to these matters will only be reached after Bidco has had an opportunity to undertake a detailed review of Pepper's business following implementation of the Scheme. Accordingly, the above intentions are statements of current intention only and may change as new information becomes available or as circumstances change.</p>	
7.7	What is the Shareholders Deed?	Pepper Shareholders who receive Holdco Shares under the Scrip Option or hold Retained Pepper Shares under the Retention Option will become parties to the Shareholders Deed. This will occur by automatic operation of the Scheme, without the need for any action on their part. The Shareholders Deed sets out the rights and obligations of shareholders in Holdco and (following implementation of the Scheme) Pepper. A full copy of the Shareholders Deed, as amended by the parties since it was lodged with ASX on 10 August 2017, may be obtained by calling the Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) or from Pepper's website: www.pepper.com.au/about/shareholder-centre	Section 4.6
8	Other questions		
8.1	Will the Interim Dividend or Special Dividend paid by Pepper reduce the Scheme Consideration?	No – the Interim Dividend paid by Pepper on 5 October 2017, and the proposed Special Dividend to be paid by Pepper on 4 December 2017 (subject to the Scheme becoming Effective) will not reduce the Scheme Consideration that Scheme Shareholders will receive if the Scheme becomes Effective.	Section 2.9
8.2	Will I have to pay brokerage or stamp duty?	No, you will not have to pay brokerage or stamp duty on the transfer of Scheme Shares under the Scheme.	

8.3	What are the tax implications of the Scheme and the Special Dividend?	<p>If the Scheme becomes Effective and is implemented, there will be tax consequences for Scheme Shareholders which may include tax being payable on any gain on disposal of Pepper Shares and tax being payable in respect of the Special Dividend (with the possibility of a franking offset being available).</p> <p>For further detail regarding general Australian tax consequences of the Scheme and the Special Dividend for certain Pepper Shareholders, refer to the Tax Adviser's Report set out in Annexure A of this Scheme Booklet. The tax treatment may vary depending on the nature and characteristics of each Pepper Shareholder and their specific circumstances including whether they are tax resident in a jurisdiction other than Australia. Accordingly, Pepper Shareholders should seek professional tax advice in relation to their particular circumstances.</p>	Annexure A; Section 2.29
8.4	What are the prospects of receiving a Superior Proposal in the future?	<p>KKR Credit's original proposal (which was subsequently improved, as announced to ASX on 25 September 2017) was the superior proposal provided to Pepper following a broad and rigorous process over several months which included a number of bidders. KKR Credit's proposal was selected on the basis of it delivering the highest cash payment to Pepper Shareholders. Furthermore, since Pepper's initial announcement on 5 July 2017 regarding its discussions with KKR Credit, KKR Credit's original proposal and the subsequent improved proposal have been widely publicised and no Superior Proposal has emerged.</p> <p>Under the Scheme Implementation Deed, Pepper is bound by certain exclusivity obligations, including in relation to alternative proposals. However, subject to the exclusivity restrictions applicable to Pepper in the Scheme Implementation Deed (see Section 6.3(b)(iv) for details), if a Superior Proposal emerges, the Directors will carefully consider it and advise you of their recommendation. As at the date of this Scheme Booklet, the Directors are not aware of any Superior Proposal. If the Directors withdraw or adversely modify their recommendation concerning the Scheme, Pepper may be obliged to pay a break fee of approximately \$6.63 million (see Section 6.3(b)(v)).</p>	Sections 2.1 and 6.3(b)
8.5	Can I sell my Pepper Shares now?	<p>Yes. You can sell your Pepper Shares on market at any time before the close of trading on ASX on the Effective Date at the then prevailing market price (which may vary from the Cash Payments). If you do so, you will not receive the Scheme Consideration and you may incur brokerage costs.</p>	

		Pepper intends to apply for Pepper Shares to be suspended from official quotation on the ASX from close of trading on the Effective Date (which is expected to be 21 November 2017). You will not be able to sell your Pepper Shares on market after this time.	
8.6	What if I have further questions about the Scheme?	<p>If you have any questions about the Scheme, please contact the Shareholder Information Line on 1300 618 051 (within Australia) or + 61 3 9415 4003 (outside Australia). The Shareholder Information Line is open Monday to Friday from 9:00am to 5:00pm (Sydney time).</p> <p>For information about your personal circumstances, please consult with your legal, financial, tax and other professional advisers.</p>	

2 Summary of the Scheme

2.1 Background

On 10 August 2017, Pepper announced that it had entered into a Scheme Implementation Deed with Bidco, an unlisted Australian proprietary company that is indirectly owned by KKR Credit. This followed an earlier announcement by Pepper on 5 July 2017 noting the receipt of a non-binding, conditional and incomplete proposal from KKR Credit.

The Scheme Implementation Deed sets out a framework for Pepper to propose a scheme of arrangement between itself and Pepper Shareholders under which Bidco will acquire all of the Pepper Shares on issue (other than the Retained Pepper Shares).

The circumstances leading up to Pepper entering into the Scheme Implementation Deed began in late 2016 after Pepper received unsolicited interest from a prospective bidder concerning a potential control transaction. Pepper commenced informal discussions with the party and over time engaged with a number of other local and global players, including KKR Credit, in respect of possible transactions. Pepper appointed Citi as its financial adviser, and Jones Day as its legal adviser, to help coordinate its discussions and negotiations with these parties with a view to maximising shareholder value. The parties were given access to limited information and management presentations in order for them to develop their proposals and in due course a number of such parties submitted indicative, incomplete, confidential and non-binding proposals covering a range of transaction types.

The IBC was established to review the proposals and oversee the resulting negotiations. The final proposals were evaluated across a number of criteria (including price, other transaction terms, execution certainty and the strategic rationale of, and level of engagement by, the relevant party to that point), as well as a comparison to status quo (taking into account future capital requirements). KKR Credit's proposal was selected on the basis that it delivered the highest cash payment and the greatest certainty for Pepper Shareholders. As a result, KKR Credit was offered a period of exclusivity to complete due diligence and negotiate definitive transaction documents. That stage resulted in the Scheme Implementation Deed and related documents being entered into, and the Scheme being announced, on 10 August 2017.

On 25 September 2017, Pepper announced that it had received an improved proposal from Bidco, under which Pepper Shareholders who were to receive the Cash Consideration under the Scheme (whether as a result of not making a valid election or due to the operation of the scale back provisions, as summarised in Section 2.5 of this Scheme Booklet), would receive, in addition to the Cash Consideration of \$3.60 per Pepper Share, the Special Dividend of 10 cents for each Pepper Share held as at the Special Dividend Record Date in respect of which a Pepper Shareholder is to, or will be deemed to, receive the Cash Consideration under the Scheme.

Having carefully considered KKR Credit's proposal and the merits of the alternatives, the Directors unanimously recommend that Pepper Shareholders approve the Scheme by voting in favour of the Resolutions, in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders.

The key terms of the Scheme Implementation Deed are summarised in Section 6.3(b). A full copy of the Scheme Implementation Deed, as amended by the parties since it was lodged with ASX on 10 August 2017, may be obtained by calling the Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) or from Pepper's website: www.pepper.com.au/about/shareholder-centre

2.2 What will happen under the Scheme?

If the Scheme is approved by Pepper Shareholders and the Court (as discussed in Sections 2.14 and 2.17), and subject to the satisfaction or waiver of the other Conditions Precedent outlined in Section 2.3 (including the requirement for the Constitution Amendment Resolution to be approved by the Requisite Majority of Pepper Shareholders at the General Meeting to be held immediately prior to the Scheme Meeting), all Pepper Shareholders who hold Pepper Shares as at the Scheme Record

Date will participate in the Scheme, whether or not they voted for the Scheme (and even if they voted against the Scheme).

If the Scheme becomes Effective and is implemented then:

- Bidco will acquire all of the Scheme Shares (other than the Retained Pepper Shares);
- each Pepper Shareholder will receive the Scheme Consideration in exchange for each Scheme Share (other than Pepper Shareholders who retain all of their Pepper Shares under the Retention Option in the event that no scale back is required);
- each Pepper Shareholder will receive the Special Dividend in relation to each Scheme Share that is exchanged or deemed to be exchanged for the Cash Consideration under the Scheme;
- Bidco will acquire a controlling interest in Pepper, by holding at least 90.1% of the total issued Pepper Shares; and
- Pepper will be removed from the official list of ASX and will cease to be listed on the ASX.

The detailed terms of the Scheme are set out in Annexure C. In support of its obligations to provide or procure the provision of the Scheme Consideration under the Scheme Implementation Deed, Bidco and Holdco have executed the Deed Poll in favour of Pepper Shareholders (see Annexure D).

For the Scheme to proceed, the Resolutions must be approved by the Requisite Majorities of Pepper Shareholders at the Meetings and the Scheme must be approved by the Court. There are also other Conditions Precedent that need to be satisfied before the Scheme proceeds. The key Conditions Precedent are outlined in Section 2.3.

2.3 Conditions Precedent to the Scheme

A number of Conditions Precedent contained in the Scheme Implementation Deed need to be satisfied or (where applicable) waived before the Scheme can be implemented.

In particular, the Conditions Precedent include but are not limited to the following:

- receipt of various approvals, consents or relief from regulatory authorities, including ASIC, ASX, FIRB and certain other foreign regulatory bodies (including approval from the Central Bank of Ireland and the Competition and Consumer Protection Commission in Ireland, acceptance and approval from the Fair Trade Commission of Korea and approval from the Financial Conduct Authority in the United Kingdom);
- approval of the Scheme by the Requisite Majority of Pepper Shareholders at the Scheme Meeting;
- approval of the Constitution Amendment Resolution (to facilitate payment of the Special Dividend) by the Requisite Majority of Pepper Shareholders at the General Meeting (see Section 2.15 for further information);
- the Special Dividend being declared or determined by the Pepper Board;
- approval of the Scheme by the Court;
- no Pepper Material Adverse Change, no Pepper Prescribed Occurrence and no Holdco Prescribed Occurrence having occurred;
- satisfaction of the Minimum Election Condition Precedent (see Section 2.6 for further details);
- all Pepper options, performance rights and other securities convertible into Pepper Shares are converted, exercised, amended, cancelled, exchanged or acquired or subject to legally binding arrangements for their conversion, exercise, amendment, cancellation, exchange or

acquisition prior to the Scheme Record Date, on terms acceptable to Bidco, conditional only on the Scheme becoming Effective; and

- receipt of change of control consents under certain Pepper debt and warehouse funding facilities (there is no assurance that the requisite consents will be obtained).

Refer to the summary of the key terms of the Scheme Implementation Deed in Section 6.3(b), which contains further details on the Conditions Precedent.

2.4 Details of Scheme Consideration

If the Scheme becomes Effective and is implemented, each Pepper Shareholder will receive the Scheme Consideration in respect of the Pepper Shares held by them on the Scheme Record Date (except to the extent they will retain their Pepper Shares under the Retention Option), as set out below.

(a) Cash Payments

If the Scheme becomes Effective and is implemented, each Pepper Shareholder who is, or will be deemed, to receive the Cash Consideration in respect of any Pepper Shares they hold (either because they have not made a valid election for the Equity Alternative or because of the operation of the scale backs as described in Section 2.5) will receive the following Cash Payments:

- the Cash Consideration of \$3.60 in respect of each of those Pepper Shares they hold as at the Scheme Record Date; and
- a fully franked Special Dividend of 10 cents in respect of each of those Pepper Shares they hold as at the Special Dividend Record Date.

The default form of consideration under the Scheme is the Cash Consideration which, together with the Special Dividend, provides Pepper Shareholders with the opportunity to receive Cash Payments of \$3.70 per Pepper Share for all of their Pepper Shares. Pepper Shareholders do not have to make any election to receive the Cash Payments for all of their Pepper Shares.

Pepper is required to attach the maximum allowable amount of franking credits to the Special Dividend (that is, 'fully frank' the Special Dividend). However, whether a Scheme Shareholder will be able to claim a franking offset or otherwise enjoy the benefit of those credits for income tax purposes depends on a range of factors. First, Scheme Shareholders will generally need to satisfy the 'qualified person' rules under which they must be sufficiently exposed to the risk of loss and opportunities for gain in respect of the Pepper Shares for a period of 45 days during the relevant period prescribed in the tax law. An exception applies to those Scheme Shareholders who are individuals and receive \$5,000 or less in franking credits in respect of a single income year. Such shareholders should be deemed to satisfy the 'qualified person' rule in respect of each franked dividend they receive during the income year, except where they make a 'related payment' in connection with a relevant dividend.

Even if a Scheme Shareholder is a 'qualified person' in respect of the Special Dividend, there is a risk that the Commissioner may use certain powers in the tax law to deny a Scheme Shareholder the benefit of the franking credits attached to the Special Dividend. Pepper has sought a class ruling on behalf of Scheme Shareholders in relation to, among other things, whether the Commissioner will exercise his discretion to deny access to the franking credits. However, the final class ruling has not been issued as at the date of this Scheme Booklet and will not be issued prior to the Implementation Date for the Scheme. Accordingly, there is a risk that Scheme Shareholders may not be able to obtain the benefit of the franking credits attached to the Special Dividend.

(b) Equity Alternative

Eligible Pepper Shareholders can elect to receive the Equity Alternative instead of the Cash Payments in respect of all (but not some) of their Pepper Shares. Under the Equity Alternative, Eligible Pepper Shareholders may elect either the Scrip Option or the Retention Option in respect of all of their Pepper Shares (subject to potential scale back as described Section 2.5).

Pepper Shareholders who make a valid election for the Equity Alternative will not receive the Special Dividend, unless there is to be a scale back in which case they will receive the Special Dividend in respect of those Pepper Shares they held as at the Special Dividend Record Date which, as a result of the scale back, will be, or will be deemed to be, exchanged for the Cash Consideration under the Scheme.

(i) Scrip Option

Eligible Pepper Shareholders who make a valid election for the Scrip Option will receive one Holdco Share for each Pepper Share they hold as at the Scheme Record Date (subject to possible scale back as described in Section 2.5).

The Scrip Option is only available to Pepper Shareholders who are not Ineligible Foreign Shareholders.

The Independent Expert has identified a number of factors that Pepper Shareholders should consider before making any election for the Scrip Option.

Please refer to the Independent Expert's Report in Annexure B of this Scheme Booklet and the views expressed therein in relation to the Scrip Option.

There is no assurance that the future value of the Holdco Shares will be equal to or higher than the value of the Cash Payments.

(ii) Retention Option

The Retention Option is only available to Qualifying Tax Payers. A Qualifying Tax Payer is any Pepper Shareholder who is not an Ineligible Foreign Shareholder and who has:

- declared to Pepper (as set out in the Election Form) that if Holdco Shares were to be issued to them as Scheme Consideration, it would result in tax becoming payable in a jurisdiction other than Australia or New Zealand for that Pepper Shareholder or its associate (including a beneficiary of a trust of which the Pepper Shareholder is the trustee) without the benefit of Roll-over Relief; and
- lodged with their Election Form a copy of a certificate from their professional tax adviser (in the form prescribed by Pepper) certifying that the declaration made by them (as set out in the Election Form) is correct.

The term 'Roll-over Relief' refers to the situation in which the tax law of a country allows a shareholder to disregard or defer an amount of income or gain that would otherwise arise for tax purposes in relation to the disposal of, or other dealing in, an asset. It is important to note that the potential for adverse tax consequences to arise under Australian tax law is not a valid basis for being eligible to make a Retention Option election.

Eligible Pepper Shareholders who make valid elections for the Retention Option will retain all of their Pepper Shares (subject to possible scale back as described in Section 2.5) on the basis that Holdco will explore alternative means of acquiring those shares in a manner which has less adverse tax consequences including, potentially, some deferral of tax. There is no guarantee that Holdco will identify an acceptable form of future transaction.

It is also possible that Bidco may compulsorily acquire the Retained Pepper Shares at any time in the 3 year period from the Implementation Date under the Shareholders Deed for a

cash amount per Retained Pepper Share equal to the then fair market value of a Holdco Share, if they have not otherwise been acquired by Holdco or its nominee. The Shareholders Deed does not prescribe how the fair market value is determined in this circumstance, other than providing that it is to be determined by a Holdco Board Special Majority (acting reasonably). Refer to the “Post-Scheme acquisition of Pepper Shares” section of the table in Section 4.6(a) for further details. If Retained Pepper Shareholders are required to dispose of their shares in the future, they may be subject to adverse consequences under Australian tax laws, foreign tax laws or both.

There is no assurance that the future value of Retained Pepper Shares (including the value realised under a compulsory transfer to Bidco) will be equal to or higher than the value of the Cash Payments.

2.5 Scale back conditions

The Equity Alternative is subject to particular ‘scale back’ conditions that may apply depending on the level of Retention Option and Scrip Option elections made by Eligible Pepper Shareholders. The way the scale backs may apply will differ depending on whether it is applied to an Eligible Pepper Shareholder who has taken the Retention Option or the Scrip Option. Generally speaking, the effect of the scale backs is as follows:

- A scale back applying to an Eligible Pepper Shareholder who has validly elected the Retention Option will mean that instead of retaining all their Pepper Shares, some of those Pepper Shares will be acquired under the Scheme and the Pepper Shareholder will receive the Cash Consideration under the Scheme in respect of those Pepper Shares (with the remainder of their Pepper Shares being Retained Pepper Shares).
- A scale back applying to an Eligible Pepper Shareholder who has validly elected the Scrip Option will mean that instead of receiving one Holdco Share for each Pepper Share they hold, the shareholder will receive a reduced number of Holdco Shares and the balance of their Scheme Consideration in the form of the Cash Consideration. All of that holder’s Pepper Shares will be acquired by Bidco under the Scheme.
- Each scale back will be applied on a pro rata basis among those Eligible Pepper Shareholders subject to that scale back, meaning that if one such Eligible Pepper Shareholder holds twice as many Pepper Shares as another such Eligible Pepper Shareholder, then twice as many of the first holder’s Pepper Shares will be subject to the scale back as compared to the other holder.

Where there is to be a scale back, Eligible Pepper Shareholders who have made a valid election for the Equity Alternative will receive the Special Dividend in respect of those Pepper Shares they held as at the Special Dividend Record Date which, as a result of a scale back, will be, or will be deemed to be, exchanged for the Cash Consideration under the Scheme.

A more detailed description of the effect of the scale backs is set out below. The Scheme (the proposed form of which is set out in Annexure C) contains the formulas for determining the Scheme Consideration to be received by Scheme Shareholders (in particular, refer to clauses 5.4 and 6.2 to 6.4 (inclusive) of the Scheme). The formulas are designed to give effect to the scale backs as described below.

(a) Retention Option scale back

If Eligible Pepper Shareholders holding more than 9.9% of Scheme Shares (**Retention Cap**) have made valid elections for the Retention Option, a pro rata scale back will apply in respect of the Scheme Shares held by those shareholders, so that only 9.9% of Scheme Shares will be Retained Pepper Shares. This means that Eligible Pepper Shareholders who have made valid elections for the Retention Option in this circumstance will retain some but not all of their Scheme Shares and will receive the Cash Consideration under the Scheme in respect of the balance of their Scheme Shares (as those Scheme Shares will be acquired by Bidco under the Scheme). The remainder of their Scheme Shares will be Retained Pepper Shares.

(b) Maximum election scale back

If valid elections for the Equity Alternative are made by Eligible Pepper Shareholders who hold more than the 'Maximum Election Cap' (which is 48.5% of all Scheme Shares), a pro rata scale back will apply in respect of the Scheme Shares held by those shareholders to the extent those shares exceed the Maximum Election Cap.

As a result of this scale back:

- Eligible Pepper Shareholders who have made valid elections for the Scrip Option in this circumstance will receive a number of Holdco Shares under the Scheme which is less than the number of their Scheme Shares and will receive the balance of their Scheme Consideration in the form of the Cash Consideration. The Cash Consideration paid to an Eligible Pepper Shareholder in this circumstance will be deemed to be paid in respect of that number of Scheme Shares equal to the total amount of the Cash Consideration paid to that shareholder divided by \$3.60; and
- Eligible Pepper Shareholders who have made valid elections for the Retention Option in this circumstance will retain some but not all of their Scheme Shares and will receive the Cash Consideration under the Scheme in respect of the balance of their Scheme Shares that will be transferred to Bidco under the Scheme,

in each case to the extent required to satisfy the Maximum Election Cap.

The Maximum Election Cap and the maximum election scale back will ensure that KKR Credit will hold an equity interest in the Pepper Group on implementation of the Scheme of no less than 51.5%.

(c) Interaction of the Retention Option and maximum election scale backs

Depending on the level of valid Retention Option and Scrip Option elections, it is possible that separate scale backs in respect of both of those options may need to be applied. If that is the case:

- the Retention Option scale back will be applied first (that is, if Eligible Pepper Shareholders holding more than the Retention Cap make valid elections for the Retention Option); and
- if, after taking into account the Retention Option scale back, valid elections for the Equity Alternative have been made by Pepper Shareholders holding more than the Maximum Share Cap, then:
 - a pro rata scale back will apply to Pepper Shareholders who made Scrip Option elections, to the extent required to satisfy the Maximum Election Cap, however the percentage scale back under this limb can be no greater than the percentage scale back under the Retention Option scale back previously applied (eg. if 1 out of every 10 Scheme Shares held by those validly electing the Retention Option were subject to the Retention Option scale back, then no more than 1 out of every 10 Scheme Shares held by those validly electing the Scrip Option may be subject to the scale back under this limb); and
 - if, after the preceding scale backs, the number of Scheme Shares the subject of valid Equity Alternative elections still exceeds the Maximum Election Cap, a pro rata scale back of all those Scheme Shares held by Eligible Pepper Shareholders who have made valid elections will apply so that the number of Scheme Shares equals the Maximum Election Cap.

(d) Fractional entitlements and rounding

Any entitlement of an Eligible Pepper Shareholder under the Scheme to be provided with or retain (as applicable) a fraction of a Holdco Share or Retained Pepper Share will be rounded

down to the nearest whole number of Holdco Shares or Retained Pepper Shares (as applicable). Any cash amount payable to a Scheme Shareholder will be rounded down to the nearest whole cent.

2.6 Minimum Election Condition Precedent

The Scheme is subject to a Condition Precedent that Pepper Shareholders holding at least 35.11% of the issued Pepper Shares elect the Equity Alternative (**Minimum Election Condition Precedent**).

Mr Seumas Dawes, Chairman of Pepper (who controls 29.7% of total Pepper Shares), Mr Michael Culhane, Group Chief Executive Officer (who controls 4.5% of total Pepper Shares¹⁹) and Mr Cameron Small, Group Chief Financial Officer (who controls 1.2% of total Pepper Shares²⁰) have each advised Pepper that they intend to vote in favour of the Scheme, to elect the Equity Alternative, and to not dispose of, or purport or agree to dispose of, any of the Pepper Shares they control until and including the Implementation Date otherwise than pursuant to the Scheme, in each case in the absence of a Superior Proposal and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders. Mr Dawes and Mr Small have further indicated that they will each elect the Scrip Option and Mr Culhane has indicated that he will elect the Retention Option.²¹ Accordingly, your Directors are satisfied that there is a reasonable basis to expect that the Minimum Election Condition Precedent will be satisfied.

After the Scheme Implementation Deed was entered into and announced on 10 August 2017, Bidco gave consent to Pepper for it to issue 312,031 new Pepper Shares, in addition to those issues of Pepper Shares permitted under the original Scheme Implementation Deed. These additional shares were issued in order to satisfy existing entitlements under Pepper Group's long term incentive plan (with no new incentive entitlements having been issued). A formal amendment to the Scheme Implementation Deed was executed on 18 September 2017 to reflect that, as a result of that issue, the maximum number of Pepper Shares that may be on issue on the Implementation Date is 184,368,905. In order to ensure that the Equity Commitment Letter continues to provide sufficient funds for the maximum amount of the Cash Consideration to be paid under the Scheme, the percentage referred in the Minimum Election Condition Precedent in the Scheme Implementation Deed was also changed from 35% to 35.11%.

2.7 Shareholders Deed

Eligible Pepper Shareholders who elect the Equity Alternative and, as a result, receive Holdco Shares or hold Retained Pepper Shares (as described below), will become parties to the Shareholders Deed. A summary of the Shareholders Deed and a summary of the rights attaching to Holdco Shares and Retained Pepper Shares (and the risks associated with holding these securities) is set out in Sections 4.6, 4.7, 5.2 and 5.3. A full copy of the Shareholders Deed, as amended by the parties since it was lodged with ASX on 10 August 2017, may be obtained by calling the Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) or from Pepper's website: www.pepper.com.au/about/shareholder-centre

You should carefully read Sections 4, 5.2 and 5.3 and the Tax Adviser's Report (set out in Annexure A) and the Independent Expert's Report in Annexure B before making any election to receive either the Scrip Option or the Retention Option. You should also obtain appropriate legal, financial, tax or other professional advice that is appropriate to your specific circumstances.

2.8 How to make an election to receive the Equity Alternative

Eligible Pepper Shareholders can (subject to the conditions outlined above) make an election to receive either the Scrip Option or the Retention Option under the Equity Alternative by completing and returning an Election Form. An election will only be valid if it is made using an Election Form and is

¹⁹ Excluding certain incentive shares held directly or indirectly by Mr Michael Culhane (equal to approximately 0.39% of all Pepper Shares on issue) in respect of which he does not currently have voting rights.

²⁰ Excluding certain incentive shares held directly or indirectly by Mr Cameron Small (equal to approximately 0.25% of all Pepper Shares on issue) in respect of which he does not currently have voting rights.

²¹ As stated in Pepper's ASX announcement dated 25 September 2017, a copy of which will be provided to Pepper Shareholders within two Business Days upon request.

received by the Pepper Registry by no later than 5.00pm (Sydney time) on the Election Date (being 9 November 2017).

Pepper Shareholders may contact the Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) Monday to Friday between 9.00am and 5.00pm (Sydney time) and request an Election Form be sent to them.

Further information on making an election for either the Scrip Option or the Retention Option is set out below:

(a) Scrip Option

In order to make a valid election for the Scrip Option, you must be a Pepper Shareholder who is not an Ineligible Foreign Shareholder.

Elections by Ineligible Foreign Shareholders will be invalid and of no effect, and they will receive the Cash Payments for all of their Pepper Shares if the Scheme becomes Effective and is implemented. If you are a Pepper Shareholder whose address as shown in the Pepper Register is a place outside Australia or New Zealand and wish to receive the Scrip Option you should contact the Shareholder Information Line to enquire as to whether you may be an Eligible Pepper Shareholder.

A Pepper Shareholder who makes an invalid Scrip Option election will, if the Scheme becomes Effective, receive the Cash Payments for all of their Pepper Shares.

(b) Retention Option

In order to make a valid election for the Retention Option, you must be a 'Qualifying Tax Payer', being a Pepper Shareholder who is not an Ineligible Foreign Shareholder and who has:

- declared to Pepper (as set out in the Election Form) that if Holdco Shares were to be issued to them as Scheme Consideration, it would result in tax becoming payable in a jurisdiction other than Australia or New Zealand for that Pepper Shareholder or its associate (including a beneficiary of a trust of which the Pepper Shareholder is the trustee) without the benefit of Roll-over Relief; and
- lodged with their Election Form a copy of a certificate from their professional tax adviser (in the form prescribed by Pepper) certifying that the declaration made by them (as set out in the Election Form) is correct.

A Pepper Shareholder who makes an invalid Retention Option election will, if the Scheme becomes Effective, receive the Cash Payments for all of their Pepper Shares.

Valid elections will apply to all Pepper Shares held by an Eligible Pepper Shareholder as at the Scheme Record Date (currently proposed to be 7.00pm (Sydney time) on 27 November 2017).

An Eligible Pepper Shareholder who makes an election may subsequently vary or withdraw it by lodging a replacement Election Form so that it is received by the Pepper Registry by no later than 5.00pm (Sydney time) on the Election Date (being 9 November 2017).

Pepper Shareholders who do not submit a valid Election Form to the Pepper Registry, or who submit an Election Form to the Pepper Registry after 5.00pm (Sydney time) on the Election Date (being 9 November 2017), will receive the Cash Payments for all of their Pepper Shares.

Election Forms, duly completed in accordance with the instructions set out on the Election Form, must be returned to the Pepper Registry at:

Computershare Investor Services Pty Limited
GPO Box 2115
Melbourne VIC 3001
Australia

so that they are received by the Pepper Registry prior to 5.00pm (Sydney time) on the Election Date, which is 9 November 2017.

2.9 Payment of the Interim Dividend

On 5 October 2017, Pepper paid a fully franked Interim Dividend of 3 cents per Pepper Share. The Scheme Consideration will not be reduced by the Interim Dividend.

2.10 Provision of the Scheme Consideration and the Special Dividend

(a) Cash Payments

Pepper Shareholders do not need to make an election to receive the Cash Payments for all of their Pepper Shares.

If the Scheme becomes Effective and is implemented, the Cash Payments will be paid to Pepper Shareholders:

- who do not make an election for the Equity Alternative, in respect of all of their Pepper Shares;
- who make an invalid election for the Equity Alternative, in respect of all of their Pepper Shares; or
- having made a valid election, receive the Cash Consideration under the Scheme in cash as a result of the operation of the scale backs outlined in Section 2.5. Those holders will also receive the Special Dividend in respect of those Pepper Shares they held as at the Special Dividend Record Date which, as a result of a scale back, will be, or will be deemed to be, exchanged for the Cash Consideration under the Scheme.

The Cash Payments will be paid on the Implementation Date, which is currently anticipated to be 4 December 2017. Pepper Shareholders who have validly registered their bank account details with the Pepper Registry (by the Scheme Record Date) will have the Cash Payments credited directly to their registered bank account. Pepper Shareholders who have not registered their bank account details with the Pepper Registry (by their Scheme Record Date) will have their cash payment sent by cheque to the address shown on the Register.

(b) Holdco Shares under the Scrip Option

Pepper Shareholders who have validly elected to take the Scrip Option will be issued Holdco Shares in respect of all their Pepper Shares (subject to a possible scale back as described in Section 2.5).

The Holdco Shares will be issued on the Implementation Date by entering the name of each Scheme Shareholder (if any) entitled to receive Holdco Shares in Holdco's register of members. A certificate detailing your holding of Holdco Shares will be issued to you shortly after that date.

2.11 Ineligible Foreign Shareholders

If your address, as shown in the Register is a place outside Australia or New Zealand as at the Scheme Record Date, you will be an Ineligible Foreign Shareholder unless otherwise agreed in writing by Bidco and Pepper.

If you are a Pepper Shareholder whose address as shown in the Pepper Register is a place outside Australia or New Zealand and wish to receive the Scrip Option you should contact the Shareholder Information Line to enquire as to whether you may be an Eligible Pepper Shareholder.

If you are an Ineligible Foreign Shareholder and you elect to receive either the Scrip Option or the Retention Option, your election will be invalid and have no effect, and you will receive the Cash Payments for all of your Pepper Shares if the Scheme becomes Effective and is implemented.

2.12 Illustrative sources and uses of funds and the illustrative share capital structure of Holdco under various scenarios

Each of the following four scenarios in relation to the sources and uses of funds and the possible share capital structures of Holdco at implementation of the Scheme are illustrative only. Please refer to Sections 4.2(b) and 5.3(b)(vii) for details on possible reasons why the actual sources and uses of funds and the possible share capital structures of Holdco at implementation of the Scheme may differ.

A. Minimum valid elections of the Equity Alternative and no valid elections of the Retention Option

If the Scheme is implemented, assuming minimum valid elections of the Equity Alternative and no valid elections of the Retention Option, Pepper Shareholders who validly elect the Scrip Option will collectively own 35.1% of Holdco and KKR Credit will own 64.9% of Holdco. In such circumstances, the illustrative sources and uses of funds and the illustrative share capital structure of Holdco at implementation of the Scheme are as follows.

Cash flow tables	
Sources and uses of funds	Amount (A\$)
Sources:	
Cash provided by KKR Credit	430,693,137
Cash provided by Pepper	11,963,698
Total sources of funds	442,656,835
Uses:	
Payment of the Cash Consideration to relevant Scheme Shareholders (\$3.60 for 119,636,982 Pepper Shares)	430,693,137
Payment of the fully franked Special Dividend to relevant Scheme Shareholders (\$0.10 for 119,636,982 Pepper Shares)	11,963,698
Total uses of funds	442,656,835

KKR Credit is treated as a single entity rather than identifying each individual party

Anticipated ownership structure		
Shares	Number	Percentage of total
Total Fund Shares	119,636,982	64.9%
Total Scrip Consideration	64,731,923	35.1%
Total HoldCo shares on issue	184,368,905	100.0%
Holding in Pepper		
Total Fund Shares (indirect)	119,636,982	64.9%
Total Scrip Consideration (indirect)	64,731,923	35.1%
HoldCo (indirect) holding in Pepper	184,368,905	100.0%
Retention shares	-	0.0%
Total holding in Pepper	184,368,905	100.0%

The anticipated Holdco ownership structure presented above does not include the 3,691,192 Holdco shares to be issued, following implementation of the Scheme, in exchange for an equivalent number of performance rights (subject to agreement by the holders of these performance rights).

B. Minimum valid elections of the Equity Alternative and maximum valid elections of the Retention Option

If the Scheme is implemented, assuming minimum valid elections of the Equity Alternative and maximum valid elections of the Retention Option, Pepper Shareholders who validly elect the Scrip Option will collectively own 28.0% of Holdco and KKR Credit will own 72.0% of Holdco. In such circumstances, the illustrative sources and uses of funds and the illustrative share capital structure of Holdco at implementation of the Scheme are as follows.

Cash flow tables	
Sources and uses of funds	Amount (A\$)
Sources:	
Cash provided by KKR Credit	430,693,137
Cash provided by Pepper	11,963,698
Total sources of funds	442,656,835
Uses:	
Payment of the Cash Consideration to relevant Scheme Shareholders (\$3.60 for 119,636,982 Pepper Shares)	430,693,137
Payment of the fully franked Special Dividend to relevant Scheme Shareholders (\$0.10 for 119,636,982 Pepper Shares)	11,963,698
Total uses of funds	442,656,835

KKR Credit is treated as a single entity rather than identifying each individual party

Anticipated ownership structure

Shares	Number	Percentage of
		total
Total Fund Shares	119,636,982	72.0%
Total Scrip Consideration	46,479,401	28.0%
Total HoldCo shares on issue	166,116,383	100.0%
Holding in Pepper		
Total Fund Shares (indirect)	119,636,982	64.9%
Total Scrip Consideration (indirect)	46,479,401	25.2%
HoldCo (indirect) holding in Pepper	166,116,383	90.1%
Retention shares	18,252,522	9.9%
Total holding in Pepper	184,368,905	100.0%

The anticipated Holdco ownership structure presented above does not include the 3,691,192 Holdco shares to be issued, following implementation of the Scheme, in exchange for an equivalent number of performance rights (subject to agreement by the holders of these performance rights).

C. Maximum valid elections of the Equity Alternative and no valid elections of the Retention Option

If the Scheme is implemented, assuming maximum valid elections of the Equity Alternative and no valid elections of the Retention Option, Pepper Shareholders who validly elect the Scrip Option will collectively own 48.5% of Holdco and KKR Credit own 51.5% of Holdco. In such circumstances, the illustrative sources and uses of funds and the illustrative share capital structure of Holdco at implementation of the Scheme are as follows.

Cash flow tables

Sources and uses of funds	Amount (A\$)
Sources:	
Cash provided by KKR Credit	341,819,950
Cash provided by Pepper	9,494,999
Total sources of funds	351,314,948
Uses:	
Payment of the Cash Consideration to relevant Scheme Shareholders (\$3.60 for 94,949,986 Pepper Shares)	341,819,950
Payment of the fully franked Special Dividend to relevant Scheme Shareholders (\$0.10 for 94,949,986 Pepper Shares)	9,494,999
Total uses of funds	351,314,948

KKR Credit is treated as a single entity rather than identifying each individual party

Anticipated ownership structure

Shares	Number	Percentage of total
Total Fund Shares	94,949,986	51.5%
Total Scrip Consideration	89,418,919	48.5%
Total HoldCo shares on issue	184,368,905	100.0%
Holding in Pepper		
Total Fund Shares (indirect)	94,949,986	51.5%
Total Scrip Consideration (indirect)	89,418,919	48.5%
HoldCo (indirect) holding in Pepper	184,368,905	100.0%
Retention shares	-	0.0%
Total holding in Pepper	184,368,905	100.0%

The anticipated Holdco ownership structure presented above does not include the 3,691,192 Holdco shares to be issued, following implementation of the Scheme, in exchange for an equivalent number of performance rights (subject to agreement by the holders of these performance rights).

D. Maximum valid elections of the Equity Alternative and maximum valid elections of the Retention Option

If the Scheme is implemented, assuming maximum valid elections of the Equity Alternative and maximum valid elections of the Retention Option, Pepper Shareholders who validly elect the Scrip Option will collectively own 42.8% of Holdco and KKR Credit will own 57.2% of Holdco. In such circumstances, the illustrative sources and uses of funds and the illustrative share capital structure of Holdco at implementation of the Scheme are as follows.

Cash flow tables

Sources and uses of funds	Amount (A\$)
Sources:	
Cash provided by KKR Credit	341,819,950
Cash provided by Pepper	9,494,999
Total sources of funds	351,314,948
Uses:	
Payment of the Cash Consideration to relevant Scheme Shareholders (\$3.80 for 94,949,986 Pepper Shares)	341,819,950
Payment of the fully franked Special Dividend to relevant Scheme Shareholders (\$0.10 for 94,949,986 Pepper Shares)	9,494,999
Total uses of funds	351,314,948

KKR Credit is treated as a single entity rather than identifying each individual party

Anticipated ownership structure

Shares	Number	Percentage of total
Total Fund Shares	94,949,986	57.2%
Total Scrip Consideration	71,166,397	42.8%
Total HoldCo shares on issue	166,116,383	100.0%
Holding in Pepper		
Total Fund Shares (indirect)	94,949,986	51.5%
Total Scrip Consideration (indirect)	71,166,397	38.6%
HoldCo (indirect) holding in Pepper	166,116,383	90.1%
Retention shares	18,252,522	9.9%
Total holding in Pepper	184,368,905	100.0%

The anticipated Holdco ownership structure presented above does not include the 3,691,192 Holdco shares to be issued, following implementation of the Scheme, in exchange for an equivalent number of performance rights (subject to agreement by the holders of these performance rights).

2.13 Implementation, timetable and procedures

If the Scheme is approved by the Requisite Majority of Pepper Shareholders and the Court, all other Conditions Precedent are satisfied or (where applicable) waived, the Scheme will be implemented on the Implementation Date. The Implementation Date will be the fifth Business Day after the Scheme Record Date and is currently anticipated to be 4 December 2017. The key dates and times in relation to the Scheme are set out in the Section titled "Important Dates". These key dates are indicative only and subject to change.

2.14 Scheme Meeting

The Court has ordered that a meeting of Pepper Shareholders to consider the Scheme be held at Christie Office, 100 Walker Street, North Sydney on 15 November 2017 immediately following the conclusion of the General Meeting (scheduled to commence at 10.00am (Sydney time)).

The fact that under section 411(1) of the Corporations Act the Court has ordered that the Scheme Meeting be convened and has approved this Scheme Booklet does not mean that the Court:

- has formed any view as to the merits of the proposed Scheme, or as to how Pepper Shareholders should vote (on this matter, Pepper Shareholders must reach their own decision); or
- has prepared, or is responsible for, the content of this Scheme Booklet.

The order of the Court that the Scheme Meeting be convened is not, and should not be treated as, an endorsement by the Court of, or any other expression of opinion by the Court on, the Scheme.

At the Scheme Meeting, Pepper Shareholders will be asked to consider and, if thought fit, approve the Scheme Resolution. The Scheme Resolution is also conditional upon the Requisite Majority Pepper Shareholders approving the Constitution Amendment Resolution at the General Meeting. For the acquisition of all Scheme Shares (other than the Retained Pepper Shares) by Bidco to proceed and the Scheme Consideration to be payable, the Scheme Resolution must be passed by a majority in number of Pepper Shareholders present and voting (either in person or by proxy) at the Scheme Meeting and representing in aggregate not less than 75% of the votes cast on the resolution at the Scheme Meeting.

If the Scheme Resolution is not approved by the Requisite Majority of Pepper Shareholders at the Scheme Meeting, or if the Constitution Amendment Resolution is not approved by the Requisite Majority of Pepper Shareholders at the General Meeting, the Scheme will not be implemented and, subject to its obligations under the Scheme Implementation Deed, Pepper will not apply to the Court for any further orders in connection with the Scheme. The Notice of Scheme Meeting is contained in Annexure E.

2.15 General Meeting

One of the Conditions Precedent of the Scheme is that Pepper Shareholders pass a resolution or resolutions at the General Meeting, as required under the Corporations Act and the Pepper Constitution, to permit the payment of the Special Dividend (**Constitution Amendment Resolution**).

The General Meeting is being convened to seek approval of the Constitution Amendment Resolution. The General Meeting will be held at Christie Office, 100 Walker Street, North Sydney on 15 November 2017 at 10.00am (Sydney time).

The Constitution Amendment Resolution is conditional on the Scheme Resolution being passed by the Requisite Majority of Pepper Shareholders at the Scheme Meeting (and will not take effect if the Scheme is not approved by the Requisite Majority of Pepper Shareholders).

The Constitution Amendment Resolution is a resolution to approve amendments to rule 4.1(e) of the Pepper Constitution to allow for a dividend to be paid selectively on only some Pepper Shares (as compared to a dividend that is paid equally on all Pepper Shares), in the specific circumstance where a scheme of arrangement is approved under section 411 of the Corporations Act.

Specifically, it is proposed that the underlined words below be added to the first part of rule 4.1(e) of the Pepper Constitution, so that it reads:

'Subject to any rights or restrictions attached to any shares or class of shares or the terms of any dividend resolved by the Board to be payable in connection or in conjunction with a scheme of arrangement approved under section 411 of the Corporations Act (including that the dividend is not to be paid equally on all shares):

(1) all dividends must be paid equally on all shares, except that a partly paid share confers an entitlement only to the proportion of the dividend which the amount paid (not credited) on the share is of the total amounts paid and payable (excluding amounts credited);

(2) for the purposes of rule 4.1(e)(1), unless the Board decides otherwise, an amount paid on a share in advance of a call is to be taken as not having been paid until it becomes payable; and

(3) interest is not payable by the company on any dividend.

This amendment to the Pepper Constitution would enable the Board to determine to pay the Special Dividend on those Pepper Shares which are exchanged or deemed to be exchanged for the Cash Consideration (provided that the Scheme Resolution is also approved by the Requisite Majority of Pepper Shareholders at the Scheme Meeting) upon the Scheme becoming Effective.

In the event that each of the Resolutions are approved, but the Scheme does not become Effective, the Pepper Constitution will retain the amended wording, but the Special Dividend would not be paid. In this instance, the amendment would only apply in a future situation where a similar special dividend was proposed in connection with a scheme of arrangement.

The Constitution Amendment Resolution must be passed as a special resolution, meaning that at least 75% of the votes cast by Pepper Shareholders present and voting (in person or by proxy, corporate representative or attorney) must be in favour of the Constitution Amendment Resolution.

The Constitution Amendment Resolution is set out in the Notice of General Meeting (Annexure F).

2.16 Voting at the Meetings

(a) Entitlement to vote

All Pepper Shareholders who are registered on the Pepper Register at 7.00pm (Sydney time) on 13 November 2017 will be entitled to vote at the General Meeting and the Scheme Meeting (which is to be held immediately following the General Meeting).

Any transfer of holdings after that time will be disregarded in determining entitlements to vote at the Meetings. Further details on how to vote are provided in Section 2.16(b) below.

In the case of Pepper Shares held by joint holders, only one of the joint holders is entitled to vote (though all joint holders should sign any proxy form). If more than one joint holder votes, the vote of the Pepper Shareholder whose name appears first on the Pepper Register will be counted.

(b) How to vote

A Pepper Shareholder can vote at the Meetings by doing one of the following:

- **vote in person** – by attending the Meetings;
- **vote by proxy** – either by completing and returning to the Pepper Registry the enclosed Proxy Forms for the Meetings so that they are received by no later than

10.00am (Sydney time) on 13 November 2017) or by lodging their proxy online at www.investorvote.com.au by no later than 10.00am (Sydney time) on 13 November 2017;

- **vote by attorney** – by providing the Pepper Registry the original (or certified copy) of the instrument appointing an attorney so that it is received by no later than 10.00am (Sydney time) on 13 November 2017 (unless a copy has already been provided to the Pepper Registry); or
- **vote by corporate representative** – (in the case of a body corporate), by appointing a corporate representative to act as its representative. The appointment must comply with section 250D of the Corporations Act. A corporate Pepper Shareholder or corporate proxy should obtain a “Certificate of Appointment of Corporate Representative” form from the Pepper Registry, and complete and sign the form in accordance with the instructions on it. The corporate representative must attend the Meetings in person.

2.17 Court approval

Pepper will apply to the Court for orders approving the Scheme if:

- the Constitution Amendment Resolution is approved by the Requisite Majority of Pepper Shareholders at the General Meeting;
- the Scheme Resolution is approved by the Requisite Majority of Pepper Shareholders at the Scheme Meeting; and
- all other Conditions Precedent are satisfied or (where applicable) waived.

The date on which the Court hears Pepper’s application is the Second Court Date, which is expected to be 20 November 2017. Any change to this date will be announced through the ASX.

The Court may refuse to grant the orders referred to above even if the Scheme is approved by the Requisite Majority of Pepper Shareholders.

ASIC has been asked to issue a written statement that it has no objection to the Scheme. ASIC would not be expected to issue such a statement until shortly before the Second Court Date. If ASIC does not produce a written statement that it has no objection to the Scheme, the Court may still approve the Scheme provided it is satisfied that section 411(17)(a) of the Corporations Act is satisfied.

Each Pepper Shareholder has the right to appear at the Second Court Hearing.

2.18 Actions by Pepper, Bidco and Holdco

If the Court approves the Scheme, Pepper, Bidco and Holdco will procure the taking of all steps necessary to implement the Scheme. These will include the following:

- Pepper will lodge with ASIC and the ASX an office copy of the Court order approving the Scheme under section 411(10) of the Corporations Act, at which time the Scheme will become Effective;
- at the close of trading on the Effective Date, Pepper Shares will be suspended from trading on the ASX; and
- on the Implementation Date, all of the Pepper Shares held by Scheme Shareholders on the Scheme Record Date (other than the Retained Pepper Shares) will be transferred to Bidco and in return Bidco (and Holdco) will procure that the Scheme Consideration is provided in accordance with the terms of the Scheme (see Section 2.10).

2.19 Effective Date

The Scheme will become Effective on the date on which the office copy of the order of the Court made under section 411(4)(b) of the Corporations Act approving the Scheme is lodged with ASIC in accordance with section 411(10) of the Corporations Act or such other date as the Court determines or specifies in the order. Pepper intends to lodge the order of the Court with ASIC on the next Business Day after the Second Court Date, which is expected to be 21 November 2017.

If the Scheme becomes Effective, Pepper will immediately give notice of the event to the ASX.

Once the Scheme becomes Effective, Pepper and Bidco will become bound to implement the Scheme in accordance with its terms.

2.20 Suspension of trading in Pepper Shares

If the Scheme becomes Effective, it is expected that suspension of trading in Pepper Shares will occur from the close of trading on the Effective Date (expected to be 21 November 2017).

2.21 Deed Poll

Bidco and Holdco have executed a Deed Poll in favour of Scheme Shareholders, by which they both agree to perform all of their obligations in relation to the Scheme, if it becomes Effective.

A copy of the Deed Poll is contained in Annexure D.

2.22 Scheme Record Date

The Scheme Record Date is anticipated to be 7.00pm (Sydney time) on 27 November 2017. Only Pepper Shareholders who appear on the Pepper Register on the Scheme Record Date will be entitled to receive the Scheme Consideration.

2.23 Election Date

The deadline for Eligible Pepper Shareholders to make an election for the Equity Alternative as described in Section 2.8 is 5.00pm (Sydney time) on 9 November 2017. See Section 2.8 for details on how to make an election for the Equity Alternative.

Pepper Shareholders do not need to make any election if they wish to receive the Cash Payments for all of their Pepper Shares.

2.24 Implementation Date

The Scheme will be implemented on the Implementation Date (expected to be 4 December 2017). On that date, all Scheme Shares (other than the Retained Pepper Shares) will be transferred to Bidco in return for the Scheme Consideration.

2.25 Delisting of Pepper

It is intended that, on the Implementation Date, Pepper will request that the ASX removes it from the official list of the ASX, and such delisting is expected to occur shortly following that date.

2.26 Warranty by Pepper Shareholders

The Scheme provides that each Scheme Shareholder warrants to Bidco, and is deemed to have authorised Pepper to warrant to Bidco as agent and attorney, that as at the Implementation Date:

- all their Pepper Shares (including any rights and entitlements attaching to those shares) which are transferred under the Scheme will, at the date of transfer under the Scheme, be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, and 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth) (**Security Interests**) and interests of third parties of any kind, whether legal or otherwise, and

restrictions on transfer of any kind, excluding any Security Interests, interests or restrictions in favour of a Pepper Group Member; and

- that they have full power and capacity to transfer their Pepper Shares to Bidco together with any rights and entitlements attaching to those shares.

Scheme Shareholders should be aware that, to the extent that this warranty is untrue in respect of their Pepper Shares, and their Pepper Shares are not transferred under the Scheme free of third party interests, they may be liable to compensate Bidco for any damage caused to those parties resulting from such encumbrance.

2.27 Scheme Implementation Deed

Pepper and Bidco have entered into the Scheme Implementation Deed in connection with the proposed Scheme. The key terms of the Scheme Implementation Deed are summarised in Section 6.3(b). A full copy of the Scheme Implementation Deed, as amended by the parties since it was lodged with ASX on 10 August 2017, may be obtained by calling the Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) or from Pepper's website: www.pepper.com.au/about/shareholder-centre

2.28 What happens if the Scheme does not proceed?

If the Scheme does not proceed, the Scheme Consideration will not be paid and Pepper will continue to be listed on the ASX. Pepper Shareholders will retain their Pepper Shares and continue to share in any benefits and risks of Pepper's ongoing business.

Pepper has a strong business model and management team. If the Scheme does not proceed, it is the Directors' current intention to continue operating Pepper in line with its previously stated objectives.

2.29 Tax implications of the Scheme and the Special Dividend

If the Scheme becomes Effective and is implemented, there will be tax consequences for Scheme Shareholders which may include tax being payable on any gain on disposal of Pepper Shares and tax being payable on the Special Dividend (with the possibility of a franking offset being available).

Whether a Scheme Shareholder will be able to claim a franking offset or otherwise enjoy the benefit of those credits for income tax purposes depends on a range of factors. First, Scheme Shareholders will need to satisfy the 'qualified person' rules under which they must be sufficiently exposed to the risk of loss and opportunities for gain in respect of the Pepper Shares for a period of 45 days during the relevant period prescribed in the tax law.

An exception applies to those Scheme Shareholders who are individuals and receive \$5,000 or less in franking credits in respect of a single income year. Such shareholders should be deemed to satisfy the 'qualified person' rule in respect of each franked dividend they receive during the income year, except where they make a 'related payment' in connection with a relevant dividend.

Even if a Scheme Shareholder is a 'qualified person' in respect of the Special Dividend, there is a risk that the Commissioner may use certain powers in the tax law to deny a Scheme Shareholder the benefit of the franking credits attached to the Special Dividend.

Pepper has sought class rulings on behalf of Scheme Shareholders in relation to, among other things, whether the Commissioner will exercise his discretion to deny access to the franking credits attached to the Special Dividend and whether CGT Roll-over Relief may be available so that Scheme Shareholders can choose to disregard any capital gain that would otherwise arise on the disposal of their Pepper Shares. However, the final class rulings have not been issued as at the date of this Scheme Booklet and will not be issued prior to the Implementation Date for the Scheme. Accordingly, there is a risk that Scheme Shareholders may not be able to obtain the benefit of the franking credits attached to the Special Dividend.

For further detail regarding general Australian tax consequences of the Scheme and the Special Dividend for certain Pepper Shareholders, refer to the Tax Adviser's Report set out in Annexure A of this Scheme Booklet. The tax treatment may vary depending on the nature and characteristics of each Pepper Shareholder and their specific circumstances including whether they are tax resident in a jurisdiction outside Australia. Accordingly, Pepper Shareholders should seek professional tax advice in relation to their particular circumstances.

2.30 Further information

If you have any questions or require further information about the Scheme, you should contact the Shareholder Information Line on 1300 618 051 (within Australia) and +6 13 9415 4003 (outside Australia) between 9.00am and 5.00pm (Sydney time) Monday to Friday.

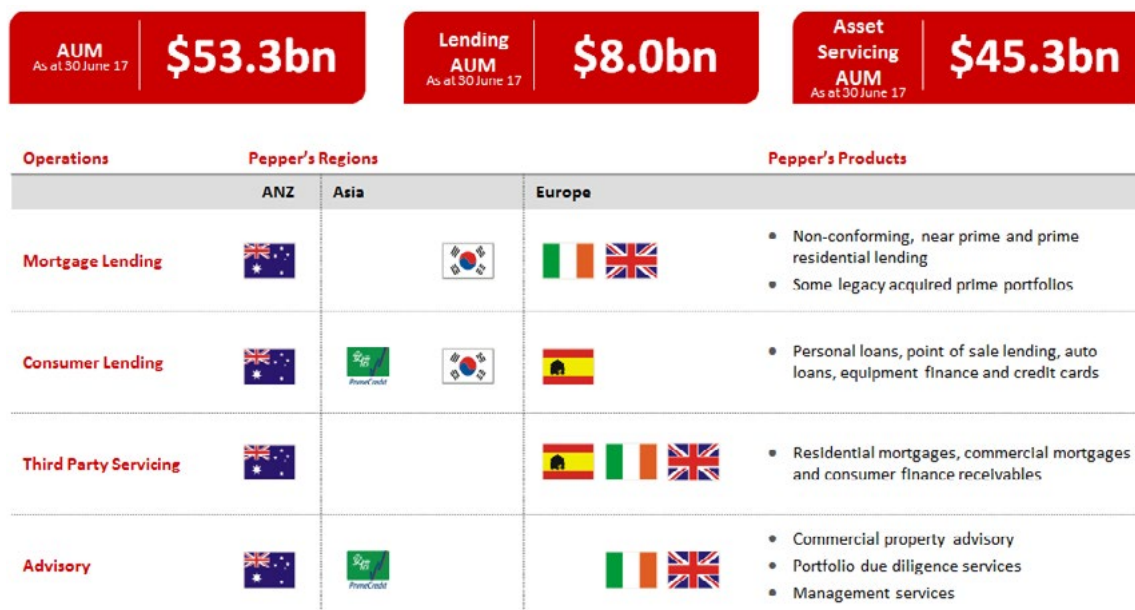
You should obtain independent financial, legal, tax or other professional advice before making any decision regarding the Scheme.

3 Profile of Pepper

3.1 Overview

Pepper is principally a specialist residential mortgage and consumer lender and loan servicer, operating in targeted segments in Australia and New Zealand, and internationally, many of which are underserved by traditional bank and other prime lenders. As illustrated in Figure 1, Pepper operates across three divisions in addition to Corporate – the Australia and New Zealand Division, the Asian and the European Divisions. Within each division, Pepper offers products and services primarily focused on originating and managing loans, alongside some limited advisory and other ancillary services.

Figure 1: Snapshot of Pepper



Pepper's market capitalisation on 9 August 2017 (being the trading day immediately prior to Pepper's announcement that it had entered into the Scheme Implementation Deed) was approximately \$625.9 million²².

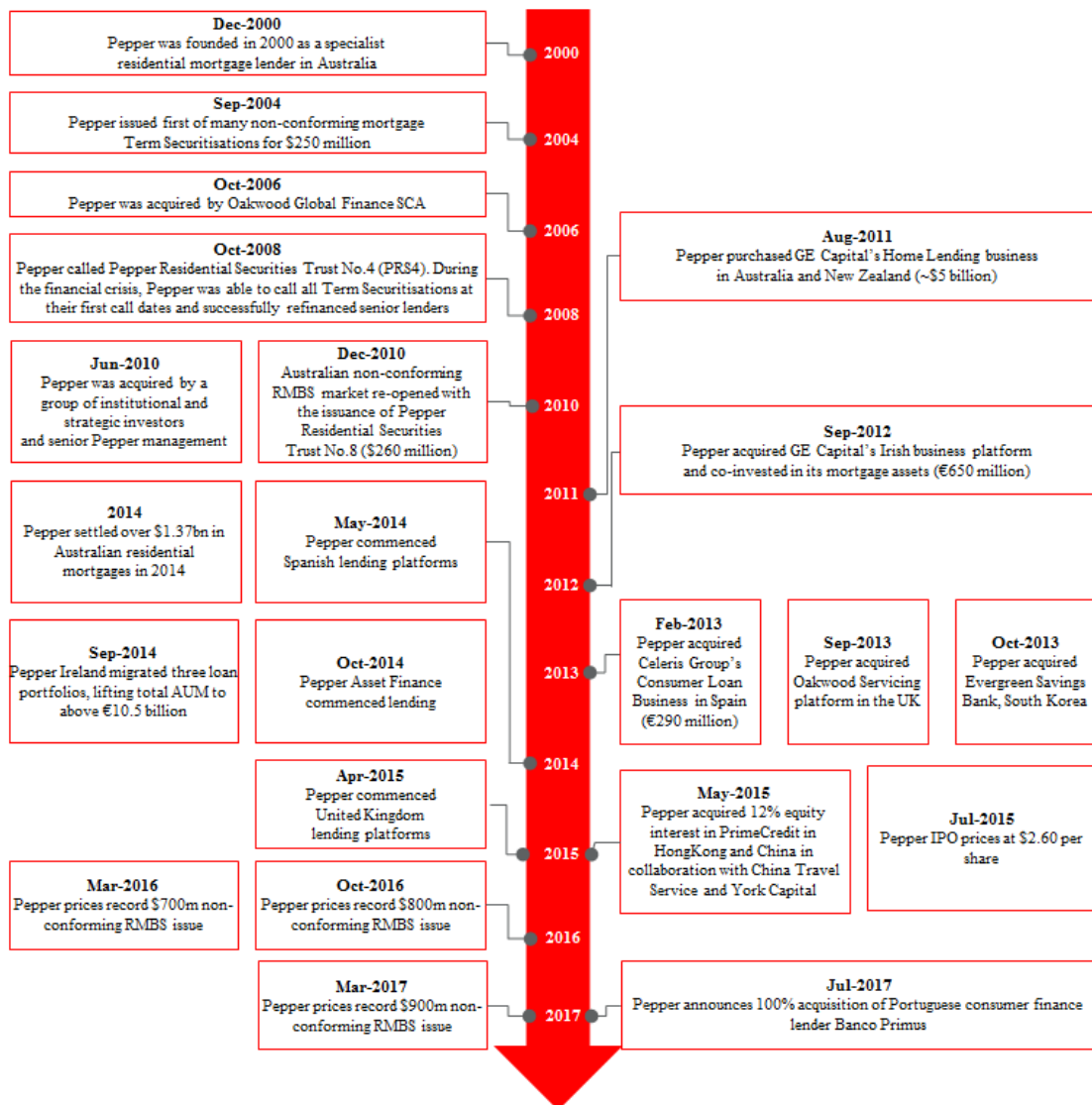
As at 30 June 2017, Pepper had \$53.3 billion in AUM, comprising \$8.0 billion in lending assets and a servicing portfolio of \$45.3 billion.

3.2 History

Pepper was established in 2000 and commenced lending as a specialist residential mortgage lender in the Australian market in March 2001. Through a combination of organic growth and targeted acquisitions, Pepper has grown to become a specialist lending and loan servicing group targeting a number of asset classes in Australia and New Zealand, and internationally (including Ireland, the United Kingdom, Spain, South Korea, and, through its 12% equity interest in PrimeCredit, in Hong Kong and China). Overseas acquisitions have been focused on markets where dysfunction is present either in the form of difficult market conditions or motivated sellers of assets that fit within Pepper's lending and servicing strategy.

²² Represented by 182,486,032 Pepper Shares on issue on 9 August 2017 multiplied by the \$3.43 closing share price on that date.

Figure 2: Key Milestones in Pepper's History



Pepper's strategy today is to be a leading residential mortgage and consumer-focused lender and specialist loan servicer in its core markets. Since 2010, Pepper has built platform scale through targeted acquisitions, including the acquisition of GE Capital's Home Lending business in Australia and New Zealand in August 2011.

Other acquisitions include GE Capital's Irish business platform in September 2012, the purchase of the Celeris Group non-bank lending and servicing business in Spain in February 2013, and by the acquisition of Oakwood's United Kingdom servicing platform in September 2013. These acquisitions provided Pepper with significant entry points into the European market and the opportunity to diversify earnings through the geographical expansion of Pepper's loan servicing capabilities.

Pepper's entry into Asia was marked by the acquisition of Evergreen Savings Bank in South Korea in October 2013, and more recently the acquisition in May 2015 of a 12% equity interest in PrimeCredit, a consumer finance business with operations in Hong Kong and China.

In July 2017, Pepper announced that it signed a share purchase agreement to acquire 100% of Portuguese consumer finance lender, Banco Primus. The regulatory approvals are expected to be

completed during the first quarter of 2018. This acquisition would allow Pepper to leverage its existing European platforms, especially in Spain, and continue its expansion strategy.

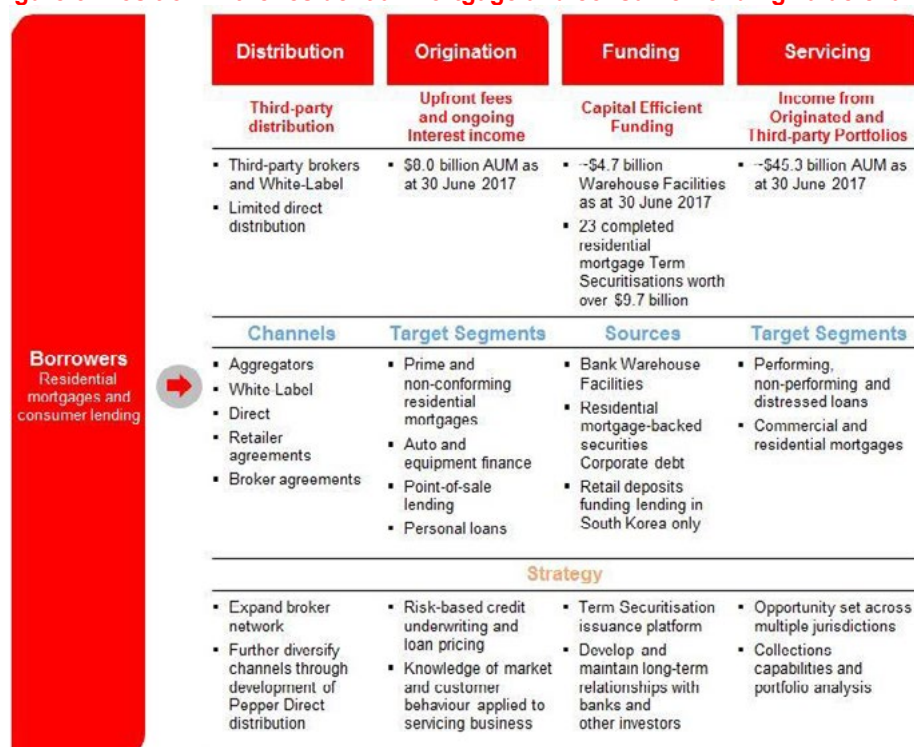
The common theme in all the overseas acquisitions is a focus on markets where Pepper's entry point is defined by dysfunctional market conditions or motivated sellers assisting Pepper to further its expansion in a cost effective manner.

3.3 Overview of operations

Pepper focuses its activities on the parts of the lending and loan servicing value chain where it can apply its core capabilities and derive the strongest risk-adjusted returns. Pepper believes its key strengths are:

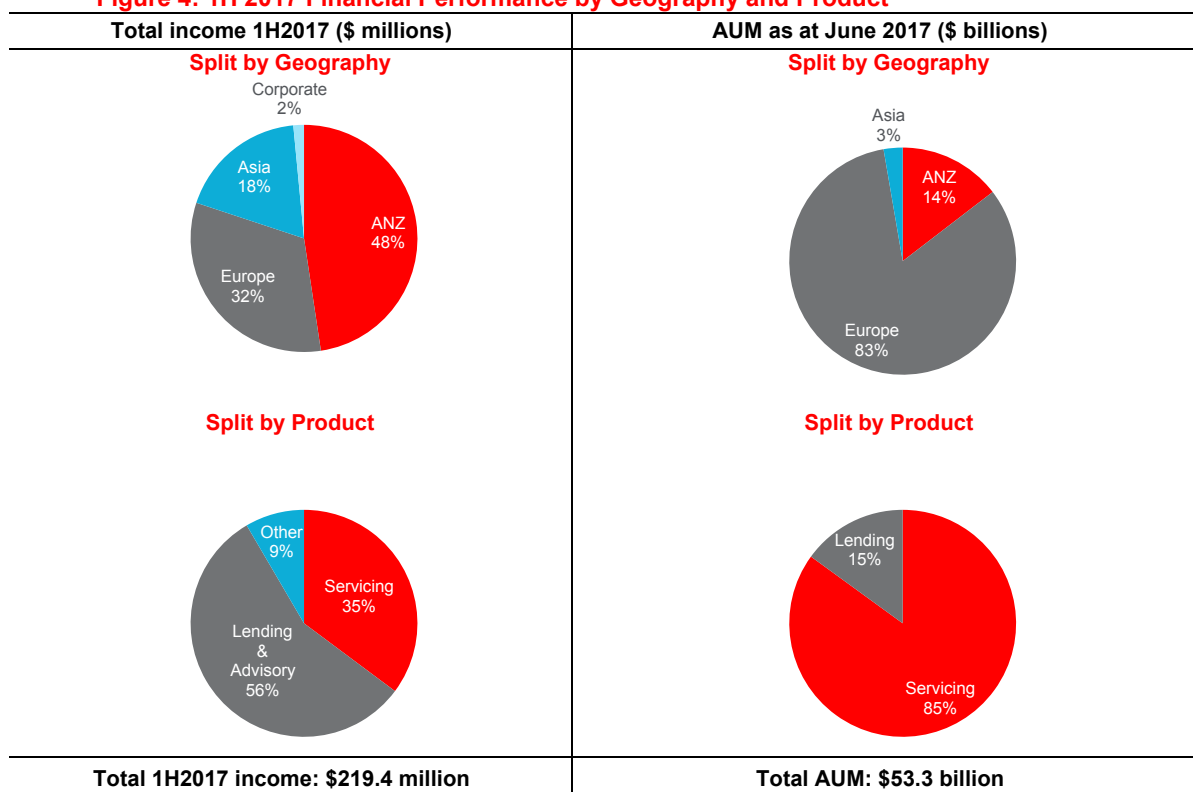
- Third-party distribution: Broadly diversified distribution platform facilitating origination through brokers, aggregators, dealers, retailers and White-Label partners along with the new Pepper Direct offering;
- Underwriting expertise: Detailed bespoke credit underwriting practices that enable Pepper to assess and price risk on a case-by-case basis, thereby extending appropriately priced credit to borrowers;
- Capital efficient funding model: Limited-recourse funding structures, access to third-party funding and a well-established securitisation platform to fund Pepper's lending activities (except for Pepper South Korea which is principally funded by customer deposits); and
- Loan servicing experience: Core capability of collections and arrears management, and proactive and effective customer relationship management with nearly 16 years of specialised loan servicing experience.

Figure 3: Position in the residential mortgage and consumer lending value chain



As reflected in Figure 4, in 1H2017 a majority of Pepper's total income of \$219.4m was derived from the Australia and New Zealand Division (48%). The International Division's income is currently principally comprised of loan servicing income with lending income growing quickly, whereas the Australia and New Zealand Division's income is predominantly comprised of lending income.

Figure 4: 1H 2017 Financial Performance by Geography and Product



3.4 Historical financial information

(a) Basis of preparation

The historical financial information set out in this Section 3.4 has been extracted from Pepper's audited financial statements for the financial years ended 31 December 2015 and 2016, which were audited by Deloitte, and interim financial statements for the 6 months to 30 June 2017, and should be read in conjunction with the notes included in those financial reports.

Those reports have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act.

The financial information set out in this Section 3.4 is in abbreviated form and does not contain all the information usually provided in an annual report prepared in accordance with the Corporations Act. Details of where to obtain the recent full statutory financial reports, including all notes to those accounts, are set out in Section 3.11.

(b) **Pepper consolidated income statement**

The audited historical Consolidated Income Statement for the years ended 31 December 2015 and 2016 and the reviewed historical Consolidated Income Statement for the 6 months to 30 June 2017 are summarised below.

	Consolidated income statement		
	1H2017	FY2016	FY2015
	\$'000	\$'000	\$'000
Interest revenue	271,401	472,607	333,033
Fee revenue	79,874	179,768	183,711
Other revenue	18,288	32,221	10,985
Total Revenue	369,563	684,596	527,729
Employee benefits expenses	(99,303)	(194,812)	(195,966)
Depreciation and amortisation expenses	(7,074)	(9,351)	(14,055)
Borrowing costs	(138,536)	(250,130)	(209,796)
Loan loss expenses	(44,281)	(64,113)	(24,420)
Other expenses from operations	(48,963)	(95,912)	(76,438)
Total Expenses	(338,157)	(614,318)	(520,675)
Profit from share of results of associates	5,381	9,030	3,143
Profit Before Tax	36,787	79,308	10,197
Income tax expenses	(8,672)	(17,659)	(6,792)
Profit After Tax	28,115	61,649	3,405
Profit for the year attributable to:			
Owners of the Company	28,115	61,664	3,457
Non-controlling interests	-	(15)	(52)
Earnings per share	Cents	Cents	Cents
Basic	16.2	36	3
Diluted	15.7	35	3

(c) **Pepper consolidated statement of cash flows**

The audited historical Consolidated Statement of Cash Flows for the years ended 31 December 2015 and 2016 and the reviewed Consolidated Statement of Cash Flows for the 6 months to 30 June 2017 are summarised below.

	Consolidated statement of cash flows		
	1H2017	FY2016	FY2015
	\$'000	\$'000	\$'000
Cash flows from operating activities			
Receipts from customers	152,679	252,088	279,342
Payments to suppliers and employees	(273,772)	(354,827)	(304,168)
Interest received	312,907	525,686	352,635
Interest and other finance costs paid	(156,309)	(259,329)	(208,676)
Income taxes paid	(5,933)	(13,057)	(15,596)
Net Cash Inflow from Operating Activities	29,572	150,561	103,537
Cash flows from investing activities			
Payments of property, plant and equipment	(3,795)	(3,355)	(6,881)
Payments for intangibles	(13,378)	(14,426)	(5,820)
Receipts from disposals of equity investments	2,422	4,002	15,440
Amounts received from related parties	569	1,713	1,632
Payments for arrangement fees	(4,359)	(10,179)	(7,754)
Repayment of debt securities and notes	83,358	(80,181)	73,013
Net (increase) / decrease in loans and advances	(1,610,692)	(2,819,803)	(1,634,197)
Net cash outflow from deconsolidation of subsidiaries	-	275	(1,661)
Payments made for investment in associate	1,863	4,398	(79,997)
Sale / (Purchase) of loan portfolios	595,826	1,331,854	46,719
Net Cash Outflow from Investing Activities	(948,186)	(1,585,702)	(1,599,506)
Cash flows from financing activities			
Net proceeds from issuance of capital	-	-	150,867
Redemption of preference shares	-	-	(36,145)
Net increase in borrowings	713,636	1,047,822	1,065,098
Net increase / (decrease) in deposits	85,583	632,795	406,885
Dividends	(10,227)	(10,847)	(1,901)
Net Cash Inflow from Financing Activities	788,992	1,669,770	1,584,804
Effects of exchange rate changes on balance of cash held in foreign currencies	215	(8,290)	4,457
Net increase in cash and cash equivalents	(129,407)	226,339	93,292
Cash and cash equivalents at the beginning of the financial period	782,076	555,737	462,445
Cash and cash equivalents at the end of the financial period	652,669	782,076	555,737

(d) **Pepper consolidated balance sheet**

The audited Consolidated Balance Sheet as at 31 December 2015 and 2016 and the reviewed Consolidated Balance Sheet as at 30 June 2017 are summarised below.

	Consolidated balance sheet		
	As at 30 Jun 2017	As at 31 Dec 2016	As at 31 Dec 2015
	\$'000	\$'000	\$'000
Assets			
Cash and cash equivalents	652,669	782,076	555,737
Investment securities	134	80,666	1,197
Derivative financial assets	771	35,512	23,080
Receivables	58,241	77,736	70,687
Other assets	37,163	28,063	13,402
Loan and advances	8,035,753	7,072,765	5,652,260
Deferred tax assets	12,748	15,374	16,461
Other investments	35,675	36,267	42,432
Investment in associates	96,060	99,279	94,075
Property, plant and equipment	24,177	21,961	12,602
Intangible assets	47,763	40,540	39,674
Goodwill	22,031	22,195	24,768
Total Assets	9,023,185	8,312,434	6,546,375
Liabilities			
Deposits	1,451,433	1,383,101	760,294
Trade and other payables	28,422	31,678	25,425
Current tax liabilities	6,765	5,468	3,267
Borrowings	6,931,016	6,252,843	5,201,525
Other liabilities	112,563	150,760	116,826
Provisions	24,489	34,813	29,618
Deferred tax liabilities	-	-	805
Total Liabilities	8,554,688	7,858,663	6,137,760
Total Net Assets	468,497	453,771	408,615
Equity			
Issued capital	299,860	298,080	296,065
Other equity	(24,299)	(24,344)	(22,332)
Other reserves	3,448	8,432	17,210
Retained earnings	189,924	172,039	118,431
Total Equity attributable to the owners of the company	468,933	454,207	409,374
Non-controlling interests	(436)	(436)	(759)
Total Equity	468,497	453,771	408,615
	dollars	dollars	dollars
Net assets per share	2.70	2.62	2.36
Net tangible assets per share	2.29	2.26	1.99

3.5 Update on material changes to Pepper's financial performance and financial position

To the knowledge of the Directors the financial position of Pepper has not materially changed since the half year reporting date of 30 June 2017 other than:

- payment of the fully franked Interim Dividend of 3 cents per Pepper Share on 5 October 2017;
- the issue on 11 September 2017 of 1,856,639 Pepper Shares by Pepper to certain Pepper executives as a grant of loan shares under Pepper Group's long term incentive plan for the year ended 31 December 2017;
- the grant of 2,290,464 performance rights on 4 October 2017 to certain Pepper executives pursuant to Pepper Group's long term incentive plan; and
- as disclosed in this Scheme Booklet or as otherwise disclosed to ASX by Pepper.

Further details regarding Pepper Group's long term incentive plan are set out in Section 6.6.

3.6 Directors and senior executives

(a) Pepper Directors

Name	Position
Seumas Dawes	Chairman and Non-Executive Director
Michael Culhane	Group CEO and Director
Des O'Shea	Independent Non-Executive Director
Matthew Burlage	Independent Non-Executive Director
Melanie Willis	Independent Non-Executive Director

(b) Pepper's senior leadership team (all members of Pepper's Global Executive Committee)

Name	Position
Michael Culhane	Group CEO
Cameron Small	Group Chief Financial Officer
Tim Cecil	Group Chief Risk Officer
Todd Lawler	Group Treasurer
Tom Saywell	Group Head of Principal Investments
Mario Rehayem	CEO Australia
Bernie Campbell	CEO, Australian Asset Finance
Richard Klemmer	CEO, Pepper UK and Ireland
Francisco Pedraza	CEO, Pepper Spain
Matt Chang	CEO, Pepper South Korea
Paul Doddrell	Group Managing Director (Shared Services)
Laurence Morey	Chief Commercial Officer, Pepper UK and Ireland
Sue Kent	Head of Human Resources (Australia)
Joanne Thrift	Chief Marketing Officer (Australia)
Neale Kant	Group Chief Information Officer
Nick Jacobson	Group Head of Property
Karen Chen	Head of Principal Investments, Asia
Fraser Gemmell	Head of European CRE Asset Servicing

3.7 Capital structure

As at 10 October 2017, being the last practicable date before the date of this Scheme Booklet, the capital structure of Pepper is as follows:

- 184,342,671 Pepper Shares (including 487,572 vested loan shares and 3,628,903 unvested loan shares);
- 4,028,803 unvested performance rights over Pepper Shares; and
- 300,000 options over unissued Pepper Shares.

The maximum number of Pepper Shares that will be on issue on the Implementation Date is 184,368,905.

Refer to Sections 6.5 to 6.9 (inclusive) for additional information regarding the intended treatment of performance rights, options and other securities under Pepper's equity incentive plans in connection with the Scheme.

3.8 Substantial shareholders

The substantial shareholders of Pepper as recorded in the Pepper Register as at 10 October 2017, being the last practicable date before the date of this Scheme Booklet, are as follows:

Substantial shareholder	Number of Pepper Shares	% of Pepper Shares on issue
Mr Seumas Dawes	54,740,439	29.7%
Perpetual Limited	27,208,443	14.8%
CVI CVF II Lux Securities Trading SARL	10,952,500	5.9%

3.9 Recent share price performance

Pepper was initially listed on the ASX on 31 July 2015 at \$2.60 per Pepper Share. Below is a chart showing Pepper's share price performance over the last 18 months from 26 November 2015 to 26 May 2017²³. Over this time, Pepper's share price has declined (11.7%).

The share price is shown against the Cash Payments of \$3.70 per Pepper Share.

Figure 5: Pepper 18-month share price performance to 26 May 2017



Since the time of the prices referred to above, Pepper has paid an Interim Dividend of 3 cents per Pepper Share. The Interim Dividend was paid on 5 October 2017.

²³ The trading day prior to speculation in the media that Pepper may be the subject of a change of control transaction.

3.10 Risks

If the Scheme does not proceed, Pepper will continue to be subject to a number of risks and uncertainties. One or more or a combination of these risks could materially impact the Pepper Group's businesses, its operating and financial performance, the price of Pepper Shares or any dividends which might be paid in respect of Pepper Shares.

You should carefully consider the risk factors described in Section 5, as well as the other information contained in this Scheme Booklet before voting on the Scheme. You should also consult your legal, financial, tax or other professional adviser.

3.11 Availability of documents relating to Pepper

As an ASX listed company and a "disclosing entity" under the Corporations Act, Pepper is subject to regular reporting and disclosure obligations. Broadly, these require Pepper to announce price sensitive information to ASX as soon as it becomes aware of the information (subject to exceptions for certain confidential information). Pepper's most recent announcements are available from its website (www.pepper.com.au). Further announcements concerning Pepper will continue to be made available on the website after the date of this Scheme Booklet.

ASX maintains files containing publicly available information about entities listed on its exchange. Pepper's files are available for inspection at ASX during normal business hours and are available on the ASX website (www.asx.com.au).

Additionally, copies of documents lodged with ASIC in relation to Pepper may be obtained from or inspected at ASIC. Please note ASIC may charge a fee in respect of such services.

The following documents are available for inspection free of charge prior to the Scheme Meeting during normal business hours at the registered office of Pepper:

- the Pepper Constitution;
- Pepper's annual report for the financial year ended 31 December 2014;
- Pepper's annual report for the financial year ended 31 December 2015;
- Pepper's annual report for the financial year ended 31 December 2016;
- Pepper's half year financial report for the six months ended 30 June 2017; and
- Pepper's public announcements.

The annual and half year reports and public announcements are also available at www.pepper.com.au.

A copy of Pepper's full statutory half year financial report for the six months ended 30 June 2017 can also be obtained at no cost from Pepper's Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) Monday to Friday between 9.00am and 5.00pm (Sydney time), prior to the Scheme being approved by the Court.

4 Profile of Bidco and Holdco

4.1 Introduction

This Section 4 forms part of the Bidco Information and has been prepared by Bidco. Bidco is solely responsible for the Bidco Information (except to the extent that Pepper has provided Bidco with information for the purpose of Bidco preparing the Bidco Information). The Bidco Information includes information as to Bidco's funding arrangements that have been made to provide the Scheme Consideration and information as to Bidco's opinions, views, and intentions in relation to Pepper.

None of Pepper nor any of its Subsidiaries, Directors, officers or advisers assume any responsibility for the accuracy or completeness of the Bidco Information.

4.2 Overview of KCA, Holdco and Bidco

(a) Overview of KCA and KKR

KCA is an affiliate of KKR & Co. KKR is a leading global investment firm that manages multiple alternative asset classes including private equity, energy, infrastructure, real estate, credit and, through its strategic partners, hedge funds. As at 30 June 2017, KKR had over US\$148.5 billion of assets under management worldwide.

KKR aims to generate attractive investment returns by following a patient and disciplined investment approach, employing world-class people, and driving growth and value creation with KKR portfolio companies.

KKR has a substantial investment track record in, and commitment to, Australia, through investments such as:

- Latitude Financial Services, a leading independent financial services provider in Australia and New Zealand;
- Sundrop Farms, a global leader in sustainable agriculture, growing fresh fruits and vegetables using renewable inputs;
- Findex, one of Australasia's leading independent provider of integrated financial advisory and accounting services;
- Seven Media Group (now Seven West Media), one of Australia's leading media companies;
- Laser Clinics Australia, the leading provider of non-invasive aesthetic treatments in Australia;
- Dixon Hospitality, one of the largest and fastest growing food and beverage-focused operators in the Australian hospitality industry;
- Alleasing Pty, an Australian equipment leasing business with operations in the non-motor and non-consumer segments of the Australian and New Zealand equipment finance industry; and
- GenesisCare, a leading provider of high quality specialist care to patients with cancer and cardiovascular disease.

KKR has a long track record of successful investments in the financial services sector globally. KKR has a dedicated team of professionals focusing on the financial services sector across Asia, North America and Europe. KKR's past and current investments in the financial services sector include:

- Latitude Financial Services, a leading independent financial services provider in Australia and New Zealand;
- Oodle Finance, a provider of finance for customers to buy or hire a vehicle from dealers throughout the UK excluding Northern Ireland;
- A10 Capital, a balance sheet lender focused on middle market commercial real estate bridge and permanent loans in the United States;
- Pillarstone, a corporate loan servicing platform focused on partnering with banks in complex situations primarily in southern Europe;
- Santander Consumer USA, a full-service, technology-driven consumer finance company focused on vehicle finance and unsecured consumer lending products; and
- Sistemica, one of the leading Italian servicers covering the entire lifecycle of the servicing process for secured and unsecured credits.

KKR invests its own capital alongside its partners' capital and provides financing solutions and investment opportunities through its capital markets business. References to KKR's investments may include the activities of its sponsored funds. For additional information about KKR (NYSE: KKR), please visit KKR's website at www.kkr.com and on Twitter @KKR_Co.

(b) Overview of Holdco

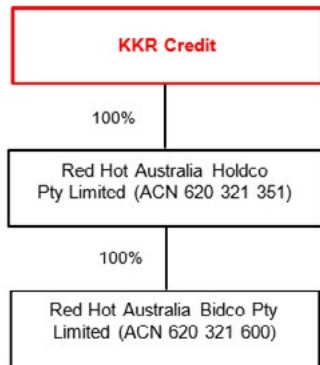
Holdco is a special purpose company that was incorporated for the purpose of holding all the shares in Bidco and issuing Holdco Shares to Pepper Shareholders who validly elect the Scrip Option. Holdco is an unlisted, Australian proprietary company that has not commenced trading or conducted business, and does not own any assets and or liabilities, other than in connection with its incorporation, the entry into transaction documents in connection with the Scheme and the taking of such other actions as are necessary to facilitate the implementation of the Scheme (including actions in relation to the incurrence of costs, fees and expenses in connection with the Scheme).

The affairs of Holdco are regulated under the Holdco Constitution and the Shareholders Deed. Full copies of the Holdco Constitution and the Shareholders Deed were lodged with ASX on 10 August 2017 and may be obtained by calling the Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) or from Pepper's website: www.pepper.com.au/about/shareholder-centre. A summary of key rights and liabilities attaching to Holdco Shares under Holdco Constitution and Shareholders Deed are set out in Section 4.6.

Current share capital structure of Holdco

As at the date of this Scheme Booklet, all the shares in Holdco are owned by KKR Credit.

The share capital structure of Holdco, as at the date of this Scheme Booklet, can be depicted as follows.



Illustrative post-implementation share capital structure of Holdco

It is a Condition Precedent of the Scheme that a minimum of 35.11% of Pepper Shareholders elect the Equity Alternative (comprising the Scrip Option and the Retention Option). The Equity Alternative is subject to a maximum cap of 48.5% and the Retention Option within the Equity Alternative is subject to a maximum cap of 9.9%.

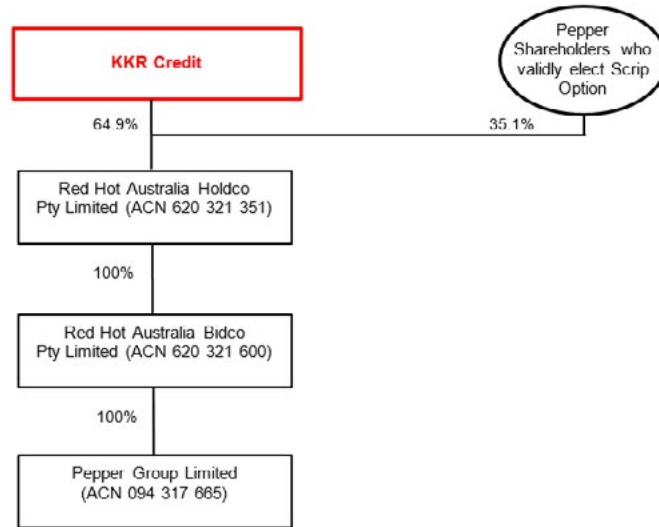
Accordingly, if the Scheme is implemented, depending on the number of Pepper Shareholders who validly elect the Scrip Option and the Retention Option under the Equity Alternative, Pepper Shareholders who validly elect the Scrip Option will collectively own between 28.0% and 48.5% of Holdco and KKR Credit will own between 51.5% and 72.0% of Holdco.

Each of the following four scenarios are illustrative only of the possible share capital structures of Holdco post implementation of the Scheme. The actual share capital structure of Holdco post implementation of the Scheme is subject to further increases in KKR Credit's indirect ownership of Holdco in connection with any additional equity funding to be provided by KKR Credit. For example, Pepper has announced that it will require at least \$150 million in equity capital to fund the business plan, and Holdco intends, in the event that the Scheme is approved, to raise at least some of this equity capital from Holdco Shareholders and Retained Pepper Shareholders immediately upon or shortly after Pepper's anticipated delisting from ASX - refer to Section 4.4(h) for further information. If a Holdco equity issue proceeds, and the Original Pepper Shareholders do not take up their proportional entitlement in respect of such new issue of equity under the terms of the Shareholders Deed where KKR Credit does take up its proportional entitlement, the Original Pepper Shareholders' collective holding in Holdco will be diluted relative to KKR Credit's holding in Holdco.

The Bidco Group Members and Pepper will incur transaction costs in connection with the Scheme. Subject to the implementation of the Scheme and the obtainment of requisite shareholder approvals post implementation of the Scheme, it is intended that Pepper will provide the funds from its cash reserves to pay transaction costs and other expenses related to the Scheme including financial advisers' fees, filing fees, legal and accounting fees and regulatory fees. These transaction costs and other expenses are currently estimated to total approximately \$15 million. If the requisite shareholder approvals post implementation of the Scheme are not obtained, these transaction costs and expenses may need to be equity funded at the Holdco level which will dilute the holdings of Holdco Securityholders relative to the KKR Investors.

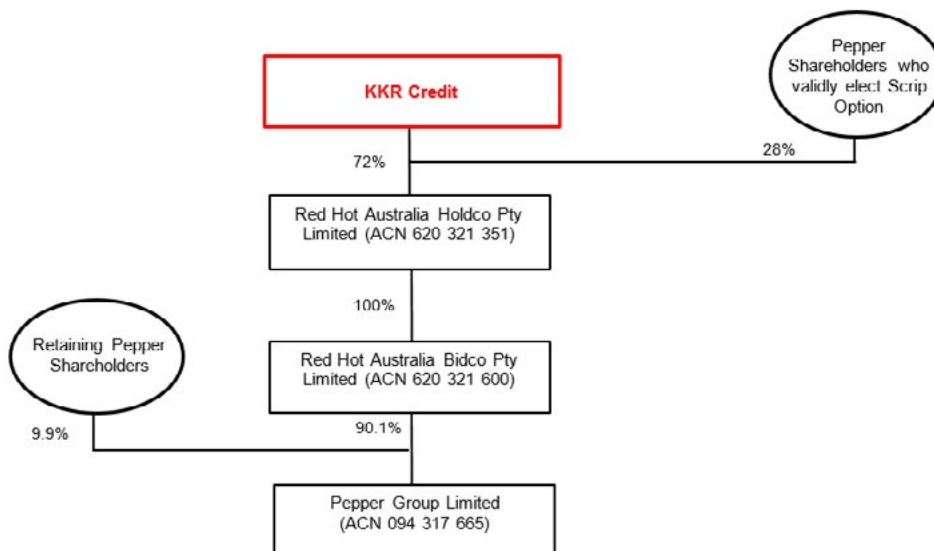
A. Minimum valid elections of the Equity Alternative and no valid elections of the Retention Option

If the Scheme is implemented, assuming minimum valid elections of the Equity Alternative and no valid elections of the Retention Option, Pepper Shareholders who validly elect the Scrip Option will collectively own 35.1% of Holdco and KKR Credit will own 64.9% of Holdco. In such circumstances, the illustrative share capital structure of Holdco can be depicted as follows.



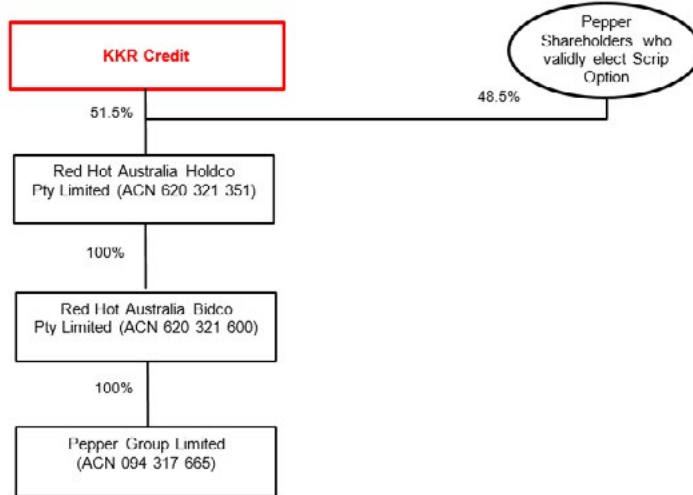
B. Minimum valid elections of the Equity Alternative and maximum valid elections of the Retention Option

If the Scheme is implemented, assuming minimum valid elections of the Equity Alternative and maximum valid elections of the Retention Option, Pepper Shareholders who validly elect the Scrip Option will collectively own 28.0% of Holdco and KKR Credit will own 72.0% of Holdco. In such circumstances, the illustrative share capital structure of Holdco can be depicted as follows.



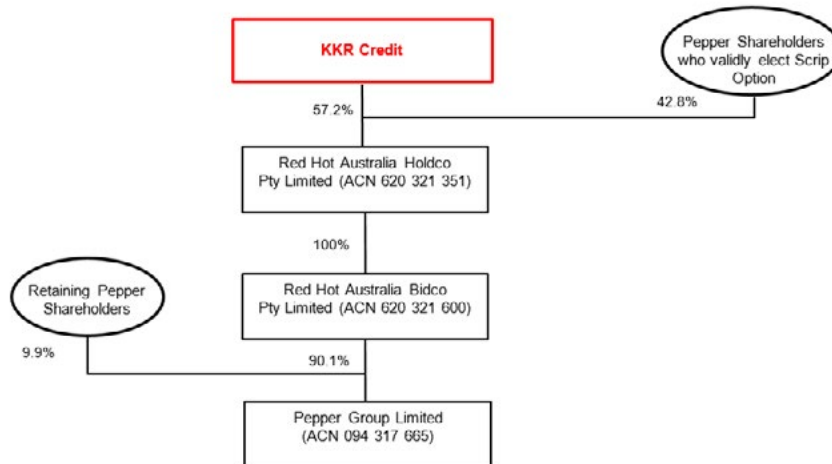
C. Maximum valid elections of the Equity Alternative and no valid elections of the Retention Option

If the Scheme is implemented, assuming maximum valid elections of the Equity Alternative and no valid elections of the Retention Option, Pepper Shareholders who validly elect the Scrip Option will collectively own 48.5% of Holdco and KKR Credit own 51.5% of Holdco. In such circumstances, the illustrative share capital structure of Holdco can be depicted as follows.



D. Maximum valid elections of the Equity Alternative and maximum valid elections of the Retention Option

If the Scheme is implemented, assuming maximum valid elections of the Equity Alternative and maximum valid elections of the Retention Option, Pepper Shareholders who validly elect the Scrip Option will collectively own 42.8% of Holdco and KKR Credit will own 57.2% of Holdco. In such circumstances, the illustrative share capital structure of Holdco can be depicted as follows.



(c) **Overview of Bidco**

Bidco is a special purpose company that was incorporated for the purpose of holding at least 90.1% of the shares in Pepper post implementation of the Scheme. Bidco is an unlisted,

Australian proprietary company that has not commenced trading or conducted business, and does not own any assets and or liabilities, other than in connection with its incorporation, the entry into transaction documents in connection with the Scheme and the taking of such other actions as are necessary to facilitate the implementation of the Scheme (including actions in relation to the incurrence of costs, fees and expenses in connection with the Scheme).

As at the date of this Scheme Booklet, all the shares in Bidco are owned by Holdco. If the Scheme is implemented, all the shares in Bidco will remain owned by Holdco.

Under the Shareholders Deed, Holdco may determine that Bidco (or another Holdco Group Company) will acquire the Retained Pepper Shares at any time during the 3 year period following the Implementation Date, for a cash amount per Retained Pepper Share equal to the then fair market value of a Holdco Share. Bidco's right to acquire such Pepper Shares, as structured, is not anticipated to have any material value. For further details, see clauses 8.12 and 8.13 of the Shareholders Deed.

4.3 Funding of the Cash Consideration

This Section 4.3 outlines how Bidco intends to fund the Scheme Consideration.

(a) Cash Consideration

Bidco has entered into a legally binding equity commitment letter with KKR Credit, dated 10 August 2017 (**Equity Commitment Letter**). Under the Equity Commitment Letter, KKR Credit has agreed that, subject to the Scheme becoming Effective, they will cause Bidco to receive in immediately available Australian dollar-denominated funds, no later than the 2nd Business Day prior to the Implementation Date, the aggregate amount of AUD\$430,693,086, to be used by Bidco for the purpose of paying, and to the extent necessary to pay, the maximum cash component of the Scheme Consideration, on the terms and subject to the conditions of the Scheme Implementation Deed and the Equity Commitment Letter. The Scheme is not subject to debt financing arrangements.

Accordingly, if the Scheme is implemented, Bidco will have on the Implementation Date, sufficient cash funds to pay the maximum possible aggregate amount of the cash component of the Scheme Consideration of approximately AUD\$430,693,086 to the Scheme Shareholders in full in accordance with the Scheme and the Deed Poll.

(b) Issue of Holdco Shares under Scrip Option

The maximum number of Holdco Shares that may be issued as part of the Scheme Consideration is 89,418, 919. Bidco and Holdco have each entered into the Deed Poll to covenant in favour of the Scheme Shareholders to perform its respective obligations in relation to the Scheme. One such obligation is to provide or procure the provision of the Scheme Consideration to the Scheme Shareholders in accordance with the Scheme, including to issue all Holdco Shares required to be issued in respect of valid elections under the Scrip Option.

(c) Conclusion

On the basis of the arrangements described above, the Bidco Group believes it has reasonable grounds for holding the view, and holds the view, that Bidco will be able to satisfy its obligation to fund the Scheme Consideration as and when it is due and payable under the terms of the scheme.

4.4 Post-acquisition intentions of Bidco

(a) Introduction

This Section 4.4 sets out Bidco's current intentions in relation to:

- the continuation of the business of Pepper;

- any major changes to be made to the business of Pepper, including any redeployment of the fixed assets of Pepper;
- a proposed issue of new Holdco Shares immediately upon or shortly after the anticipated delisting of Pepper upon implementation of the Scheme, to fund anticipated capital requirements of Pepper; and
- the future employment of the present employees of Pepper,

if the Scheme is implemented.

The intentions of Bidco are the same as the intentions of the other Bidco Group Members.

As discussed in Section 4.2, if the Scheme is implemented:

- KKR Credit will indirectly own between 51.5% and 72.0% of the shares in Holdco;
- Holdco will own 100% of the shares in Bidco; and
- Bidco will own between 90.1% and 100% of the shares in Pepper.

Accordingly, the Bidco Group Members' ability to give effect to its intentions as described in this Section 4.4 is subject to governance provisions in respect of Holdco as detailed in Section 4.6.

Bidco has reviewed information concerning Pepper, its business and the general business environment which is publicly available information at the time of the preparation of this Scheme Booklet. Bidco has also conducted a limited due diligence review of certain non-public information provided to it by Pepper. Bidco does not currently have full knowledge of all material information, facts and circumstances that are necessary to assess all of the operational, commercial, taxation and financial implications of its current intentions. Final decisions in relation to these matters will only be reached after Bidco has had an opportunity to undertake a detailed review of Pepper's business following implementation of the Scheme. Accordingly, the intentions described below are statements of current intention only and may change as new information becomes available or as circumstances change.

(b) Removal from the ASX

Bidco currently intends for Pepper to be removed from the official list of the ASX after the implementation of the Scheme and subsequently converted into a proprietary company limited by shares.

(c) Pepper Board

As at the date of this Scheme Booklet, Bidco has not confirmed the proposed members of the board of Pepper if the Scheme is implemented.

(d) Head office

Bidco currently intends for Pepper to maintain its current head office in Sydney following the implementation of the Scheme.

(e) Employees

Bidco currently intends to retain all of Pepper's present employees, including the existing senior management team, following the implementation of the Scheme, some of which may be employed by Bidco if the Scheme is implemented.

(f) Replacement of Pepper's constitution

Consistent with its current intention to convert Pepper into a proprietary company limited by shares, Bidco intends to replace Pepper's existing constitution with a constitution appropriate for a proprietary company limited by shares following the implementation of the Scheme.

(g) Business, operations and assets

Bidco currently intends to continue Pepper's focus on offering a unique, diversified, global portfolio of financial services, including lending, asset servicing and advisory across the residential and commercial property sectors as well as in consumer, auto and equipment finance. Bidco understands that Pepper's business model is highly capital intensive and will require substantial additional capital injections for the foreseeable future (including the anticipated December 2017 capital raising described below). Bidco currently intends to provide support to Pepper for it to pursue organic and acquisition-based growth opportunities as appropriate.

Bidco intends to continue to operate the business of Pepper under its current name.

As described above, Bidco will undertake a full review of Pepper and its business, operations, assets and employees following the implementation of the Scheme to determine how best to operate and further develop and grow the company. Decisions regarding future business operations will be made following the completion of that review and in light of circumstances at the relevant time.

To the extent a Platform sale is contemplated following the implementation of the Scheme, the Shareholders Deed sets out a regime for determining and implementing such a sale as well as a regime for distributing the net proceeds of such a sale (see the "Proceeds of sale of a Platform" section of the table in Section 4.6 for details). However, as at the date of this Scheme Booklet, Bidco does not intend to dispose of any of Pepper's material assets, including any Platforms, and does not have any intention for Pepper to make any particular acquisitions, other than any disposals or acquisitions already publicly announced by Pepper.

Consistent with typical private equity practice, KKR Credit may seek to exit their investment in Pepper in the future. Any decision to exit will be subject to prevailing market conditions, the businesses performance and other factors which may be considered relevant at the time.

(h) Proposed 2017 capital raising

As previously announced to ASX (including in its ASX announcement dated 22 September 2017 and investor presentation dated 25 August 2017) it is anticipated that Pepper will require at least \$150 million in equity capital (in excess of organic cash generation) to fund Pepper's ongoing business plan, including approximately \$65 million for the acquisition of Banco Primus. On the basis of the current business plan, it is anticipated that at least some of this additional capital will need to be provided before 31 December 2017, irrespective of whether the Transaction proceeds.

If the Scheme is not approved (and the Special Dividend is not paid), Pepper has stated that it anticipates that it would initiate a capital raising for approximately \$150 million of equity capital prior to 31 December 2017 (refer to page 19 and "Frequently Asked Question" 6.5 for more information).

If the Scheme is approved, it is intended that Holdco will commence a capital raising process to raise capital from Holdco Shareholders and Retained Pepper Shareholders immediately upon or shortly after Pepper's anticipated delisting from ASX. Due to a greater flexibility in raising capital in a non-listed company, it is anticipated that a lesser amount (than \$150 million) may be required to be raised prior to 31 December 2017, with a further amount to be raised in the first half of 2018.

It is intended that this capital raising would be conducted via a pro-rata issue to Holdco Shareholders and Retained Pepper Shareholders approved by a Board Special Majority under paragraph (a) of Part B, Schedule 3 of the Shareholders Deed. Having regard to the likely need to raise the additional capital prior to the end of 2017, an accelerated timetable would apply to this particular raising (as compared to the time periods provided for in respect of an issue conducted under clause 7.2 of the Shareholders Deed). Specifically, it is anticipated that the accelerated timetable will provide for a 3 Business Day acceptance period, followed by a further 3 Business Day period to provide subscription funds to Holdco.

New Equity Securities offered under any Holdco December 2017 capital raising would have an issue price of \$3.60 per Equity Security (being the Scheme Price as defined in the Shareholders' Deed), and be offered to Holdco Shareholders and, by operation of clause 30.39 of the Shareholders' Deed, Retained Pepper Shareholders, (see also Section 4.6 for a description of the amendments to clause 30.39 of the Shareholders Deed to clarify that, any shares issued to a Retained Pepper Shareholder would be Holdco Shares, consistent with the principle underlying clause 30.39 that each Retained Pepper Shareholder is to have the benefit of and be bound by the Shareholders Deed as if it held Holdco Shares).

If the Original Pepper Shareholders do not take up their proportional entitlement in respect of such new issue of equity, then in circumstances where the KKR Investors do take up their proportional entitlement, the Original Pepper Shareholders' collective holding in Holdco will be diluted relative to the KKR Investors' holding in Holdco.

Set out below is an example to illustrate the dilution level of Retained Pepper Shareholders and Holdco Shareholders who in each case do not participate in a capital raising. In the example, it is assumed that capital of \$150 million is raised at \$3.60 per share, with all such capital being invested via Bidco into Pepper. This would result in 41,666,667 new shares being issued by Holdco, with the same number of shares being issued by each of Bidco and Pepper. For these illustrative purposes only, it has also been assumed that Retained Pepper Shareholders hold 5.0% of Pepper Shares on the Implementation Date, that the KKR Investors hold an indirect interest in Pepper (via their shareholding in Holdco) of 55.0%, and further that only the KKR Investors participate in the \$150 million capital raising.

Total Pepper Shares on the Implementation Date	184,368,905	
Held by:		
Retained Pepper Shareholders	9,218,445	5.00%
Bidco	175,150,459	95.00%

Total Bidco shares on the Implementation Date	175,150,459
Total Holdco shares on the Implementation Date	175,150,459

Shareholding on the Implementation Date	Pepper Interest / Shares		Holdco Shares	
KKR Investors	55.00%	(indirect) -	57.89%	101,402,898
Retained Pepper Shareholders (RPS)	5.00%	9,218,445	0.00%	-
Original Pepper Shareholders (not being RPS)	40.00%	(indirect) -	42.11%	73,747,562
	100.00%	9,218,445	100.00%	175,150,459

Capital Raising

Amount raised at Holdco	150,000,000	
To be invested into Bidco	150,000,000	
To be invested into Pepper	150,000,000	
No. shares issued by each of Holdco, Bidco and Pepper	41,666,667	@ \$3.60 per share

Subscription - Holdco Shares	Entitlement		Take Up	
KKR Investors	55.00%	22,916,667	100.00%	22,916,667
Retained Pepper Shareholders (RPS)	5.00%	2,083,333	0.00%	-
Original Pepper Shareholders (not being RPS)	40.00%	16,666,667	0.00%	-
	100.00%	41,666,667		22,916,667

Shortfall Subscription - Holdco Shares	Entitlement		Take Up	
KKR Investors	100.00%	18,750,000	100.00%	18,750,000
Retained Pepper Shareholders (RPS)	0.00%	-	0.00%	-
Original Pepper Shareholders (not being RPS)	0.00%	-	100.00%	-
		18,750,000		18,750,000

Capital Raising Total Subscription - Holdco Shares

KKR Investors	41,666,667
Retained Pepper Shareholders (RPS)	-
Original Pepper Shareholders (not being RPS)	-
	41,666,667

Shareholding	Holdco Shares		Pepper Shares	
	Pre Raise	Post Raise	Pre Raise	Post Raise
KKR Investors	101,402,898	143,069,564	-	-
Retained Pepper Shareholders (RPS)	-	-	9,218,445	9,218,445
Original Pepper Shareholders (not being RPS)	73,747,562	73,747,562	-	-
Bidco			175,150,459	216,817,126
	175,150,459	216,817,126	184,368,905	226,035,571

Pepper Interest	Pre Raise		Post Raise		% Change ¹
KKR Investors	101,402,898	55.00%	143,069,564 (indirect)	63.30%	15.08%
Retained Pepper Shareholders (RPS)	9,218,445	5.00%	9,218,445	4.08%	-18.43%
Original Pepper Shareholders (not being RPS)	73,747,562	40.00%	73,747,562 (indirect)	32.63%	-18.43%
	184,368,905	100.00%	226,035,571	100.00%	

¹ As a percentage of interest in Pepper immediately before the capital raising

(i) **Other intentions**

Other than as set out in this Section 4.4, it is Bidco's intention to the extent possible:

- to continue the business of Pepper;
- not to make any major changes to the business of Pepper nor to redeploy any of Pepper's fixed assets; and
- to continue the employment of Pepper's present employees.

4.5 Current and post-acquisition director profiles

(a) **Holdco**

As at the date of this Scheme Booklet, the Holdco directors are Niraj Akshay Javeri and Yew-Hwan Cheah.

The directors of Holdco post implementation of the Scheme will be comprised of four nominees appointed by each the KKR Investors and the Original Pepper Shareholders, in accordance with the Shareholders Deed (see the "Holdco Board composition" section of the table in Section 4.6 for further details). It is currently intended that the four nominees to be appointed by the KKR Investors will be Dan Pietrzak, Jamie Weinstein, Stuart Blieschke and John Howard. The profiles of these directors are set out below.

Dan Pietrzak	Daniel Pietrzak joined KKR in 2016 and is a Managing Director of KKR. Mr. Pietrzak is a portfolio manager for KKR's private credit funds and portfolios and a member of the Global Private Credit Investment Committee, Europe Direct Lending Investment Committee and KKR Credit Portfolio Management Committee. Prior to joining KKR, Mr. Pietrzak was a Managing Director and the Co-Head of Deutsche Bank's Structured Finance business across the Americas and Europe. Previously, Mr. Pietrzak was based in New York and held various roles in the structured finance and credit businesses of Societe Generale and CIBC World Markets. Mr. Pietrzak started his career at Price Waterhouse in New York and is a CPA. Mr. Pietrzak holds an M.B.A. in Finance from The Wharton School of the University of Pennsylvania and a B.S. in Accounting from Lehigh University.
Jamie Weinstein	Jamie M. Weinstein joined KKR in 2005 and is a Member of KKR. Mr. Weinstein is a portfolio manager for KKR's Special Situations funds and portfolios, which he has managed since their inception in 2009, and a member of the Special Situations Investment Committee, Real Estate Investment Committee, India NBFC Investment Committee and KKR Credit Portfolio Management Committee. Previously, Mr. Weinstein was a portfolio manager with responsibility across KKR's Credit strategies. Prior to joining KKR, Mr. Weinstein was with Tishman Speyer Properties as Director of Acquisitions for Northern California, and at The Boston Consulting Group as a strategy consultant.

	Mr. Weinstein graduated from Princeton University and received an M.B.A. from the Stanford University Graduate School of Business, where he was an Arjay Miller Scholar.
Stuart Blieschke	Stuart Blieschke joined KKR in 2016 and is a Director of KKR, focusing on the Special Situations funds and portfolios. Prior to joining KKR, Mr. Blieschke was a director at Pacific Alliance Group with the absolute return team, responsible for establishing their Australian business as well as generating and structuring investment strategies for Asia. Mr. Blieschke moved to Hong Kong in 2006, where he spent several years in the distressed products group of Deutsche Bank and the special situations group of Credit Suisse. Mr. Blieschke graduated from Flinders University of South Australia and is a Chartered Accountant.
John Howard	John Howard joined KKR's New York office in 2014 to focus on FIG and specialty finance investing. Mr. Howard relocated to KKR's London office in 2016, where he leads or is a deal team member on a number of KKR's specialty finance platforms and asset aggregation investments globally. He serves on the Boards of Lunar Funding DAC, an Irish commercial mortgage company, and Toorak Capital Partners LLC a specialty mortgage business operating in the US and UK. Previously, Mr. Howard structured non-investment grade debt financings as a member of Bank of America Merrill Lynch's Leveraged Finance group. He graduated Phi Beta Kappa and with Honors from Vanderbilt University.

In accordance with the Shareholders Deed, the Original Pepper Shareholders must appoint the Holdco Group CEO from time to time as one of the its four nominees on the Holdco Board (see the "Holdco Board composition" section of the table in Section 4.6). The Shareholders Deed provides that Michael Culhane, the current Group CEO and Director of Pepper, will be the initial Holdco Group CEO following implementation of the Scheme. Mr Culhane will therefore be appointed to the Holdco Board on the Implementation Date.

As at the date of this Scheme Booklet, the remaining three nominees to be appointed to the Holdco Board by the Original Pepper Shareholders following implementation of the Scheme have not yet been identified.

(b) Bidco

As at the date of this Scheme Booklet, the Bidco directors are Niraj Akshay Javeri and Yew-Hwan Cheah.

It is currently intended that the directors of Bidco post implementation of the Scheme will be Dan Pietrzak, Jamie Weinstein, Stuart Blieschke and John Howard. See clause 4.5(a) for the profiles of these directors.

(c) Pepper

As at the date of this Scheme Booklet, the Pepper Directors are Seumas Dawes, Michael Culhane, Des O'Shea, Matthew Burlage and Melanie Willis.

It is currently intended that persons who will be appointed as directors of Pepper post implementation of the Scheme may include one or more of the current Pepper Directors, but as at the date of this Scheme Booklet, KKR Credit has not confirmed the appointment of such persons.

4.6 Rights and liabilities attaching to Holdco Shares and the Shareholders Deed

(a) Introduction

A summary of the key rights and liabilities attaching to Holdco Shares is set out below. This summary is not exhaustive and should be read subject to the full terms of the Shareholders Deed and the Holdco Constitution. Full copies of the Shareholders Deed and the Holdco Constitution were lodged with ASX on 10 August 2017 and may be obtained by calling the Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) or from Pepper's website: www.pepper.com.au/about/shareholder-centre.

Pepper Shareholders considering the election of the Equity Alternative should seek their own independent advice before making a decision. The Holdco Constitution provides that the terms of the Shareholders Deed will prevail in the event of any inconsistency between the provisions of the Holdco Constitution and the Shareholders Deed.

Issue and ranking	<p>Holdco Shares issued as consideration under the Scheme will be fully paid and will rank equally with all other Holdco Shares from the date of issue.</p> <p>Holdco may not issue preference shares (including redeemable preference shares), and ordinary Holdco Shares already on issue may not be converted into preference shares, unless the rights attaching to the preference shares are approved by a special resolution of Holdco Shareholders.</p> <p>For further details, see clauses 2.2 and 2.3 of the Holdco Constitution.</p>
Variation of class rights	<p>Subject to the terms of the Holdco Constitution and the terms on which any shares in Holdco are issued, the rights attaching to shares in a class of shares may only be varied or cancelled by the approval of the Holdco Board, a KKR Super Majority and a Pepper Super Majority and:</p> <p>(i) by a special resolution passed at a meeting of Holdco Shareholders entitled to vote and holding shares in that class; or</p> <p>(ii) with the written consent of the Holdco Shareholders entitled to vote in respect of at least 75% of the issued shares of that class.</p> <p>For further details, see clause 2.4 of the Holdco Constitution and paragraph (a) of Part C of Schedule 3 of the Shareholders Deed.</p>
Dividends	<p>Holdco must not declare, determine, make or pay a dividend or other distribution of profits or assets or make any change to the dividend policy of a Holdco Group Company (other than in connection with the sale of a Platform) without:</p> <p>(a) if the Original Pepper Shareholders have an Adjusted Share Ownership Percentage of 10% or greater, the approval by a Holdco Board Special Majority; or</p> <p>(b) if paragraph (a) above does not apply, Holdco Board approval.</p> <p>For further details, see paragraph (h) of Part B of Schedule 3 of the Shareholders Deed.</p>
Holdco Shareholder meetings and voting	<p>For so long as the Original Pepper Shareholders have an Adjusted Share Ownership Percentage of 10% or greater, a quorum for a meeting of holders of Holdco Shares is constituted by the presence of 2 Holdco Shareholders, 1 of whom must be a KKR Investor and 1 of whom must be an Original Pepper Shareholder who holds Holdco Shares.</p> <p>Subject to the other terms of the Holdco Constitution and the Corporations Act, and to any rights or restrictions for the time being attached to any class or classes of shares, each Holdco Shareholder present in person or by proxy, attorney or representative and entitled to vote has one vote on a show of hands and has one vote for each fully paid Holdco share held by the Holdco Shareholder on a poll.</p> <p>For further details, see clause 9.14 of the Holdco Constitution.</p>
Winding up	<p>Holdco Board Special Majority approval is required in order to take any step to dissolve or wind up any Holdco Group Company other than where the dissolution or winding up is required to prevent insolvent trading by a Holdco Group Company.</p> <p>If Holdco is wound up, the liquidator may, with the approval of a special resolution of Holdco,</p>

	<p>divide among the Holdco Shareholders in kind the whole or any part of the property of Holdco. The liquidator may for that purpose set such value as the liquidator considers fair on any property to be so divided and may determine how the division is to be carried out as between the Holdco Shareholders or different classes of Holdco Shareholders.</p> <p>For further details on winding up, see clause 19.1 of the Holdco Constitution and paragraph (w) of Part B of Schedule 3 of the Shareholders Deed.</p>
Amendments to Holdco Constitution	<p>Holdco may not amend or vary the Holdco Constitution unless by special resolution of Holdco Shareholders and with the approval of the Holdco Board, a KKR Super Majority and a Pepper Super Majority.</p> <p>For further details, see section 136(2) of the Corporations Act and paragraph (c) of Part C of Schedule 3 of the Shareholders Deed.</p>
Holdco Board composition	<p>(a) For so long as there are any KKR Investors and the Original Pepper Shareholders have an Adjusted Share Ownership Percentage of 10% or greater, the KKR Investors will collectively have the right to appoint 4 Holdco Directors. If there are any KKR Investors and the Original Pepper Shareholders have an Adjusted Share Ownership Percentage of less than 10%, the KKR Investors will collectively have the right to appoint any number of Holdco Directors they determine up to the maximum number of Holdco Directors.</p> <p>(b) For so long as the Original Pepper Shareholders have an Adjusted Share Ownership Percentage of 10% or greater, the Original Pepper Shareholders will collectively have the right to appoint 4 Holdco Directors.</p> <p>(c) The Original Pepper Shareholders must appoint the Holdco Group CEO from time to time as a Holdco Director. Following implementation of the Scheme, the initial Holdco Group CEO will be Michael Culhane.</p> <p>(d) Unless paragraph (e) below applies, the KKR Investors may from time to time nominate any of the Holdco Directors to become the Holdco Chairman.</p> <p>(e) If the KKR Investors have a Security Ownership Percentage of less than 50% and the Original Pepper Shareholders have a Security Ownership Percentage of 50% or greater, then the Original Pepper Shareholders (acting by a Pepper Majority) may from time to time nominate any of the Holdco Directors to become the Holdco Chairman.</p> <p>(f) The Holdco Board will consist of a maximum of 8 Holdco Directors, unless otherwise approved in writing by the KKR Investors and, for so long as the Original Pepper Shareholders have an Adjusted Share Ownership Percentage of 10% or greater, a Pepper Super Majority.</p> <p>For further details, see clause 4.1 and Schedule 2 of the Shareholders Deed.</p>
Holdco Board matters	<p>(a) Holdco must not do, commit or approve, and must ensure that no other Holdco Group Company does, commits or approves, anything listed in:</p> <p>(A) Part A of Schedule 3 of the Shareholders Deed without Holdco Board approval - these matters include, but are not limited to, the appointment and removal of certain officers for underperformance, the appointment and removal of senior officers and management, remuneration and bonuses for employees, variations to the Holdco Business Plan for adverse events, certain reorganisation events, acquisitions and disposals (except to the extent covered by paragraph (ii) below or an Exit), disposal of underperforming Holdco Business lines, entry into partnerships and joint ventures, changes the status of Holdco and various ordinary course business matters;</p> <p>(B) Part B of Schedule 3 of the Shareholders Deed without:</p> <p>(aa) if the Original Pepper Shareholders have an Adjusted Share Ownership Percentage of 10% or greater, approval by a Holdco Board Special Majority; or</p> <p>(ab) if paragraph (A) above does not apply, Holdco Board approval, these matters include, but are not limited to, the issue of Holdco Equity Securities, preparation for Exits, applying for listing, adoption of the Holdco Business Plan, incurrence of capital expenditure of more than a specified threshold, declare a dividend or make any changes to the dividend policy of any Holdco Group Company other than in connection with the sale of a Platform, and adopt or vary any incentive plan of any Holdco Group Company, related party transactions or changes in the nature of the Holdco Business; and</p> <p>(C) Part C of Schedule 3 of the Shareholders Deed without Holdco Board approval, approval by a KKR Super Majority (for so long as there are any KKR Investors) and approval by a Pepper Super Majority (for so long as</p>

there are any Original Pepper Shareholders) - these matters include the variation of rights attaching to Holdco Equity Securities, effecting a buy-back of Holdco Equity Securities or capital reduction of any Holdco Group Company other than in connection with the sale of a Platform, and amending the constitution of any Holdco Group Company.

- (b) The Shareholders Deed also sets out a regime for resolving Deadlocked Matters of the Holdco Board (see clause 15 of the Shareholders Deed).

For further details, see clause 5.1 and Schedule 3 of the Shareholders Deed.

Holdco Board meetings and voting

A quorum for a meeting of the Holdco Board is at least 1 KKR Director and, for so long as 1 Holdco Pepper Director is appointed to the Holdco Board, 1 Holdco Pepper Director. At a meeting of the Holdco Board:

- (a) on each resolution, each Holdco Director has 1 vote (except that a KKR Director that is present may have an additional vote or votes for any absent KKR Director, and if the Original Pepper Shareholders have an Adjusted Share Ownership Percentage of 10% or greater, a Holdco Pepper Director that is present may have an additional vote or votes for any absent Holdco Pepper Director);
- (b) subject to paragraph (c) below, the Holdco Chairman, if any, will have a casting vote in addition to his deliberative vote if on a resolution there are an equal number of votes in favour of and against a resolution but will not otherwise have a casting vote;
- (c) if the Original Pepper Shareholders hold a greater Ordinary Share Percentage than the KKR Investors (with both having a Security Ownership Percentage of less than 50%), the Holdco Chairman, if any, will not have a casting vote in addition to his deliberative vote if on a resolution there are an equal number of votes in favour of and against a resolution; and
- (d) all decisions are by majority vote, unless otherwise expressly provided in Shareholders Deed.

For further details, see clause 5 of Schedule 2 of the Shareholders Deed.

Proceeds of sale of a Platform

Subject to the Holdco Group Companies' obligations at law, under the Holdco Group financing documents, under the Shareholders Deed and under the Holdco Constitution, if all or part of a Platform (other than as part of an Asset Sale) is sold then the Holdco Board will determine by Holdco Board Special Majority how much (if any) of the net proceeds of the sale of the relevant Platform are to be:

- (a) retained by the Holdco Group to satisfy the capital requirements in respect of another Platform;
- (b) retained by the Holdco Group to satisfy the Holdco Group's capital requirements which are not related to a Platform; and
- (c) distributed to all Holdco Shareholders and any other Holdco Securityholders holding Holdco Equity Securities whose terms of issue provide that they will participate in the dividend or distribution by way of dividend or capital distribution.

For further details, see clause 6.4 of the Shareholders Deed.

Issue of further Holdco Equity Securities

Subject to compliance with all applicable laws, if Holdco proposes to issue new Holdco Equity Securities to any person after the Implementation Date, it must offer the Holdco Equity Securities to each Holdco Securityholders on a pro rata basis except in certain circumstances, including pursuant to transaction documents in relation to the Scheme, pursuant to the conversion of convertible Holdco Equity Securities, pursuant to an Exit, where approved by a Holdco Board Special Majority, where approved by the Holdco Board and super majorities of Holdco Securityholders, pursuant to an incentive plan, as non-cash consideration for an acquisition by a Holdco Group Company, pursuant to emergency funding, to a provider of debt finance or pursuant to certain reorganisation events or certain restructuring events.

For further details, see clause 7 of the Shareholders Deed.

Emergency Matter funding

If an Emergency Matter occurs:

- (i) a KKR Investor may elect to subscribe for new Holdco Equity Securities at an issue price per Holdco Equity Security determined by the KKR Investors acting reasonably in consultation with the Holdco Board, having regard to the earnings, assets, liabilities and prospects of the Holdco Group and the previous issue prices of Holdco Equity Securities;
- (ii) promptly following any issue of such Holdco Equity Securities to a KKR Investor in response to an Emergency Matter, each other Holdco Securityholder (**Catch-up Offeree**) must be offered the opportunity to subscribe, or acquire from the KKR Investor (as the KKR Investor elects in its discretion), Holdco Equity Securities:
- (A) of the same class and type; and

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- (B) in the number(s) which would result in the Catch-up Offeree (if it chose to accept the offer in full) having the same Ordinary Share Percentage and Security Ownership Percentage as it had prior to the KKR Investor subscribing for Holdco Equity Securities.

For further details, see clauses 7.19, 7.20 and 7.21 of the Shareholders Deed.

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- Restrictions on transfer**
- (a) KKR Investor may not dispose of any Holdco Equity Securities, except pursuant to:
- (A) after the Standstill Period, subject to compliance with tag along rights and right of first offer (**ROFO**) rights;
 - (B) a disposal of Holdco Equity Securities to a Catch-up Offeree under Emergency Matter funding provisions;
 - (C) Exit provisions;
 - (D) ROFO rights;
 - (E) a transfer to certain KKR Investor affiliates at any time; or
 - (F) pursuant to a transaction which has been approved in advance by a Holdco Board Special Majority.
- (b) A Non-Investor Party may not dispose of any Holdco Equity Securities, except pursuant to:
- (A) a disposal to certain permitted holders of the Non-Investor Party;
 - (B) after the Standstill Period, subject to compliance with tag along rights, ROFO rights and Original Pepper Shareholder right of first refusal (**OPS ROFR**) rights;
 - (C) ROFO rights;
 - (D) a disposal to a person offering to purchase the relevant securities pursuant to OPS ROFR rights;
 - (E) a disposal by an existing trustee of a Holdco Group incentive plan to a beneficiary of a trust in certain circumstances;
 - (F) Exit provisions;
 - (G) Compulsory Transfers;
 - (H) a Custodian Transfer at any time; or
 - (I) a transaction which has been approved in advance by a Holdco Board Special Majority.

For further details, see clause 8 of the Shareholders Deed.

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- Post-Scheme Restructure**
- (i) Holdco and the Retained Pepper Shareholders will discuss in good faith the means by which any Post-Scheme Restructure (resulting in Retained Pepper Shareholders and Holdco Securityholders owning securities in the same ultimate parent of the Holdco Group and not in any Subsidiary of that parent company) may be implemented so as to enable participation by the Retained Pepper Shareholders.
- (ii) If a Holdco Board Special Majority determines to proceed with a Post-Scheme Restructure:
- (ii) each Holdco Securityholder must:
 - (aa) promptly following the Holdco Board's request, dispose of all of its Holdco Equity Securities in exchange for the same numbers of Holdco Equity Securities issued by Holdco or another new ultimate parent company of Holdco Group (as appropriate to implement the Post-Scheme Restructure as determined by the Holdco Board Special Majority) of the same class and type, and on the same terms, as its Holdco Equity Securities; and
 - (ab) agree to enter into any documents reasonably requested by the Holdco Board to enable the Post-Scheme Restructure;
 - (B) each party who is not a Retained Pepper Shareholder must take all actions, Holdco must procure that the Holdco Group Companies take all actions and the Holdco Securityholders must procure that the directors of each Holdco Group Company take all actions, appropriate to implement the Post-Scheme Restructure in accordance with the Holdco Board's requirements; and
 - (C) each party who is not a Retained Pepper Shareholder agrees that the Post-Scheme Restructure and all matters reasonably ancillary to the Post-Scheme Restructure, are taken to be approved by the Retained Pepper

Shareholders, KKR Investors, the Original Pepper Shareholders and the Non-Investor Parties for all purposes under the Shareholders Deed and that no further approval of any of them will be required in connection with those matters.

- Post-Scheme acquisition of Pepper Shares**
- (i) Holdco may determine by Holdco Board Special Majority that Bidco (or another Holdco Group Company) will acquire the Retained Pepper Shares at any time during the period from the Implementation Date to 36 months following the Implementation Date (any such determination, a **Pepper Acquisition Determination**), for a cash amount per Pepper Share equal to the then fair market value of a Holdco Share as determined by a Holdco Board Special Majority, acting reasonably.
 - (ii) If a Pepper Acquisition Determination is made:
 - (D) each Retained Pepper Shareholder agrees to sell their Pepper Shares to Bidco (or another Holdco Group Company) on the date determined by the Holdco Board and to take all actions reasonably requested by the Holdco Board in connection with that sale;
 - (E) the Retained Pepper Shares must be acquired by the same entity at the same time for the same price per Pepper Share; and
 - (F) Holdco may also determine by Holdco Board Special Majority that each Retained Pepper Shareholder must reinvest all of the aggregate cash proceeds received, or receivable, by it in respect of its Pepper Shares into Holdco Shares, each with an issue price equal to the fair market value of a Holdco Share as determined by a Holdco Board Special Majority; and
 - (G) if a Retained Pepper Shareholder, or any associate of the Retained Pepper Shareholder (including a beneficiary of a trust of which the Retained Pepper Shareholder is the trustee) will incur a liability for certain taxes in connection with the sale of its Pepper Shares in accordance with the Pepper Acquisition Determination, the Retained Pepper Shareholders may elect to require a Holdco Group Company to provide it with an interest free loan for the amount of that tax liability and if required by Holdco secured by limited recourse to the Holdco Shares they hold.

For further details, see clauses 8.12 and 8.13 of the Shareholders Deed.

- Tag along rights**
- Following the Standstill Period, if:
- (i) one or more KKR Investors; or
 - (ii) a Non-Investor Party together with its related Non-Investor Parties and any other Non-Investor Parties with whom it is acting in concert in connection with a disposal of Holdco Equity Securities,
- (**Selling Investor**) wish to dispose of 10% or more, by number, of the Holdco Shares on issue to a third party or third parties in one transaction or a series of related transactions and, if the Selling Investor is one or more KKR Investors, the Selling Investor has not issued a notice to exercise to undertake a "drag" transaction under clause 10 of the Shareholders Deed, each other Holdco Securityholder has certain tag along rights in relation to Holdco Equity Securities held by those other Holdco Securityholders. Tag along rights do not apply to certain disposals (see clause 9.9 of the Shareholders Deed).

For further details, see clause 9 of the Shareholders Deed.

- Drag along rights**
- Following:
- (i) the Standstill Period; and
 - (ii) the issue of a ROFO notice by the KKR Investors and the ROFO Seller does not accept any ROFO Offer made by a ROFO Offeror or the ROFO Offeror fails to complete the purchase of ROFO Sale Securities,
- if all of the KKR Investors (**Drag Seller**) wish to dispose of all of their Holdco Equity Securities to a Third Party in a transaction other than an IPO, then the Drag Seller may exercise its drag rights in respect of Holdco Equity Securities held by those other Holdco Securityholders.

For further details, see clause 10 of the Shareholders Deed.

- ROFO**
- If:
- (i) following the end of the Standstill Period, a KKR Investor proposes to sell some or all of the Holdco Equity Securities held by such KKR Investor;
 - (ii) following the end of the Standstill Period, a Non-Investor Party who is not an Original Pepper Shareholder proposes to sell Holdco Equity Securities;
 - (iii) prior to the end of the Standstill Period, a Non-Investor Party who is not an Original Pepper Shareholder proposes to sell Holdco Equity Securities pursuant to a
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	<p>transaction which has been approved by a Holdco Board Special Majority; or</p> <p>(iv) the Original Pepper Shareholder proposes to sell Holdco Equity Securities in a transaction in certain circumstances,</p> <p>each other Holdco Securityholders or the KKR Investor (as applicable) has certain ROFO rights in respect of the proposed disposal. ROFO rights do not apply to certain disposals (see clause 11.11 of the Shareholders Deed).</p> <p>For further details, see clause 11 of the Shareholders Deed.</p>
OPS ROFR	<p>If:</p> <p>(i) following the end of the Standstill Period, an Original Pepper Shareholder proposes to sell some or all of its Holdco Equity Securities;</p> <p>(ii) a Trigger Event has occurred or will occur in respect of an Original Pepper Shareholder; or</p> <p>(iii) an Original Pepper Shareholder proposes to sell Holdco Equity Securities pursuant to a transaction which has been approved in advance by a Holdco Board Special Majority,</p> <p>each other Original Pepper Shareholder has certain OPS ROFO rights in respect of the proposed disposal. OPS ROFO rights do not apply to certain disposals (see clause 12.9 of the Shareholders Deed).</p> <p>For further details, see clause 12 of the Shareholders Deed.</p>
Exit	<p>(i) A KKR Investor may require that Holdco implement an Exit at any time after the Standstill Period or at any earlier time approved by a Holdco Board Special Majority by giving an Exit notice. A KKR Investor may at any time give an Exit notice to commence preparations for an Exit.</p> <p>(ii) If approved by a Holdco Board Special Majority, a Pepper Super Majority may issue an Exit notice requiring Holdco to commence preparations for an Exit or implement an Exit, at any time after the Standstill Period or at any earlier time.</p> <p>(iii) The Holdco Board, acting by Holdco Board Special Majority, may issue an Exit notice.</p> <p>(iv) If an Exit instigator issues an Exit notice, among other things, each party must (and Holdco must ensure that the other Holdco Group Companies), use their best endeavours to ensure that the Exit occurs in accordance with the Exit notice and the Exit instigator's other requirements and provide certain other assistance for the Exit and in the case of an IPO, co-operate and use best endeavours to effect the IPO.</p> <p>(v) Each Non-Investor Party agrees to such restrictions on the number of Securities in Holdco or IPO Vehicle, as applicable, it is permitted to realise for cash as part of an IPO as Holdco (with approval by the Holdco Board) may reasonably require provided that, subject to applicable escrow arrangements (see paragraph (f) below), each Original Pepper Shareholder will be entitled to realise for cash the same proportion of their Holdco Equity Securities as the proportion of the KKR Investors' Holdco Equity Securities which the KKR Investors realise for cash in the IPO.</p> <p>(vi) Each Holdco Securityholder agrees to such escrow arrangements for its Securities in Holdco or IPO Vehicle, as applicable, on completion of the IPO as Holdco (with the approval of a Holdco Board Special Majority) may reasonably require.</p> <p>For further details, see clause 13 of the Shareholders Deed.</p>
Compulsory Transfers	<p>A "Trigger Event" means with respect to a Non-Investor Party, the Non-Investor Party (or any of its related Non-Investor Parties, if any):</p> <p>(i) becomes insolvent (without the written approval of the Holdco Board);</p> <p>(ii) becomes a Bad Leaver;</p> <p>(iii) commits any material breach of a provision of the Shareholders Deed, and fails to remedy that breach within 5 business days of receiving notice of the breach from Holdco or a KKR Investor;</p> <p>(iv) is subject to an order of any court or Government Agency of competent jurisdiction in relation to the disposal of any Holdco Equity Securities held by the Non-Investor Party or any related Non-Investor Party of the Non-Investor Party, or a binding settlement is agreed to by the Non-Investor Party which provides for the disposal of any Holdco Equity Securities it holds;</p> <p>(v) suffers an Upstream Change of Control (without the written approval of the Holdco Board); or</p> <p>(vi) in the case of a Non-Investor Party who is a permitted holder of another Non-Investor Party, ceases to be a permitted holder of the relevant Non-Investor Party (without the written approval of the Holdco Board) and does not transfer all Holdco Equity</p>

Securities which it holds to the relevant Non-Investor Party or another permitted holder of the relevant Non-Investor Party (as applicable).

If the Holdco Board determines that a Trigger Event has or will occur in respect of a Non-Investor Party, a Holdco Board Special Majority may determine that Holdco will do either or both of the following:

- (i) require all or any of the departing parties to sell, on the date specified by the Holdco Board, all or some of the Holdco Equity Securities held by the departing parties (**Transfer Securities**) to any person nominated by the Holdco Board; and/or
- (ii) require the redemption, buy back or cancellation (as applicable) by Holdco of all or some of the Transfer Securities on the date specified by the Holdco.

The "Trigger Event Price" means, in respect of a Transfer Security, the price agreed between the departing party which holds that Transfer Security and Holdco or, failing such agreement within a period resolved by the Holdco Board (which must be not less than 2 business days after commencing such discussions):

- (i) in the case of any Trigger Event described in paragraph (a) or (d) of the definition of Trigger Event above, the market value; or
- (ii) in the case of a Trigger Event described in paragraphs (b), (c), (e) or (f) of the definition of Trigger Event above, 90% of market value.

For further details, see Schedule 1 of the Shareholders Deed.

Fair Market Value

- (a) The term Fair Market Value is used in the Shareholders Deed in respect of a Platform or the Holdco Group (on an equity value basis rather than an enterprise value basis) and is relevant to various provisions of the Shareholders Deed, including the determination of:
 - (A) the issue price per new Holdco Equity Security on or following the 12 month anniversary of the Implementation Date (clause 7.2 of the Shareholders Deed);
 - (B) the sale price per Holdco Equity Security in connection with an Exit implemented by way of an Asset Sale (clause 13.8 of the Shareholders Deed);
 - (C) the price at which a Transfer Security is to be redeemed, bought back, purchased or cancelled under the compulsory transfer provisions (Schedule 1 of the Shareholders Deed);
 - (D) when a stop notice may be issued in respect of a proposed Exit (clause 13.4 of the Shareholders Deed);
 - (E) the order in which Platforms the subject of a Deadlocked Matter will be sold (clause 15.5(a)(iii) of the Shareholders Deed);
 - (F) when an Exit notice may be issued in connection with a Deadlocked Matter that genuinely relates to the Holdco Group as a whole (clause 15.5(a)(iv) of the Shareholders Deed); and
 - (G) the sale price per Holdco Equity Security in connection with a Holdco Securityholder's right to have their Holdco Equity Securities disposed of in connection with the sale of a Platform (clause 6.4 of the Shareholders Deed).
- (b) In summary, Fair Market Value is to be determined as follows:
 - (A) for the period from the Implementation Date to the date after the 1st anniversary of the Implementation Date (**Initial Period**):
 - (aa) the Fair Market Value of the Holdco Group is calculated based on a price per Holdco Equity Security of \$3.60; and
 - (ab) the Fair Market Value of the Platforms will be as is determined by a Holdco Board Special Majority from time to time (which may appoint a valuation agent to determine the Fair Market Valuation of the Platforms), provided that the aggregate of the Fair Market Values of each of the Platforms at any time must be equal to the Fair Market Value of the Holdco Group at that time; and
 - (B) unless otherwise agreed by a Holdco Board Special Majority, after the Initial Period, the Fair Market Value of the Platforms and the Holdco Group will be determined on a quarterly basis and the Holdco Securityholders will procure that the Holdco Board, with approval by a Holdco Board Special Majority, appoints an appropriately qualified, professional, independent valuer to perform such Fair Market Value calculation in accordance with the criteria set out in Schedule 8 of the Shareholders Deed.

For further details, see Schedule 8 of the Shareholders Deed.

Restraints

Each Non-Investor Party undertakes to Holdco and to each KKR Investor that it will not directly or indirectly, whether solely or jointly with any other person (including with any affiliate or relative

	<p>of the Non-Investor Party, as applicable), and whether as principal, agent, director, executive officer, employee, shareholder, partner, joint venturer, adviser, consultant or otherwise:</p> <p>(i) during the Restraint Period, and within the Restraint Area, Engage In or prepare to Engage In any trade, business or undertaking which Competes with a Holdco Group Company;</p> <p>(ii) during the Non-Solicit Period, employ, solicit, canvass or entice away from any Holdco Group Company certain officers, employees, consultants, customers and suppliers of the Holdco Business.</p> <p>Note that:</p> <p>(i) the duration of Restraint Period differs depending if the relevant party is categorised as a Tier 1 Non-Investor Party, a Tier 2 Non-Investor Party, a Tier 3 Non-Investor Party (see clauses 16.4(c), (d) and (e) of the Shareholders Deed);</p> <p>(ii) the Restraint Trigger Time differs depending on the particular circumstances (see clauses 16.3(f) of the Shareholders Deed).</p> <p>Certain exceptions to the above restraints apply.</p> <p>For further details, see clauses 16 and 17 of the Shareholders Deed.</p>
Provision of information	<p>For so long as the Original Pepper Shareholders have an Adjusted Share Ownership Percentage of 10% or greater, Holdco must deliver to each Original Pepper Shareholder the Holdco Group audited consolidated profit and loss account, consolidated balance sheet, consolidated cash flow statement and notes and reports of Holdco Directors and auditors within 3 months after the end of each financial year.</p> <p>For further details, see clause 4 of Schedule 4 of the Shareholders Deed.</p>
Power of attorney	<p>Each of the Non-Investor Parties appoints Holdco and each of the KKR Directors from time to time, with power to act individually or jointly, as its attorney to:</p> <p>(a) take any action on behalf of the Non-Investor Party to remedy certain breaches of the Shareholders Deed by the Non-Investor Party which have not been remedied by the Non-Investor Party within 2 business days of written notice from Holdco or, if the breach arises in connection with a drag transaction under clause 10 of the Shareholders Deed or an Exit in respect of which the Exit instigator is a KKR Investor, a KKR Investor (or any longer period specified in the Shareholders Deed for remedy of the breach) or which is not capable of remedy;</p> <p>(b) take all actions appropriate to negotiate any offer or contract in respect of any disposal of Holdco Equity Securities held by the Non-Investor Party or any of its related Non-Investor Parties in accordance with the Shareholders Deed, and actions necessary or appropriate to initiate, facilitate, and negotiate any drag transaction under clause 10 of the Shareholders Deed or and/or Exit (but not extending to executing any document providing for or completing, such disposal; and</p> <p>(c) take any action to implement a Custodian Transfer.</p> <p>For further details, see clause 21 of the Shareholders Deed.</p>
Costs	<p>Holdco will pay or procure payment by Pepper of the costs and expenses of the KKR Investors in connection with the preparation, negotiation, execution and completion of the Shareholders Deed, the Custodian Deed and the Transaction Documents.</p> <p>For further details, see clause 26 of the Shareholders Deed.</p>
Bare trusts	<p>If requested by Holdco (with Holdco Board approval), a Non-Investor Security Holder must dispose, and/or procure that some or all of its related Non-Investor Parties dispose, of the Holdco Equity Securities which it holds to the Custodian. Each Non-Investor Party must comply with the directions of Holdco for the purposes of facilitating the disposal of its Holdco Equity Securities to the Custodian.</p> <p>For further details, see clause 22 of the Shareholders Deed.</p> <p>The key terms of the custodian arrangements under the Custodian Deed in respect of Scheme Shareholders who have validly elected the Scrip Option (each, an Appointing Beneficiary) are as follows:</p> <p>(i) the Custodian holds the right, title and interest in the relevant Holdco Shares of an Appointing Beneficiary on a separate bare trust for that Appointing Beneficiary;</p> <p>(ii) the Custodian must, to the maximum extent permitted by law, act on the instructions of the Appointing Beneficiaries, with the intent that each Appointing Beneficiary exercises day-to-day control over the operation of the bare trust of which it is the Appointing Beneficiary;</p> <p>(iii) the Custodian will only transfer or otherwise dispose of the property of a bare trust as</p>

	the relevant Appointing Beneficiary of that bare trust directs;
(iv)	to the extent reasonably practicable, the Custodian must:
	(ii) attend meetings of Holdco Securityholders which the Custodian is instructed by an Appointing Beneficiary to attend and which the Custodian is entitled to attend;
	(ii) vote at meetings of Holdco Securityholders as the Custodian is instructed by an Appointing Beneficiary to vote at and at which the Custodian is entitled to vote; and
(e)	Holdco will procure that any cash distribution or dividend that would otherwise be paid to the Custodian in respect of Holdco Shares held by the Custodian as bare trustee for an Appointing Beneficiary is paid to the Appointing Beneficiary in place of the Custodian (or as the Appointing Beneficiary otherwise directs Holdco in writing);
(f)	Holdco will promptly provide the Custodian with all information and assistance that the Custodian may reasonably require to enable the Custodian to comply with its obligations as bare trustee for the Appointing Beneficiaries;
(g)	each Appointing Beneficiary indemnifies, and agrees to reimburse and compensate, Holdco and the Custodian for, all claims and liabilities which Holdco or the Custodian pays, suffers, incurs or is liable for (excluding certain liabilities) arising out of or in connection with:
	(A) anything done by the Custodian at the instruction of that Appointing Beneficiary;
	(B) by reason of that Appointing Beneficiary's Holdco Shares being registered in the name of the Custodian;
(h)	Holdco indemnifies, and agrees to reimburse and compensate, the Custodian for, all claims and liabilities which an Appointing Beneficiary is obliged to indemnify, reimburse and/or compensate the Custodian for under the Custodian Deed but does not following a demand from the Custodian; and
(i)	Holdco must pay to the Custodian the fees set out in the Custodian Deed for acting as trustee of each bare trust and all costs, expenses and other liabilities properly incurred by the Custodian in fulfilling its obligations under the Custodian Deed other than certain liabilities referred, individual costs of the Appointing Beneficiaries and any other liability which the Custodian Deed or the Shareholders Deed provides will be paid by, or are otherwise the responsibility of, an Appointing Beneficiary.

Amendment to the Shareholders Deed

The Shareholders Deed may be amended only by a document signed by:

- (i) Holdco (with approval from the Holdco Board);
- (ii) each KKR Investor; and
- (iii) a Pepper Super Majority (for this purpose only, the reference to "66.67%" in the definition of Pepper Super Majority will be taken to be a reference to "75%" and a Pepper Super Majority will be determined accordingly),

provided that, if the aggregate Security Ownership Percentage of the KKR Investors and the Original Pepper Shareholders is less than 75%, the Shareholders Deed may be amended by a document signed by Holdco and Holdco Securityholders with a collective Security Ownership Percentage of not less than 75%.

The regime above does not apply in the case of certain complying amendments approved by the KKR Investors in writing.

For further details, see clause 29 of the Shareholders Deed.

Treatment of Retained Pepper Shareholders

Each Retained Pepper Shareholder will generally have the benefit of, and be bound by, the provisions of the Shareholders Deed so that the Retained Pepper Shareholder has the same rights and obligations (and the provisions of the Shareholders Deed apply to the Retained Pepper Shareholder and its Retained Pepper Shares) in an economically and contractually equivalent manner to that which would have been the case if the Retained Pepper Shareholder were a Non-Investor Security Holder and its Retained Pepper Shares were Holdco Shares (and the other parties are entitled to the benefit of the same rights in respect of the Retained Pepper Shareholder and its Retained Pepper Shares as they would have had in such circumstances and to enforce the Retained Pepper Shareholder's compliance with the Shareholders Deed).

For further details, see clause 30.39 of the Shareholders Deed.

4.7 Rights and liabilities attaching to Retained Pepper Shares

(a) Introduction

Consistent with its current intention to convert Pepper into a proprietary company limited by shares, Bidco intends to replace Pepper's existing constitution with a constitution appropriate for a proprietary company limited by shares post implementation of the Scheme. It is currently intended that this constitution (**Replacement Pepper Constitution**) will be substantially in the form of the Holdco Constitution. A full copy of the Holdco Constitution was lodged with ASX on 10 August 2017 and may be obtained by calling the Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) or from Pepper's website: www.pepper.com.au/about/shareholder-centre or from ASX's website: www.asx.com.au.

The key rights and liabilities that will attach to the Retained Pepper Shares post implementation of the Scheme under the proposed Replacement Pepper Constitution will be substantially the same as the rights and liabilities that will attach to Holdco Shares except as set out below. This summary is not exhaustive and Pepper Shareholders considering electing the Retention Option should read the terms of the Holdco Constitution (on the basis that the proposed Replacement Pepper Constitution will be substantially in the form of the Holdco Constitution) and the Shareholders Deed. Pepper Shareholders considering the Retention Option should also seek their own independent advice before making a decision. The proposed Replacement Pepper Constitution will provide that the terms of the Shareholders Deed will prevail in the event of any inconsistency between the provisions of the proposed Replacement Pepper Constitution and the Shareholders Deed.

Issue	Summary
Pepper Board – Appointment and Removal	<p>Pepper must have a minimum of one director. In a general meeting, Pepper Shareholders may appoint or resolve to remove a Pepper Director from office.</p> <p>For further details, see clauses 10.1, 10.2 and 10.4 of the Holdco Constitution.</p>
Pepper Board – Meetings	<p>The number of Pepper Directors whose presence in person or by proxy is necessary to constitute a quorum for a Pepper Board meeting is:</p> <ul style="list-style-type: none">(i) where there is only one Pepper Director, that Pepper Director; and(ii) where there is more than one Pepper Director, two Pepper Directors, unless otherwise determined by the Pepper Board. <p>The Pepper Directors may elect one of their number as chairman of the Pepper Board meetings and may also determine the period for which the person elected as chairman is to hold office.</p> <p>For further details, see clauses 12.6 and 12.18 of the Holdco Constitution.</p>
Pepper Board – Voting	<p>A question arising at a Pepper Board meeting is to be decided by a majority of votes of Pepper Directors present and entitled to vote and that decision is for all purposes a decision of the Pepper Directors. If there are an equal number of votes for and against a question, the chairman of the Pepper Board meeting has a casting vote, unless only two Pepper Directors are present and entitled to vote on the question.</p> <p>For further details, see clauses 12.4 and 12.8 of the Holdco Constitution.</p>
Powers and duties of Pepper Board	<p>The Pepper Board will be responsible for overseeing the proper management of Pepper. They may exercise all the powers of Pepper as are not by the Corporations Act or by the proposed Replacement Pepper Constitution, required to be exercised by Pepper in a general meeting. The Pepper Board may delegate any of their powers, other than powers required by law to be dealt with by the Pepper Board, to a committee or committees consisting of one or more of their number as they think fit. Any such committee to which the powers have been delegated must exercise those powers in accordance with any directions of the Pepper Directors. For further details, see clauses 11.1, 11.7 and 11.8 of the Holdco Constitution.</p>
Pepper Shareholders – General Meetings	<p>An item of business may not be transacted at a general meeting unless a quorum is present when the meeting proceeds to consider it. If a quorum is present at the time the first item of business is transacted, it is taken to be present when the meeting proceeds to consider each subsequent item of business unless the chairman of the meeting (on the chairman's own motion or at the request of a Pepper Shareholder, proxy, attorney or Representative who is</p>

present) declares otherwise. The quorum for a general meeting where Pepper has two or more Pepper Shareholders, is two Pepper Shareholders present in person or by proxy, attorney or representative. For further details see clauses 9.1 and 9.2 of the Holdco Constitution.

Pepper Shareholders – Voting

At a general meeting of Pepper Shareholders, subject to the other terms of the Replacement Pepper Constitution and the Corporations Act, and to any rights or restrictions for the time being attached to any class or classes of shares, each Pepper Shareholder present in person or by proxy, attorney or representative and entitled to vote has one vote on a show of hands or a poll. For further details, see clause 9.14 of the Holdco Constitution.

4.8 Prospects of Pepper post implementation of the Scheme

As noted above, it is the current intention of Bidco that Bidco will continue to hold and manage Pepper's investments.

The future prospects of Bidco's investment in Pepper will largely be determined by the financial and operational performance of the Pepper Group. The financial and operational characteristics of the Pepper Group are described in Section 3.

For further information on the risks associated with a direct or indirect investment in Pepper and specifically those risks impacting on the prospects of Pepper, see Sections 5.2 and 5.3. Section 5.3(b) also includes an outline of broader risks that may impact on the prospects of a direct or indirect investment in Bidco going forward. You should carefully consider these risks before deciding whether to elect the Scrip Option or the Retention Option under the Equity Alternative.

4.9 Illustrative sources and uses of funds and the illustrative share capital structure of Holdco under various scenarios

Section 2.12 set outs four illustrative scenarios in relation to the sources and uses of funds and the possible share capital structures of Holdco at implementation of the Scheme.

5 Risk factors

5.1 Introduction

In considering the Scheme you should be aware that there are a number of risk factors, both general and specific associated with the Scheme.

This Section 5 outlines:

- risk factors relating to the business and operations of Pepper (see Section 5.2);
- risk factors relating to Holdco Shares and the Retained Pepper Shares (see Section 5.3); and
- risk factors which may prevent the Scheme from becoming Effective or being implemented (see Section 5.4).

If the Scheme is implemented, the risks in Sections 5.2 and 5.3 will not apply to Pepper Shareholders who do not elect the Equity Alternative and receive the Cash Consideration (or to Pepper Shareholders who have validly elected the Equity Alternative, in respect of any Pepper Shares that are scaled back), as they will not hold Holdco Shares or Retained Pepper Shares. The risk factors in Sections 5.2 and 5.3 will apply to Pepper Shareholders who elect the Equity Alternative as they will hold either Holdco Shares or Retained Pepper Shares. If the Scheme is not implemented, Pepper Shares will remain quoted on the ASX and all Pepper Shareholders will continue to be subject to the risks in Section 5.2.

The outline of risks in this Section 5 is a summary only and should not be considered exhaustive. This Section 5 does not purport to list every risk that may be associated with an investment in Pepper now or in the future or which may prevent the Scheme from becoming Effective or being implemented. The occurrence or consequences of some of the risks described in Section 5 may be partially or completely outside the control of Pepper Group or Bidco Group or their respective directors and senior management teams.

These risk factors do not take into account the individual investment objectives, financial situation, position or particular needs of Pepper Shareholders. Before making any election for either the Scrip Option or the Retention Option, you should have a sufficient understanding of these matters having regard to your own individual risk profile, portfolio strategy, investment objectives, financial circumstances and taxation position. If you do not understand any part of this Scheme Booklet or are in any doubt as to how to vote in relation to the Scheme, it is recommended that you seek professional guidance from your stockbroker, solicitor, accountant, tax adviser or other independent and qualified professional adviser before deciding how to vote.

You should carefully consider the risk factors discussed in this Section 5, as well as the other information contained in this Scheme Booklet before voting on the Scheme.

5.2 Risk factors relating to the business and operations of Pepper

In considering the Scheme, you should be aware that there are a number of general risk factors as well as risks specific to Pepper and / or the industries in which it operates, which could materially and adversely affect the future operating and financial performance of Pepper. Many of these risks are currently relevant to Pepper Shareholders and will only continue to be relevant to Pepper Shareholders if:

- the Scheme does not proceed and you retain your current investment in Pepper; or
- the Scheme proceeds and you have made a valid election for the Scrip Option, so that you receive Holdco Shares which gives you an indirect exposure to the business of Pepper through Holdco's shareholding in Bidco and Bidco's holding of at least 90.1% of shares in an unlisted Pepper; or

- the Scheme proceeds and you have made a valid election for the Retention Option, so that you retain your Pepper Shares in an unlisted Pepper (subject to scale back).

(a) Fall in Pepper Share price

If the Scheme is not implemented, Pepper Shares will remain quoted on the ASX and will continue to be subject to market volatility, including as a result of general stock market movements, and the impact of general economic conditions.

If the Scheme is not implemented, the price at which Pepper Shares trade may fall.

(b) Inability to fund near term plan

Pepper's business model requires capital injections to fund loan book growth. Whilst Pepper has not been required to raise equity capital since its IPO due to a combination of organic capital generation and its ability to draw-down on its corporate debt facility, if the Scheme is not implemented, Pepper has announced that it will require at least \$150 million in equity capital to fund the business plan, including approximately \$65 million for the acquisition of Banco Primus announced in July 2017. If the Scheme is not approved, Pepper estimates it will be required to raise this capital from investors by 31 December 2017. There is no certainty that this capital raising can be secured in the public market.

Pepper Shareholders (particularly those who are considering the Equity Alternative) should also have regard to the anticipated equity raising by Holdco (as summarised in Section 4.4(h)), which would also be conducted prior to 31 December 2017, but may be for a lesser amount than that proposed to be raised by Pepper in the event that the Scheme is not approved. If the Original Pepper Shareholders do not take up their proportional entitlement in respect of this equity raising, then in circumstances where KKR Credit does take up its proportional entitlement, the Original Pepper Shareholders' collective holding in Holdco will be diluted relative to KKR Credit's holding in Holdco.

(c) Inability to access funding or less favourable terms

Pepper's funding platform currently comprises a mix of warehouse facilities, term securitisations, corporate debt facilities, balance sheet cash and, in the case of Pepper's South Korea business, customer deposits. Across its various markets, Pepper depends on these sources to fund mortgage and consumer loan originations and therefore faces funding risks. A loss of or adverse impact on or in relation to one or more of Pepper's funding sources, without access to alternative funding sources, could limit Pepper's ability to write new business or to write business on favourable terms, or to refinance expiring warehouse facilities, which could have a materially adverse effect on Pepper's financial performance.

(d) Regulatory changes for funders

Pepper's funding banks could experience further changes to their regulatory requirements which could impact their ability to fund Pepper, such as a need to hold more capital against warehouse lines, consolidate warehouse assets onto their balance sheet or other changes.

(e) Regulatory and licence compliance

Pepper is subject to extensive regulation in each of the jurisdictions in which it conducts its business. Changes in law or regulation in a market in which Pepper operates could materially impact the business.

Pepper's business activities in Australia are primarily regulated by ASIC and under the Corporations Act, the *Australian Securities and Investments Act 2001* (Cth), the *National Consumer Credit Protection Act 2009* (Cth) and the National Credit Code. Pepper is also subject to various Federal and State consumer protection, fair trading, anti-money laundering and privacy legislation. Pepper's overseas business activities are primarily regulated by the Central Bank of Ireland (in Ireland), the Financial Conduct Authority (in the United Kingdom), the Spanish Ministry of Justice (in Spain) and the FSC, the Financial

Supervisory Services, the Bank of Korea and the Korea Deposit Insurance Corporation (in South Korea). PrimeCredit is regulated as a moneylender in Hong Kong and as a microfinance company in Shenzhen and Chongqing, China.

There is a risk that Pepper could face legal or regulatory sanctions or reputational damage as a result of any failure to comply with (or comply with developing interpretations of) applicable laws, regulations, codes of conduct and standards of good practice. A breach in any of these areas could result in fines and penalties, the payment of compensation or the cancellation or suspension of Pepper's ability to carry on certain of its activities or businesses which could materially affect Pepper's business, operating or financial performance.

Pepper is licensed and/or registered to operate a number of its services across a range of jurisdictions. Changes to these licensing regimes, including proposed changes to APRA's reserve powers to regulate non-bank lenders, changes to APS 120 that are due to take effect from 1 January 2018, the revocation of existing licences, an inability to renew or receive necessary licences or the imposition of capital requirements could materially adversely affect Pepper's business, operating and financial performance.

(f) Capital and liquidity requirements

There is a risk that Pepper could be required to contribute additional "first loss" equity capital to support the credit position of senior ranking noteholders in Pepper warehouse facilities and term securitisations, and could be required to contribute additional capital to support the regulatory capital requirements or business needs of Pepper South Korea, which could impact Pepper's profitability, ability to grow and/or could force it to raise additional capital.

(g) Early termination or non-renewal of servicing contracts

There is a risk that Pepper's servicing contracts could be terminated early due to the occurrence of a number of events, including failure by Pepper to meet the service requirements specified in the contract, sale of the loan portfolio by the owner, or the contract may not be renewed at the current maturity date. Servicing contracts in respect of pools of loans subject to warehouse facilities or term securitisations may also be terminated in the event of defaults or other circumstances occurring in respect of the relevant warehouse facilities or term securitisations, and some servicing contracts may be terminated at the election of the relevant counterparty without cause subject to a minimum period of notice.

(h) Portfolio performance

Pepper generates income from, among other things, the ownership of residual income units and equity notes in its warehouse facilities and term securitisations, where income is distributed net of credit losses on the underlying pool of mortgages or other loans. An increase in credit losses on the underlying loans caused by borrower defaults will reduce the income available to the relevant funding vehicle to pay its expenses, interest costs and, at the bottom of the cash flow waterfall, distributions to Pepper. Pepper's right to receive income from a funding vehicle is subordinated to the rights to income of senior ranking funders or noteholders, who make up the vast majority of the funding of the funding vehicles. As a result, Pepper's income from the funding vehicles and value of equity notes in the funding vehicles, will decline by the full amount of any credit losses experienced until the equity notes are fully absorbed. Changes in losses on the overall pool of loans will have a larger relative impact on Pepper's distribution from the funding vehicles due to the relatively large amount of third-party funding used in the funding vehicles which contractually receives priority over distributions to Pepper. While credit losses on Pepper's mortgages and consumer lending products have been low historically and are factored into Pepper's financial forecasts, there is a risk that credit losses on Pepper's loan portfolio could increase which would reduce Pepper's lending income.

(i) Increased competition in the lending and servicing markets

Each of Pepper's operating activities is subject to competitive pressures. There is a risk that competitive forces could impact Pepper more than anticipated by the Directors and Pepper's management. Any reduction in fees or interest rate margins in line with, or to remain competitive within, the lending market, or loss of market share due to competitive pressures could materially adversely affect Pepper's business, operating and financial performance. If Pepper's competitors offer comparable products or services at lower margins, existing Pepper customers or partners may choose to refinance their loans with other lenders or enter into relationships with other servicers. Furthermore, providers of loans in alternative segments of the loan market may elect to enter Pepper's core markets, resulting in an increase in competition for Pepper's customers. If more customers choose to refinance their loans with other lenders than Pepper has currently forecast, its business, operating and financial performance could be materially adversely affected. If servicing partners choose not to enter into agreements with Pepper, or do not choose to extend, renew or continue existing agreements, Pepper's business, operating and financial performance could be materially adversely affected.

(j) Downturn in the global economy

Pepper is a global business operating in multiple jurisdictions. A material downturn in the economies in which Pepper operates, a sustained outbreak of higher inflation or shocks to the financial system could result in a material increase in unemployment, decreases in house prices, higher interest rates, general reduction in demand for credit and/or a reduction in a borrower's ability to service their debt. These factors, either alone or in combination, could materially adversely affect Pepper's operations and financial performance in a number of different ways, including:

- significantly higher unemployment or higher interest rates could result in an increase in loan default rates which could reduce Pepper's AUM, ongoing earnings and/or access to capital;
- a substantial reduction in house prices could drive a significant increase in credit losses as a result of loan defaults, which could impair Pepper's equity interest in equity notes of the funding vehicles, adversely impacting profitability, Pepper's financial position and access to capital; and
- an economic downturn could reduce demand for credit which could reduce growth in AUM and adversely impact earnings.

(k) Disruption to global markets

As a diversified financial institution, Pepper may be affected by market disruption in a number of ways. Pepper's businesses also operate in, or depend on the operation of, these markets, either directly or indirectly, including through exposures in securities, loans and other activities (including risk management activities). In particular, warehouse facilities are generally relatively short term in nature and accordingly Pepper's ability to fund its business is dependent on the willingness of the funders of its warehouse facilities to extend their facilities, or on its ability to arrange a refinancing of those facilities through a replacement warehouse facility or term securitisation in the capital markets. These markets experienced significant disruption during the financial crisis and could experience disruption if another crisis were to occur, including as a result of shocks to the financial system. In addition, any disruption in the financial markets may flow into the real economy, slowing or contracting major global economies. Accordingly, a disruption in financial markets could materially adversely affect Pepper's business, operating and financial performance.

Pepper's ability to raise capital and funding at an acceptable price, or at all, may be affected. This may adversely affect its costs, performance, financial position and financial flexibility. It may affect its ability to repay debt and access capital and funding for growth. In the event of a major liquidity disruption in the capital markets, it may be necessary or appropriate for Pepper to replace some or all of its short term funding with long term funding. The cost of

term funds may be higher than the present cost of Pepper's short term funding. A significant additional cost associated with a major liquidity event in the capital markets could materially adversely affect Pepper's business, operating and financial performance.

(l) Changes in servicer ratings

Pepper's loan servicer ratings may be withdrawn, revised or suspended by the relevant rating agencies. Such changes could materially adversely affect Pepper's business, operating and financial performance.

(m) Reputational matters

Pepper relies heavily on its reputation in the day-to-day running of its business. Pepper manages risks relating to legal and regulatory requirements, responsible lending and sales practices, potential conflicts of interest, privacy laws and ethical issues, among other considerations, which may cause harm to its reputation. Any adverse perception of Pepper's reputation or image on the part of investors, customers, counterparties, rating agencies or regulators could materially adversely affect Pepper's business, operating or financial performance.

(n) Contracts and agreements

There are a number of risks associated with Pepper's existing contracts and agreements, including those related to previous acquisitions, information technology contracts and property leases. There is a risk that the Pepper Group's existing contracts may be terminated, lost or impaired, or renewed on less favourable terms. Some of Pepper's contracts can be terminated without cause or on short notice periods (depending on the termination event or circumstances), and although the relevant parties may continue to operate on existing commercial terms, a number of its existing contracts have expired or will shortly expire. Pepper may be subject to termination break fees in certain circumstances. A loss of any of Pepper's contracts could have a materially adverse effect on its business, operating and financial performance.

(o) Imprecise prediction of the rate of repayment of existing assets

There is a risk that the rate of repayment (also known as CPR), associated with Pepper's existing loan portfolio, and non-conforming loans in particular, increases as a result of lower interest rates, increased competition in the lending market, increased willingness of prime lenders to accept higher credit risk and improvements in borrower credit ratings. Pepper's income forecasts are dependent on accurately estimating the CPR. There is a risk that the CPR is higher than Pepper's management forecasts which, if not offset by additional originations, could adversely impact Pepper's profitability. This could materially adversely affect Pepper's business, operating and financial performance. In addition, there is a risk that the repayment rates of Pepper's servicing portfolios are higher than expected which could impact Pepper's financial performance.

(p) Attraction and retention of quality personnel

The successful operation of Pepper relies on its ability to attract and retain experienced and high-performing employees with specialist skills (including in particular, a highly skilled management team). There is a risk that a failure to retain certain key employees could lead to the loss of or a change in the conditions attached to, the Pepper Group's Australian Financial Services Licences. Failure to appropriately recruit and retain employees may adversely affect Pepper's ability to develop and implement its business strategies, result in a material increase in the costs of obtaining experienced and high-performing employees and could materially adversely affect Pepper's business, operating and financial performance.

(q) Adverse movement in interest rates

Demand for, and the performance of, Pepper's mortgage products is influenced by the level of interest rates. Increases in interest rates can lead to reduced demand for home loans and

increased risks of loan defaults, reducing industry profitability. There is a risk that if interest rates increase in the future, Pepper's growth and earnings will be cut and Pepper's business, operating and financial performance may be materially adversely affected.

Credit rating agencies may withdraw, revise or suspend the credit ratings for Pepper's asset management businesses. Such changes could materially adversely affect Pepper's business, operating and financial performance.

(r) Changes in foreign exchange rates

Pepper's financial reports are prepared in Australian dollars. Pepper's revenues, expenses, cash flows, assets and liabilities in regions outside Australia are denominated in local currencies which include the United States dollar, British pound, euro, South Korean won, Chinese yuan and Hong Kong dollar. Pepper manages its foreign exchange risk by matching the currency of loan receivables and funding, and by monitoring the cash flow requirements of the business and regional operating subsidiaries on an ongoing basis. Pepper does not currently hedge its offshore earnings. As a result, certain movements in the exchange rates relevant to each of Pepper's offshore businesses could materially adversely affect Pepper's financial performance.

(s) Relationships with distribution partners

Pepper currently has relationships with a significant number of distribution partners including mortgage brokers, aggregators and motor dealers. The success of Pepper's business and its ability to grow relies on its ability to retain its existing key distribution relationships and its ability to continue to attract distribution partners. If Pepper is unable to maintain its existing relationships or attract new distribution partners, its business, operating and financial performance could be materially adversely affected.

(t) Litigation risk

Pepper may in the ordinary course of business be involved in litigation and disputes, for example with suppliers or customers. Any litigation or dispute could be costly and damaging to Pepper's reputation and business relationships, which could have an adverse effect on its financial performance and industry standing.

(u) Liabilities in relation to third-party servicing or management services

There is also a risk that Pepper incurs liabilities under indemnities that it provides to the third party owners of the loan portfolios that its services. Failure to adhere to the terms of the servicing contracts or otherwise causing losses for the beneficial owner could result in Pepper incurring liabilities under these contracts. Incurring such liabilities could impact Pepper's profitability, gearing or ability to grow. This could materially adversely affect Pepper's business, operating and financial performance.

(v) Availability of tax losses including those for bad debts

Consistent with the taxation treatment of money-lending businesses in general, the availability of tax relief for bad debts is subject to the satisfaction of various eligibility criteria and integrity rules in the tax laws of certain of the jurisdictions that Pepper operates in. In particular, changes of ownership or changes of business activity of Pepper may affect its ability to obtain tax relief for bad debts in relevant jurisdictions. Denial of bad debt tax relief may result in an increase in income tax expense and effective tax rate of Pepper. This could materially adversely affect Pepper's business, operating and financial performance.

The utilisation of current and prior year tax losses is subject to the satisfaction of various eligibility criteria and loss integrity rules in the tax laws of certain of the jurisdictions that Pepper operates in. In particular, changes of ownership or changes of business activity of Pepper may affect its ability to utilise tax losses in relevant jurisdictions. Denial of deductions for tax losses may result in an increase in income tax expense and effective tax rate of

Pepper. This could materially adversely affect Pepper's business, operating and financial performance.

(w) Taxation changes

Tax laws in Australia, and the foreign jurisdictions in which Pepper operates, are complex and are subject to change periodically as is their interpretation by the courts and the tax revenue authorities. There is therefore potential for further changes to these tax laws. Any changes to the tax laws and tax rates imposed on Pepper in Australia and these foreign jurisdictions give rise to uncertainty and may affect shareholder returns.

(x) Security software and technology breaches

The use of information technology and the effectiveness of Pepper's technology platforms are critical to the ability of Pepper to deliver services to its clients and to continue to grow the business. By their nature, information technology systems are susceptible to cyber attacks. Security breaches may involve unauthorised access to Pepper's networks, systems and databases, exposing financial, proprietary and personal user information. It is possible that the measures taken by Pepper to protect its proprietary information and the private information of its clients may not be sufficient to prevent unauthorised access to, or disclosure of, such data. Any accidental or deliberate security breaches or other unauthorised access to Pepper's information technology systems or client data may subject Pepper to reputational damage, a loss of confidence in the services it provides, claims by clients, loss of clients, a disruption of services to clients, legal action and regulatory scrutiny.

(y) Australian Accounting Standards

AAS are set by the Australian Accounting Standards Board (AASB) and are outside the control of either Pepper or its Directors. The AASB is due to introduce refined AAS in 2018, which may affect future measurement and recognition of key income statement and balance sheet items, including revenue and receivables.

There is also a risk that interpretations of existing AAS, including those relating to the measurement and recognition of key income statement and balance sheet items, including revenue and receivables, may differ. Changes to AAS issued by the AASB or changes to the commonly held views on the application of those standards could materially adversely affect the financial performance and position reported in the Company's consolidated financial statements.

5.3 Risk factors relating to Holdco Shares and Retained Pepper Shares

(a) Risks associated with an investment in Holdco or Pepper post implementation of the Scheme

Pepper Shareholders who elect the Scrip Option or the Retention Option under the Equity Alternative should consider a number of risks that can be broadly classified as risks specific to an investment in Holdco or Pepper (as applicable) post implementation of the Scheme and general risks relating to investing in unquoted securities. These risks may, individually or in combination, have a material adverse effect on Holdco's and Pepper's future financial performance, financial position, cash flows or, distributions and/or your ability to dispose of Holdco Shares or Retained Pepper Shares (as applicable) if you wish to do so and, consequently, on the outcome of an investment in Holdco or Pepper (as applicable) and the value of your Holdco Shares or Retained Pepper Shares (as applicable).

You should read the Scheme Booklet in its entirety and specifically consider the factors contained within this Section 5.3 before making an election to receive either the Scrip Option or the Retention Option under the Equity Alternative.

You should also carefully consider these factors in the light of your personal circumstances and seek professional advice from your accountant, tax adviser, stockbroker, lawyer or other professional adviser before deciding whether to elect to receive the Scrip Option or the

Retention Option under the Equity Alternative. There is no guarantee that Bidco will achieve its stated objectives or any of its statements of current future intent as described in Section 4.4, or that any dividends or distributions will be paid to Holdco Securityholders or Retained Pepper Shareholders post implementation of the Scheme.

You should note that this Section 5.3 is not an exhaustive list of the risks associated with an investment in Holdco or Pepper post implementation of the Scheme. Further, many of these risks are outside the control of KCA or any of the Bidco Group Members and either cannot be mitigated or can only be partially mitigated.

The risk factors that apply to an investment in Holdco or Pepper post implementation of the Scheme are materially different from those that apply to your existing investment in Pepper.

Despite the operating history of Pepper, an investment in Holdco or Pepper post implementation of the Scheme should be considered a speculative investment.

(b) **Risks specific to Holdco or Pepper post implementation of the Scheme**

(i) **Liquidity risk**

Holdco and Pepper, post implementation of the Scheme, will each be unlisted proprietary companies. As such, there will be no public market for the trading of Holdco Shares and Retained Pepper Shares post implementation of the Scheme, nor is there expected to be any such market in the future. In addition to the restrictions on the disposal of their shares under the Shareholders Deed, prospective sellers of Holdco Shares or Retained Pepper Shares post implementation of the Scheme will need to find their own buyer in order to trade in their Holdco Shares or Retained Pepper Shares (as applicable). This will result in Holdco Shares and Retained Pepper Shares being substantially illiquid. This may also affect the value of Holdco Shares and Retained Pepper Shares post implementation of the Scheme as well as your ability to dispose of them, either at all or in a timely manner.

As noted above, there are also substantial restrictions on the ability of Holdco Securityholders and Retained Pepper Shareholders to transfer their Holdco Shares and Retained Pepper Shares under the Shareholders Deed. See Sections 4.6 and 4.7 for further information.

(ii) **Shareholders Deed**

Pepper Shareholders who receive Holdco Shares under the Scheme will become shareholders in Holdco and parties to the Shareholders Deed, which is intended to govern the relationship of investors in Holdco. The Shareholders Deed provides Holdco Securityholders with certain rights and obligations in connection with, amongst other things, the governance of Holdco and the disposal of Holdco Shares.

Retained Pepper Shareholders who have elected to retain their Pepper Shares under the Scheme will also have the benefit of, and be bound by, the provisions of the Shareholders Deed in an economically and contractually equivalent manner to that which would have been the case if the Retained Pepper Shareholder were a 'Non-Investor Security Holder' under the Shareholders Deed and its Retained Pepper Shares were Holdco Shares.

(iii) **Original Pepper Shareholders' minority voting rights**

As Pepper Shareholders who receive Holdco Shares under the Scrip Option or who retain Pepper Shares under the Retention Option under the Scheme (**Original Pepper Shareholders**) will collectively have no more than a 48.5% interest in Holdco, they will be subject to risks that are inherent in minority shareholdings. For example, certain decisions can be made with the approval of a simple majority of Holdco Securityholders (ie. those equity securityholders holding an interest in Holdco of at least 50%, including the 'interests' of Retained Pepper Shareholders in Holdco) that could not be blocked by the Original Pepper Shareholders.

In addition, certain decisions have been reserved for the Holdco Board and the Original Pepper Shareholders will only have the right to appoint 4 out of the current maximum of 8 directors to the Holdco Board if they collectively hold an interest in Holdco of at least 10%. In this circumstance, the KKR Investors will also have the right to appoint 4 out of the current maximum of 8 directors to the Holdco Board and to appoint any one of these directors to be the chairman of the Holdco Board (for so long as the KKR Investors have a Security Ownership Percentage of 50% or more and the Original Pepper Shareholders and the Original Pepper Shareholders have less than 50%). The chairman of the Holdco Board has a casting vote in addition to his/her deliberative vote on a resolution before the Holdco Board if there are an equal number of votes in favour of and against a resolution. Accordingly, decisions may be made that Original Pepper Shareholders do not agree with, and that do not serve their particular personal interests.

It is unlikely that any significant decision will be capable of being taken without the KKR Investors' consent. Although there are certain limited decisions that require the approval of a Pepper Super Majority (ie. Original Pepper Shareholders with an aggregate Ordinary Share Percentage of at least 66.67%) in addition to the Holdco Board and a KKR Super Majority (ie. KKR Investors with an aggregate Security Ownership Percentage of at least 66.67%) and so cannot be approved by the KKR Investors or the Holdco Board on their own, the KKR Investors will be able to take certain significant decisions without requiring the consent of the other Holdco Securityholders. Decisions made by the KKR Investors with respect to Holdco may affect the business, results, financial condition and prospects of Holdco and its subsidiaries and these decisions may conflict with the interests of the other Holdco Securityholders.

The Shareholders Deed contains provisions under which Original Pepper Shareholders may be compelled to transfer their Holdco Shares or Retained Pepper Shares. For example, the Shareholders Deed includes 'drag along' provisions, which allow the KKR Investors to require other Holdco Securityholders to transfer their Holdco Shares to the same transferee in certain circumstances (see the "Drag along rights" section of the table in Section 4.6 for further details) and 'compulsory transfer' provisions, which allow the KKR Investors to require other Holdco Securityholders to transfer, cancel or have bought back their Holdco Shares in certain circumstances (see the "Compulsory Transfers" section of the table in Section 4.6 for further details).

Refer to Section 4.6 for a summary of some of the key rights attaching to the Holdco Shares, including a description of some of the terms of the Shareholders Deed referred to in this Section.

(iv) **ASX Listing Rules will not apply**

As Holdco and Pepper will be unlisted companies post implementation of the Scheme, the ASX Listing Rules will not apply. The effect of this change in structure means that investor protections currently available to Pepper Shareholders in respect of their Pepper Shares under the ASX Listing Rules will not apply to Original Pepper Shareholders in respect of their Holdco Shares or Retained Pepper Shares (as applicable). There is a risk that, because of the different regulatory regime that applies to an investment in Holdco and Pepper after the Scheme is implemented, shareholders may not realise the outcome with respect to their investment that they intended, or which might have been available were their investment in a listed entity.

A summary of some of the key types of investor protections that will no longer apply is set out in the table below.

Listing Rule	Description of lost protection
Continuous disclosure (Chapter 3)	<p>This Chapter contains obligations on listed entities to disclose material price sensitive information to the market.</p> <ul style="list-style-type: none"> • Neither Holdco nor Pepper will have an obligation to disclose any material price sensitive information post implementation of the Scheme.

Securities (Chapter 6)	<p>This Chapter provides that each class of equity security must be appropriate and equitable in the ASX's view. It also provides protections in relation to voting rights of holders of ordinary and preference shares.</p> <ul style="list-style-type: none"> • The terms of the Holdco Shares and Retained Pepper Shares are not subject to ASX's approval.
Changes in capital and share issues (Chapter 7)	<p>This Chapter requires issuers who issue more than 15% of a listed entity's capital in a 12 month period to seek securityholder approval, subject to certain exceptions. It also imposes limits on the ability of listed entities to issue securities under a rights issue, dividend or distribution plan or during a takeover unless prescribed conditions are met.</p> <ul style="list-style-type: none"> • Holdings of Holdco Shares and Retained Pepper Shares may be more easily diluted.
Transactions with persons of influence (Chapter 10)	<p>This Chapter imposes restrictions on persons in a position of influence, such as related parties, a subsidiary, or a substantial holder, from entering into certain transactions with the listed entity unless certain conditions are met. In prescribed cases, transactions of this nature will require securityholder approval.</p> <ul style="list-style-type: none"> • Transactions between Holdco, Pepper and/or their related parties may not require shareholder approval.
Significant transactions (Chapter 11)	<p>This Chapter requires a listed entity to obtain the approval of securityholders in certain circumstances (and where required by the ASX), if it proposes to make a significant change to the nature or scale of its activities.</p> <ul style="list-style-type: none"> • A significant change to the operations of Holdco and/or Pepper may not require shareholder approval.

(v) **Possible reduction in financial information disclosure**

For so long as the Original Pepper Shareholders have an Adjusted Share Ownership Percentage of 10% or greater, Holdco is required to deliver to each Original Pepper Shareholder the Holdco Group audited consolidated profit and loss account, consolidated balance sheet, consolidated cash flow statement and notes and reports of Holdco Directors and auditors within 3 months after the end of each financial year. For further details, see clause 4 of Schedule 4 of the Shareholders Deed. However, as Holdco and Pepper will be unlisted companies post implementation of the Scheme, Original Pepper Shareholder may receive significantly less information and reports about Holdco and/or Pepper than Pepper Shareholders currently receive.

Additionally, unlike with an ASX listed company, neither Holdco nor Pepper will be required to hold any annual general meeting of members post implementation of the Scheme.

(vi) **Payment of dividends**

Subject to the terms of the Shareholders Deed, future payment of distributions will be determined by the Holdco Board (other than in connection with a sale of a Platform). There is no guarantee that future distributions will be paid or, if they are paid, the amount of such distributions. See the "Dividends" section of the table in Section 4.6 for further details.

(vii) **Dilution**

The actual share capital structure of Holdco post implementation of the Scheme is subject to further increases in KKR Credit's indirect ownership of Holdco in connection with any additional equity funding to be provided by KKR Credit. For example, Pepper has announced that it will require at least \$150 million in equity capital to fund the business plan, and Holdco intends, in the event that the Scheme is approved, to raise at least some of this capital amount from Holdco Shareholders and Retained Pepper Shareholders immediately upon or shortly after Pepper's anticipated delisting from ASX - refer to Section 4.4(h) for further information. If this equity issue proceeds, and the Original Pepper Shareholders do not take up their proportional entitlement in respect of such new issue of equity under the terms of the Shareholders Deed where KKR Credit does take up its proportional entitlement,

the Original Pepper Shareholders' collective holding in Holdco will be diluted relative to KKR Credit's holding in Holdco.

Further, if the requisite shareholder approvals post implementation of the Scheme are not obtained in relation to transactions costs and expenses incurred in connection with the Scheme, these transaction costs and expenses may need to be equity funded at the Holdco level which will dilute the holdings of Holdco Securityholders relative to the KKR Investors. These transaction costs and other expenses are currently estimated to total approximately \$15 million.

Holdco may need to raise additional capital in the future in order to meet the operating and/or financing requirements of itself and/or Pepper. Holdco may also issue shares to Holdco management through the establishment of a management incentive scheme.

Future capital raisings (including the anticipated December 2017 capital raising summarised in Section 4.4(h)), equity funded acquisitions by Holdco or issuance of shares to Holdco management, undertaken in accordance with the Shareholders Deed, may dilute the holdings of a particular Holdco Securityholder relative to other Holdco Securityholders. In the event that further equity funding is required, existing Holdco Securityholders may in certain circumstances be offered to participate and, if they do not take up their proportional share of any pro rata issue of shares offered to them, have their stakes diluted relative to other Holdco Securityholders who elected to take up their proportional share of any pro rata issue.

(viii) Transaction Costs

As noted above, the Bidco Group Members and Pepper will incur transaction costs in connection with the Scheme. Subject to the implementation of the Scheme and the obtainment of requisite shareholder approvals post implementation of the Scheme, it is intended that Pepper will provide the funds from its cash reserves to pay transaction costs and other expenses related to the Scheme including financial advisers fees, filing fees, legal and accounting fees and regulatory fees. These transaction costs and other expenses are currently estimated to total approximately \$15 million.

(ix) Exit

Consistent with usual private equity practice, the KKR Investors may seek to exit their investment in Holdco at some time in the future. This is subject to prevailing market conditions, the businesses performance and other factors which may be considered relevant at the time. Due consideration will also be given to market conditions and business performance as they evolve over time. The optimal means of exit will be determined at some point in the future. As such, the time period for exit is currently unknown and is in the discretion of the KKR Investors.

There is no guarantee that Holdco Securityholders or Retained Pepper Shareholders will be able to achieve an exit in respect of their Holdco Shares or Retained Pepper Shares (as applicable) if a decision for exit is not made by the KKR Investors. In particular, there will be no active market for the sale and purchase of Holdco Shares or Retained Pepper Shares post implementation of the Scheme.

Conversely, there is no guarantee that Holdco Securityholders will want to exit their investment at the same time as a decision for exit is made by the KKR Investors. Holdco Securityholders may not agree with the exit strategy adopted by the KKR Investors or receive the price and return on investment they expect.

(x) Due diligence and reliance on information

Before executing the Scheme Implementation Deed, KCA (on behalf of KKR Credit) undertook due diligence in respect of Pepper on information provided for the purpose of considering the acquisition of Pepper and negotiating the Scheme Implementation Deed. Such investigations were carried out in a limited timeframe. KCA is satisfied that it has

sufficient information to proceed with the Scheme. KCA has prepared these risks on the basis of information regarding the Pepper Group that is known to KCA and accordingly there may be other risks associated with Pepper which are presently unknown to KCA. Additionally, there is a risk that the information currently available to KCA in respect of Pepper may contain inaccuracies or have changed due to changes in the economy or other risk factors outside the control of either the KCA or Pepper.

(xi) **Change of control**

Upon implementation of the Scheme, a change of control in Pepper will occur.

It is possible that material contracts to which Pepper is a party may be subject to pre-emptive rights, review or termination upon change of control. While Bidco is not aware of any counterparty that may wish to terminate a material contract, should any such contracts be terminated, Pepper would lose the benefit of the contract and may be unable to obtain similar terms upon entry into replacement contracts (should such replacement contracts be available).

5.4 Risk factors that may prevent the Scheme from becoming Effective or being implemented

(a) **Regulatory approval delays**

As set out in Section 6.3(b)(i), the Scheme is subject to a number of Conditions Precedent, including foreign and domestic regulatory approvals (including Court approval and approvals from FIRB, the Central Bank of Ireland, the Competition and Consumer Protection Commission, the Fair Trade Commission of Korea and the Financial Conduct Authority).

There is a risk that foreign and domestic regulatory approvals may not be obtained, or may be obtained subject to conditions upon which Bidco and/or Pepper (as applicable) are not prepared to accept (acting reasonably), or may be delayed, or that the Court may not approve the Scheme, or may delay the Scheme.

(b) **Change of control consent requirements**

A number of contracts to which members of Pepper Group are a party (including leases, servicing contracts, and financing arrangements) contain change of control provisions that will, or may if certain conditions pertain, be triggered either by or upon the entry into the Scheme Implementation Deed, the Scheme, the acquisition of Pepper Shares by Bidco on the implementation of the Scheme or the delisting of Pepper. Such provisions allow the counterparty to, variously, demand immediate or earlier repayment of borrowed monies, review, adversely modify or terminate the contract. Such counterparties may also seek damages, injunctive relief or specific performance in respect of breaches of these contracts as a result of or in connection with the Scheme.

The only consent requirements which are Conditions Precedent to the Scheme are those contained in certain of Pepper's debt and warehouse funding facilities. The Scheme will not proceed unless these consents are obtained or Bidco waives the relevant Condition Precedent.

However, although no other consent is a Condition Precedent, if a counterparty to another contract were to refuse to provide consent to the proposed change of control, seek to terminate or renegotiate a contract, or seek damages, injunctive relief or specific performance in respect of any breach of such contract, this may, individually or in aggregate, have an adverse effect on the ability to successfully implement the Scheme.

Pepper is aware of a number of consent requirements that will or may be triggered by the Scheme, and is, under the Scheme Implementation Deed, required to use its reasonable endeavors to obtain all such change of control consents to ensure that there is no adverse effect on the ability to successfully implement the Scheme arising from such requirements.

6 Additional information concerning the Scheme

6.1 Directors interests

Except as stated in this Section 6.1:

- there are no marketable securities of Pepper held by or on behalf of Directors as at the date of this Scheme Booklet;
- no Director holds, or has any interest in, marketable securities of Bidco or any Bidco Group Member; and
- there has been no dealing by any of the Directors in any marketable securities of Pepper, Bidco or any Bidco Group Member in the four months preceding 10 October 2017, the last practicable date before the date of this Scheme Booklet.

(a) Interests of Directors in marketable securities of Pepper

The following table shows the Relevant Interest of each Director in marketable securities as at 10 October 2017, the last practicable date before the date of this Scheme Booklet:

Name of Director	Number of Pepper Shares held directly or indirectly	Number of Pepper performance rights ²⁴	Number of Pepper options
Seumas Dawes (Chairman)	54,740,439	-	75,000
Michael Culhane	8,955,535 ²⁵	270,044	-
Des O'Shea	76,924	-	75,000
Matthew Burlage	-	-	75,000
Melanie Willis	38,462	-	75,000

Of the 8,955,535 Pepper Shares held, directly or indirectly, by Mr Michael Culhane (as listed in the above table):

- 33,860 of these shares were issued by Pepper on 27 June 2017, in satisfaction of vested performance rights held by Mr Culhane (or his nominee) under Pepper's long term incentive plan; and
- 343,895 of these shares were issued by Pepper on 11 September 2017, as a grant of loan shares under Pepper Group's long term incentive plan. The issue of loan shares was approved by Pepper Shareholders at the 2017 Annual General Meeting held on 23 May 2017.

Mr Culhane was granted 158,789 performance rights on 4 October 2017 under Pepper Group's long term incentive plan. The grant of performance rights was approved by Pepper Shareholders at the 2017 Annual General Meeting held on 23 May 2017.

²⁴ Including only unvested performance rights.

²⁵ Includes 658,175 loan shares held under the LTIP and a further 67,500 Pepper Shares under the General Legacy Schemes (see Sections 6.6(b) and 6.8(a)).

Refer to Section 6.6 for further details regarding Pepper Group's long term incentive plan.

(b) Interests and dealings of Directors in securities of Bidco or any Bidco Group Member

No Director has a Relevant Interest in any securities in Bidco or any Bidco Group Member.

(c) Payments or other benefits to Directors, secretaries or executive officers of Pepper

In connection with the Scheme, the Board (excluding the members of the IBC) has resolved to pay the following additional fees to Directors on the IBC as a result of the extensive additional work carried out by those Directors in connection with the Scheme:

- (i) Melanie Willis (IBC Chair) - \$40,000;
- (ii) Des O'Shea - \$30,000
- (iii) Matthew Burlage - \$30,000

The IBC has, at the date of this Scheme Booklet, met more than 40 times since formation in June 2017 (resulting in approximately 150 hours of additional work per member). In considering the additional fees (which are permitted in accordance with rule 8.3(g) of the Pepper Constitution), Mercer (Australia) Pty Ltd was commissioned to provide a review of special awards to non-executive directors in the context of control transactions or for other payments for special project work, and also where directors make special exertions or provide extra services outside their normal duties.

The amount of the fees were set having regard to that review and to the extent of the additional work.

Except as set out below or otherwise disclosed in this Scheme Booklet:

- there is no payment or other benefit that is proposed to be made or given to any Director, secretary or executive officer of Pepper (or any of its Related Bodies Corporate) as compensation for the loss of, or as consideration for or in connection with his or her retirement from, office in Pepper or any of its Related Bodies Corporate as a consequence of or in connection with the Scheme and no Director, secretary or executive officer of Pepper (or any of its Related Bodies Corporate) has had or is to have the amount of any payment or benefit which may be made to them upon their loss of office or retirement from office materially affected by the Scheme;
- the Directors do not have any other interests in a contract entered into by Bidco or any Bidco Group Member;
- there are no agreements or arrangements between a Director and any person in connection with or conditional upon the outcome of the Scheme; and
- the Directors do not have a material interest in relation to the Scheme.

6.2 Agreements or arrangements with Directors

Following implementation of the Scheme, Michael Culhane will become the Holdco Group CEO and a Holdco Director, in accordance with and subject to the terms of the Shareholders Deed (see Sections 4.5(a) and 4.6). As at the date of this Scheme Booklet, the arrangements for Mr Culhane's remuneration as Holdco Group CEO have not yet been determined or agreed.

6.3 Agreements in connection with the Scheme

(a) Scheme

The proposed Scheme under Part 5.1 of the Corporations Act between Pepper and Pepper Shareholders, as generally summarised in this Scheme Booklet, is included in Annexure C, subject to any modifications or conditions made or required by the Court under section 411(6) of the Corporations Act and approved by Pepper and Bidco.

(b) Scheme Implementation Deed

On 10 August 2017, Pepper and Bidco entered into a Scheme Implementation Deed which sets out the rights and obligations of Pepper and Bidco in connection with the implementation of the Scheme, including an obligation for Pepper to propose the Scheme. The Scheme Implementation Deed was amended by Pepper and Bidco on 18 September 2017 and 25 September 2017.

The key terms of the Scheme Implementation Deed are summarised in this Section 6.3(b). A full copy of the Scheme Implementation Deed, as amended by the parties since it was lodged with ASX on 10 August 2017, may be obtained by calling the Shareholder Information Line on 1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia) or from Pepper's website: www.pepper.com.au/about/shareholder-centre

(i) Conditions Precedent

Implementation of the Scheme is subject to a number of conditions which must be satisfied or waived (where capable of waiver) before the Scheme can become Effective. Those conditions are set out in clause 3.1 of the Scheme Implementation Deed and are summarised as follows. Each party is under an obligation to use reasonable endeavours to ensure that the Conditions Precedent are satisfied as soon as practicable after the date of the Scheme Implementation Deed.

- (A) **ASIC and ASX:** before 8.00am on the Second Court Date, ASIC and ASX issue or provide all reliefs, waivers, confirmations, exemptions, consents or approvals, and have done all other acts, necessary, or which Pepper and Bidco agree are desirable, to implement the Scheme and such reliefs, waivers, confirmations, exemptions, consents, approvals or other acts (as the case may be) have not been withdrawn, suspended or revoked at 8.00am on the Second Court Date;
- (B) **FIRB approval:** before 8.00am on the Second Court Date, either:
 - (aa) the Treasurer (or the Treasurer's delegate) has provided a written no objection notification to the Scheme either without conditions or with conditions acceptable to Bidco (acting reasonably); or
 - (ab) following notice of the proposed Scheme having been given under the *Foreign Acquisitions and Takeovers Act 1975* (Cth) (**FIRB Act**), the Treasurer has ceased to be empowered to make any order under Part 3 of the FIRB Act because the applicable time limit on making orders and decisions under the FIRB Act has expired; and
- (C) **Other regulatory approvals:** before 8.00am on the Second Court Date:
 - (aa) certain consents and approvals are obtained from the following regulatory bodies, and those approvals have not been withdrawn or revoked by 8.00am on the Second Court Date: the Central Bank of Ireland, the Competition and Consumer Protection Commission of Ireland, the Financial Conduct Authority of the United Kingdom and the Fair Trade Commission of Korea; and

- (ab) each Pepper Group Member which is material to the Pepper Group has maintained each licence or approval of any Government Agency it holds as at the date of the Scheme Implementation Deed in connection with the holdings or ownership of any Pepper Group Member and which is material to that Pepper Group Member.
- (D) **Pepper Rights and Pepper Options:** before 8.00am on the Second Court Date, all Pepper options, performance rights and any other securities convertible into Pepper Shares are converted, exercised, 'Amended' (within the meaning of the Scheme Implementation Deed), cancelled, exchanged or acquired or subject to legally binding arrangements for their conversion, exercise, 'Amendment' (within the meaning of the Scheme Implementation Deed), cancellation, exchange or acquisition prior to the Scheme Record Date, on terms acceptable to Bidco (acting reasonably), conditional only on the Scheme becoming Effective;
- (E) **Shareholder approval:**
- (aa) a Requisite Majority of Pepper Shareholders approve the Scheme Resolution at the Scheme Meeting;
- (ab) a Requisite Majority of Pepper Shareholders approve the Constitution Amendment Resolution at the General Meeting;
- (F) **Declaration or determination of Special Dividend:** the Special Dividend is either declared or determined by the Pepper Board;
- (G) **Minimum Election Condition:** Pepper Shareholders holding at least 35.11% of the issued Pepper Shares make valid elections for the Equity Alternative;
- (H) **Independent Expert:** the Independent Expert issues a report which concludes that the Scheme is in the best interests of Pepper Shareholders before the time when the Scheme Booklet is registered by ASIC;
- (I) **Court approval:** the Court approves the Scheme in accordance with section 411(4)(b) of the Corporations Act;
- (J) **Continuation of Pepper debt facilities:** each relevant counterparty to certain of the Pepper debt and warehouse funding facilities consents to the change of control arising from the implementation of the Scheme and such consent is not withdrawn or revoked before 8.00am on the Second Court Date;
- (K) **No Pepper Prescribed Occurrences:** no Pepper Prescribed Occurrence occurs between the date of the Scheme Implementation Deed and 8.00am on the Second Court Date;
- (L) **No Pepper Material Adverse Change:** no Pepper Material Adverse Change occurs between (and including) the date of the Scheme Implementation Deed and 8.00am on the Second Court Date;
- (M) **No Holdco Prescribed Occurrences:** no Holdco Prescribed Occurrence occurs between the date of the Scheme Implementation Deed and 8.00am on the Second Court Date;
- (N) **Enforcement:** no material enforcement action or material investigation is announced or commenced by a Government Agency specifically against or specifically in respect of a Pepper Group Member which relates to a material contravention or alleged material contravention of applicable laws or regulations by the Pepper Group Member (or any of its staff) and which

has or is likely to have an adverse financial impact on the consolidated net assets or EBITDA of the Pepper Group of at least \$47 million (including for this purpose any fines and penalties) or has or is likely to have a sustained detrimental and sustained public adverse impact on the market reputation of the Pepper Group;

- (O) **No restraints:** no Court or Government Agency has issued or announced that it has taken steps to issue an order, temporary restraining order, preliminary or permanent injunction, decree or ruling or taken any action enjoining, restraining or otherwise imposing a legal restraint or prohibition preventing the Scheme and no such order, decree, ruling, other action or refusal is in effect as at 8.00am on the Second Court Date;
- (P) **Shareholders Deed:** the Shareholders Deed is executed by Holdco and the persons named as “KKR Investors” in that deed and remains in force, unamended;
- (Q) **Holdco Constitution:** the Holdco Constitution is adopted by Singco and remains in force, unamended; and
- (R) **Share Rights Agreement:** the Share Rights Agreement (as defined in the Scheme Implementation Deed) is executed by Holdco and Bidco and remains in force, unamended.

(ii) **Conduct of business**

Clause 7.1 of the Scheme Implementation Deed sets out the obligations Pepper must comply with from the date of the Scheme Implementation Deed up to and including the Implementation Date with respect to the conduct of its businesses. Among other things, Pepper is obliged to:

- (A) conduct, and cause each other Pepper Group Member to conduct the business of the Pepper Group, in the ordinary course consistent with business plans and budgets and other information Fairly Disclosed to Bidco and substantially in the same manner in which such business has been conducted in the 12 month period prior to the date of the Scheme Implementation Deed, and regularly keep Bidco informed of the conduct of the business;
- (B) ensure that it, and cause each other Pepper Group Member to, to the extent it is reasonably able, maintain and preserve its relationships with Government Agencies, customers, suppliers and others having business dealings with any Pepper Group Member, and retain the services of all officers and designated key employees; and
- (C) ensure that there is no material decrease in the amount of cash in the Pepper Group other than in the ordinary course of business and consistent with forecasts Fairly Disclosed prior to the date of the Scheme Implementation Deed; and
- (D) not take any action that constitutes, or could reasonably be expected to result in, a Pepper Prescribed Occurrence.

Bidco is also obliged not to take any action that constitutes, or could reasonably be expected to result in, a Holdco Prescribed Occurrence in the period from the date of the Scheme Implementation Deed up to and including the Implementation Date.

(iii) **Access to information**

Clause 7.2 of the Scheme Implementation Deed sets out Pepper’s obligations in relation to providing information to Bidder and its officers and advisers from the date

of the Scheme Implementation Deed up to and including the Implementation Date. Among other things, Pepper is obliged to:

- (A) provide Bidco and its officers and advisers with any documents, records and other information (subject to any existing confidentiality obligations owed to third parties or applicable privacy laws) reasonably requested by them;
- (B) provide Bidco and its officers and advisers with reasonable, non-disruptive access on reasonable notice to Pepper's officers and advisers which Bidco reasonably requires for the purposes of:
 - (aa) implementing the Scheme;
 - (ab) preparing and carrying on the business of the Pepper Group following implementation of the Scheme; and
 - (ac) any other purpose agreed in writing between the parties.

(iv) **Exclusivity**

Clause 9 of the Scheme Implementation Deed sets out the exclusivity obligations of Pepper in connection with the implementation of the Scheme. A summary of the key exclusivity obligations of Pepper during the Exclusivity Period is set out below:

- (A) **no talk and no shop:** Pepper must not, and must ensure that each of its Representatives does not, directly or indirectly, without the prior written consent of Bidco:
 - (aa) **no shop:** solicit, invite, encourage or initiate any enquiries, negotiations or discussions with, any Third Party in relation to a Competing Proposal or communicate an intention to do any of these things with a view to obtaining any offer, proposal or expression of interest from any Third Party in relation to a Competing Proposal;
 - (ab) **no talk:** enter into or participate in negotiations or discussions with or enter into any agreement, understanding or arrangement with any Third Party in relation to a Competing Proposal or any agreement, understanding or arrangement that may reasonably be expected to lead to a Competing Proposal, even if that Competing Proposal was not directly or indirectly solicited, invited, encouraged or initiated by Pepper or any of its Representatives or the person has publicly announced the Competing Proposal.

The no talk obligation is subject to a "fiduciary out" where the Pepper Board has determined, acting in good faith, that after consultation with its financial advisers, such Competing Proposal is, or reasonably be considered to become a Superior Proposal, and after receiving written legal advice from its external legal advisers, failing to respond to such Competing Proposal would constitute, or would be likely to constitute, a breach of the Pepper Board's fiduciary or statutory obligations.

- (B) **Notification of approaches:** Pepper must inform Bidco as soon as reasonably practicable if it, any of its Related Bodies Corporate or any of its Representatives:
 - (aa) receives any unsolicited approach with respect to any Competing Proposal and must disclose to Bidco all material details of the Competing Proposal, including details of the proposed bidder or acquirer (to the extent known by Pepper);

- (ab) receive any request for information relating to Pepper or any of its Related Bodies Corporate or any of their businesses or operations or any request for access to the books or records of Pepper or any of its Related Bodies Corporate, which Pepper has reasonable grounds to suspect may be in connection with or for the purposes of the person formulating, developing or finalising a Competing Proposal; or
- (ac) provides any information relating to Pepper or any of its Related Bodies Corporate or any of their businesses or operations to any person in connection with or for the purposes of an actual, proposed or potential Competing Proposal.

(C) **Matching right:** Pepper:

- (aa) must not enter into any binding legal agreement, arrangement or understanding pursuant to which a Third Party, Pepper or both proposes or propose to undertake or give effect to an actual, proposed or potential Competing Proposal; and
- (ab) must use its reasonable endeavours to procure that none of its directors withdraw or change their recommendation to vote in favour of the Scheme or otherwise make a public statement to publicly recommend an actual, proposed or potential Competing Proposal (or recommend against the Scheme),

unless:

- (ac) the Pepper Board, acting in good faith and in order to satisfy its statutory or fiduciary duties (having received written advice from its external legal advisers), determines that the Competing Proposal would be or would be likely to be an actual, proposed or potential Superior Proposal;
- (ad) Pepper has provided Bidco with the material terms and conditions of the actual, proposed or potential Competing Proposal, including price and the identity of the third party making or proposing to undertake or give effect to the actual, proposed or potential Competing Proposal;
- (ae) Pepper has given Bidco at least 5 Business Days after the notification of the actual, proposed or potential Competing Proposal (including its material terms and conditions) to provide a matching or superior proposal to the terms of the actual, proposed or potential Competing Proposal; and
- (af) Bidco has not provided a matching or superior proposal to the terms of the actual, proposed or potential Competing Proposal to the Pepper Board by the expiry of the 5 Business Day period.

If Bidco proposes to Pepper, or announces amendments to the Scheme or a new proposal that constitute a matching or superior proposal to the terms of the Competing Proposal within those 5 Business Days and the Pepper Board considers, acting reasonably and in good faith, such Bidco counterproposal would provide an equivalent or superior outcome for Pepper Shareholders as a whole compared with the Competing Proposal (taking into account the material terms and conditions of the Bidco counterproposal), Pepper and Bidco must use their reasonable endeavours to agree the amendments to the Scheme Implementation Deed, the Scheme and Deed Poll (as applicable) that are reasonably necessary to reflect the Bidco counterproposal and to implement the Bidco

counterproposal as soon as reasonably practicable, and Pepper must use its reasonable endeavours to procure that the Pepper Board recommends the Bidco counterproposal to Pepper Shareholders.

(v) **Break fee arrangements – Pepper Break Fee**

Clause 10 of the Scheme Implementation Deed sets out the circumstances with respect to which Pepper has agreed to pay a break fee of \$6,626,047 (exclusive of GST) to Bidco (**Pepper Break Fee**). The Pepper Break Fee will be payable if:

- (A) a Competing Proposal is announced during the Exclusivity Period and, within 12 months of the date of such announcement:
 - (aa) the proponent of that Competing Proposal (or any of its Associates) acquires a Relevant Interest in more than 50% of Pepper Shares; and
 - (ab) that Competing Proposal is (or becomes) free from any defeating conditions (or if the Competing Proposal is a scheme of arrangement, the scheme becomes effective); or
- (B) during the Exclusivity Period, any Pepper Director fails to recommend the Scheme or withdraws, adversely changes or adversely qualifies his or her recommendation that Pepper Shareholders vote in favour of the Scheme or otherwise makes a public statement indicating that he or she no longer supports the Scheme, except where:
 - (aa) the Independent Expert concludes in the Independent Expert's Report (or any update or variation to that report) that the Scheme is not in the best interests of Pepper Shareholders (other than where the sole or dominant reason for the Independent Expert's conclusion is the existence of a Competing Proposal which the Independent Expert may reasonably regard to be on more favourable terms than the transaction contemplated by the Scheme Implementation Deed; or
 - (ab) Pepper is entitled to and has provided the termination notice to Bidco to terminate the Scheme Implementation Deed for a material breach (excluding a breach of representation or warranty) of the Scheme Implementation Deed by Bidco; or
- (C) Bidco terminates the Scheme Implementation Deed for a material breach (excluding a breach of representation or warranty) of the Scheme Implementation Deed by Pepper.

Except in the case of Pepper breaching its no shop exclusivity obligations, Pepper's total liability under the Scheme Implementation Deed is capped at the amount of the Pepper Break Fee and Pepper will not be required to pay (and will be entitled to a refund to the extent that it has already paid) the Pepper Break Fee if the Scheme becomes Effective, notwithstanding the occurrence of any of the trigger events set out above.

No Pepper Break Fee is payable as a result of the Scheme not being approved by the Requisite Majority of Pepper Shareholders at the Scheme Meeting.

(vi) **Break fee arrangements – Bidco Break Fee**

Clause 11 of the Scheme Implementation Deed sets out the circumstances with respect to which Bidco has agreed to pay a break fee of \$6,626,047 (exclusive of GST) to Pepper (**Bidco Break Fee**). The Bidco Break Fee will be payable if Pepper terminates the Scheme Implementation Deed for a material breach (including a

breach of representation or warranty) of the Scheme Implementation Deed by Bidco, or where Bidco does not provide or procure the provision of the Scheme Consideration in accordance with the terms of the Scheme Implementation Deed and the Deed Poll.

Bidco's total liability under the Scheme Implementation Deed is capped at the amount of the Bidco Break Fee and Bidco will not be required to pay (and will be entitled to a refund to the extent that it has already paid) the Bidco Break Fee if the Scheme becomes Effective, notwithstanding the occurrence of any of the trigger events set out above.

No Bidco Break Fee is payable as a result of the Scheme not being approved by the Requisite Majority of Pepper Shareholders at the Scheme Meeting.

(vii) **Representations and warranties**

Bidco and Pepper, under clause 12 of the Scheme Implementation Deed, have each given representations and warranties to the other, customary for a transaction of this nature.

(viii) **Termination rights**

Clause 13 of the Scheme Implementation Deed sets out the termination rights of each party. These are summarised below.

(ix) **Termination by Bidco or Pepper**

Bidco or Pepper may terminate the Scheme Implementation Deed by written notice to each other party if:

(A) at any time before 8:00am on the Second Court Date:

- (aa) in relation to a termination by Bidco, Pepper has materially breached the Scheme Implementation Deed; or
- (ab) in relation to a termination by Pepper, Bidco has materially breached the Scheme Implementation Deed,

other than in respect of a breach of a representation or warranty, if the party or parties entitled to terminate have provided written notice to the party or parties in breach and such breach is not remedied within 10 Business Days (or any shorter period ending at 8.00am on the Second Court Date);

(B) there is:

- (aa) a breach or non-fulfilment of any of the Conditions Precedent (which is not waived); or
- (ab) an act, failure to act or occurrence that will, or does, prevent any of the Conditions Precedent being satisfied by the time and date specified in the Scheme Implementation Deed for the satisfaction of that Condition Precedent (and the breach or non-fulfilment which would otherwise occur has not already been waived); or
- (ac) the Scheme has not become Effective by the End Date,

and the parties are unable to reach agreement within 5 Business Days (or such shorter period ending 8.00am on the Second Court Date) to proceed with the Scheme following good faith negotiations; or

(C) if agreed to in writing by Bidco and Pepper.

(x) **Termination by Bidco**

Bidco may terminate the Scheme Implementation Deed at any time before 8:00am on the Second Court Date if:

- (A) a Pepper Material Adverse Change or a Pepper Prescribed Occurrence occurs and Pepper has failed to remedy the Pepper Material Adverse Change or Pepper Prescribed Occurrence within 10 Business Days of receiving notice from Bidco (or any shorter period ending at 8.00am on the Second Court Date); or
- (B) any Director fails to recommend the Scheme or any Director withdraws, adversely changes or qualifies his or her recommendation that Pepper Shareholders vote in favour of the Scheme or otherwise makes a public statement indicating that he or she no longer supports the Scheme (excluding a statement that no action should be taken by Pepper Shareholders pending the assessment of a Competing Proposal by the Pepper Board); or
- (C) a person and its Associates (other than Bidco or its Associates and any person who together with its Associates, as at the date of the Scheme Implementation Deed holds a Relevant Interest in more than 20% of the Pepper Shares) together hold a Relevant Interest in more than 20% of the Pepper Shares.

(xi) **Termination by Pepper**

Pepper may terminate the Scheme Implementation Deed at any time before 8:00am on the Second Court Date if:

- (A) a Holdco Prescribed Occurrence occurs and Bidco has failed to remedy the Holdco Prescribed Occurrence within 10 Business Days of receiving notice from Pepper (or any shorter period ending at 8.00am on the Second Court Date); or
- (B) a majority of the Pepper Board publicly recommends a Competing Proposal that is a Superior Proposal, and provided that the Competing Proposal was not solicited or facilitated by Pepper or its Representatives in breach of Pepper's exclusivity obligations under clause 9 of the Scheme Implementation Deed; or
- (C) the Independent Expert concludes in the Independent Expert's Report (or any update or variation to that report) that the Scheme is not in the best interests of Pepper Shareholders, or adversely changes its previously given opinion in the Independent Expert's Report (or any update or variation to that report) that the Scheme is in the best interests of Pepper Shareholders.

(c) **Deed Poll**

Bidco and Holdco have executed the Deed Poll which requires them to perform their obligations under the Scheme, including the obligation to provide the Scheme Consideration to each Scheme Shareholder, subject to the Scheme becoming Effective. A copy of the Deed Poll is included in Annexure D.

6.4 Implications for creditors of Pepper Group

The Scheme, if implemented, is not expected to materially prejudice Pepper's ability to pay its creditors. No material new liability will be incurred by the Pepper Group as a consequence of implementation of the Scheme other than the transaction costs described in Section 6.13.

The Pepper Group has paid and is paying all its creditors within Pepper's normal terms of trade. Each Pepper Group company is solvent and is trading in an ordinary commercial manner.

6.5 Overview of Pepper's executive incentive plans

Pepper operates various executive incentive plans to provide incentives and rewards for Directors, executives and employees. These plans, and the implications of the Scheme on these plans, are described in Sections 6.6 to 6.8 (inclusive).

It is a Condition Precedent under the Scheme that prior to 8.00am on the Second Court Date, that all performance rights, loan shares, options and any other securities convertible into Pepper Shares are converted, exercised, 'Amended' (within the meaning of the Scheme Implementation Deed), cancelled, exchanged or acquired, or subject to legally binding arrangements for their conversion, exercise, 'Amendment' (within the meaning of the Scheme Implementation Deed), cancellation, exchange or acquisition prior to the Scheme Record Date, on terms acceptable to Bidco (acting reasonably), subject only to the Scheme becoming Effective.

6.6 Treatment of performance rights and loan shares

Since Pepper's IPO in 2015, Pepper has operated a long term incentive plan (LTIP) under which certain executives and senior management or their respective nominees have been granted awards comprising performance rights and / or loan shares.

(a) Performance rights

As at 10 October 2017, being the last practicable date before the date of this Scheme Booklet, there were 4,028,803 unvested performance rights on issue.

A performance right entitles the holder to acquire one Pepper Share for no consideration upon satisfaction of applicable vesting conditions, which include a continuing employment condition. Performance rights do not confer any right to vote, attend shareholder meetings or participate in a distribution of profit or a return of capital before vesting.

The Pepper Board intends, subject to the Scheme becoming Effective, to exercise its discretion under the plan rules to waive all vesting conditions applicable to performance rights other than the continuing employment condition.

Pepper also intends to enter into agreements with holders of 3,691,192 of the performance rights (being the holders of unvested performance rights other than those who are, or will be, prior to the date of the Scheme Meeting, former Pepper employees) which will amend the terms of the existing LTIP offer documents such that, subject to and one day subsequent to the Scheme becoming Effective, the performance rights will be cancelled and in exchange the relevant Participants will be issued one performance right over a Holdco Share for every 1 Pepper performance right cancelled. Each Holdco performance right will have the same conditions (with necessary changes) as the Pepper performance rights. It is possible that some performance rights will lapse under the terms of the plan if Pepper and Participants do not agree on the proposed treatment of the performance rights under the Scheme or there are additional Participants who become former employee Participants before the Scheme becomes Effective.

Separately, the Pepper Board intends, subject to the Scheme becoming Effective, to exercise its discretion under the plan rules to accelerate the vesting of 26,233 out of the 337,611 unvested performance rights which are held by former employee Participants and which would otherwise have been assessable for vesting under the LTIP documents on the basis of those Participants having a pro rata entitlement based on the period of employment of the associated employees during 2016. The remainder of those unvested performance rights will lapse for no consideration. Pursuant to that accelerated vesting, 26,233 new

Pepper Shares will be issued to those former employee Participants shortly following the Effective Date.

Pepper has applied for, and ASX has granted, a waiver from ASX Listing Rules 6.23.2, 6.23.3 and 6.23.4 to permit the performance rights to be dealt with in this manner (refer to Section 6.16).

(b) Loan shares

Loan shares are Pepper Shares which have been acquired by Participants with funds loaned by Pepper (either alone or together with a Related Body Corporate of Pepper) under a loan agreement supported by a lien over the shares (and with recourse limited to the loan shares). The loan shares are either held on trust by the Trustee for the Participant, or alternatively have been issued directly to the Participant subject to a holding lock to prevent transfer until all conditions relating to the loan shares are satisfied. The loan shares are held subject to satisfaction of applicable vesting conditions with disposal restrictions operating until the loan is satisfied. Until fully vested, loan shares are at risk of forfeiture.

As at 10 October 2017, being the last practicable date before the date of this Scheme Booklet, there were 3,628,903 unvested loan shares and 487,572 vested loan shares on issue.

The Pepper Board intends to exercise its discretion under the plan rules to waive all vesting conditions (other than the continuing employment condition) and disposal restrictions on unvested loan shares held by or on behalf of Participants who are current employee Participants (subject to the Scheme becoming Effective) provided the Participant:

- makes an irrevocable appointment as proxy and, where the Participant is a body corporate, representative, of the chairperson for the time being of each applicable meeting of Pepper Shareholders to exercise the voting rights attached to loan shares in favour of the Resolutions in the absence of a Superior Proposal, and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders;
- permits the Trustee to appoint or otherwise appoint Pepper as its agent and attorney, to the exclusion of the Participant, to make an election on behalf of the Participant for the Scrip Option or the Retention Option on behalf of the Participant;
- amends the terms of the existing LTIP offer documents to permit, subject to the Scheme becoming Effective, the loan and associated rights to apply to any Holdco Shares which a Participant receives as Scheme Consideration under the Scrip Option and be novated to Holdco (and on the basis that the existing security over the original loan shares is discharged and a new security is granted over the Holdco shares in favour of Holdco); and
- authorises Pepper to receive any Cash Consideration payable under the Scheme in respect of the loan shares under any scale back and apply it first towards repayment of the loan attached to those shares and as to any balance to the Participant.

The Pepper Board intends to exercise its discretion under the plan rules to waive all disposal restrictions on vested loan shares held by or on behalf of each Participant who is a current employee Participant (subject to the Scheme becoming Effective) provided the Participant authorises Pepper to receive any Cash Consideration payable under the Scheme in respect of the loan shares and apply it first towards the repayment of the loan and as to any balance to the Participant or, if the Participant elects the Scrip Option, to amend the existing LTIP offer documents to permit, subject to the Scheme becoming Effective, the loan and associated rights to apply to the Holdco shares and the loan to be novated to Holdco, as described above.

In respect of 17,484 vested loan shares held on trust by the Trustee for, or directly by, former employee Participants (being a pro-rata allocation based on the duration of employment of the former employees during the relevant vesting period), the Pepper Board

intends to exercise its discretion to waive all disposal restrictions (subject to the Scheme becoming Effective), provided the Participant:

- makes an irrevocable appointment as proxy and, where the Participant is a body corporate, representative, of the chairperson for the time being of each applicable meeting of Pepper Shareholders to exercise the voting rights attached to loan shares in favour of the Resolutions in the absence of a Superior Proposal, and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders;
- permits the Trustee to appoint Pepper, or appoints Pepper, as its agent and attorney to make an Election in relation to the loan shares, to the exclusion of the Participant, with the intent that Pepper will abstain from making an election so that Cash Consideration is payable in respect of the loan shares under the Scheme; and
- authorises Pepper to receive that Cash Consideration and apply it first towards the repayment of the loan and as to any balance to the Participant.

In respect of each former employee Participant that does not permit this treatment of their loan shares, Pepper will exercise its right to require repayment of any loan amount outstanding by 31 October 2017, failing which Pepper will exercise its right to sell the loan shares and apply the proceeds to the repayment of the loan with any balance paid to the former employee Participant. The same treatment may be applied at the discretion of the Pepper Board to loan shares of Participants who become former employee Participants after the date of this Scheme Booklet.

The waiver of disposal restrictions and conditions of waiver described above in respect of unvested loan shares of former employee Participants will apply with respect to 103,887 vested loan shares held on trust by the Trustee for, or directly by, former employee Participants.

339,598 unvested loan shares will also be forfeited prior to the Scheme Record Date due to the former employees not meeting the continuing employee condition for 2017. If the Scheme is implemented, the loan shares will be sold under the Scheme for Cash Consideration, which will be applied first to the repayment of the loan and as to any balance to Pepper. It is possible that other loan shares will be forfeited under the terms of the plan if Pepper and Participants who are current employee Participants do not agree on the proposed treatment of the loan shares under the Scheme or there are additional Participants who become former employee Participants before the Scheme becomes Effective.

In respect of loan shares held by the Trustee, the Trustee is required, under the terms of the LTIP offer documents, to act in accordance with a written direction of the Pepper Board in relation to any matter contemplated by the LTIP offer documents. The Pepper Board intends to direct the Trustee to appoint as its standing proxy and corporate representative the chairperson for the time being of each applicable meeting of Pepper Shareholders to exercise the voting rights attached to loan shares in favour of the Resolutions in the absence of a Superior Proposal, and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders.

A Related Body Corporate of the Trustee, Computershare Plan Managers Pty Ltd ACN 084 591 131 (**CPM**), has been granted a standing proxy in respect of all of the voting rights over loan shares which are held directly by a Participant while any loan in respect of loan shares is outstanding. Pepper intends to revoke each such proxy so that the voting proxies in favour of the chairperson described above can be exercised with the intention that the chairperson will vote in favour of the Resolutions in the absence of a Superior Proposal, and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders.

6.7 Treatment of options held by the Non-Executive Directors

On 5 August 2015, in conjunction with Pepper's IPO, each of Pepper's Non-Executive Directors received a grant of 75,000 options for no consideration as part of their remuneration package. Each option entitles the Director to acquire one Pepper Share on payment of the exercise price. The exercise price is \$2.60, equivalent to the IPO offer price. The options become exercisable in three equal tranches on the 12, 24 and 36 month anniversaries of the grant. Any unexercised options will expire on 5 August 2022. The options are not subject to any performance or service conditions and do not carry any dividend or voting rights prior to vesting and exercise. Any dealing with the options is prohibited, unless the Pepper Board determines otherwise. Where there is a takeover bid or other transaction, event or state of affairs that in the Pepper Board's opinion is likely to result in a change in control of Pepper, the options will automatically vest and become exercisable, unless the Board determines otherwise.

Pepper intends to enter into agreements with each Non-Executive Director pursuant to which the 300,000 options will, subject to the Scheme becoming Effective and the receipt of any waivers required under the ASX Listing Rules, vest and then be cancelled in exchange for a cash payment of \$82,500 to each Non-Executive Director.

The cash consideration of \$82,500 payable to Non-Executive Director represents the "in the money" value of the options, being the Cash Payments minus the exercise price of \$2.60.

Pepper has applied for, and ASX has granted, a waiver from ASX Listing Rule 6.23.2 to permit the options to be dealt with in this manner (refer to Section 6.16).

6.8 Other executive incentive plans

(a) General Legacy Schemes

Under the General Legacy Schemes rolled out in 2013 and 2015, Participants purchased a beneficial interest in Pepper Shares to be held on trust by the Trustee for Participants. Participants are entitled to direct the Trustee to deal with the Pepper Shares on their behalf, with the exception of certain Pepper Shares issued under the 2015 General Legacy Scheme which remain subject to forfeiture conditions until 31 December 2017.

The Pepper Board intends to exercise its discretion under the relevant plan rules to waive any remaining forfeiture conditions (subject to the Scheme becoming Effective).

(b) Global Legacy Scheme

Under a separate legacy scheme conducted in 2015 (**Global Legacy Scheme**), certain Participants were issued global legacy shares and global legacy units which upon vesting have rights of redemption for Pepper Shares for no consideration. All such Pepper Shares are held on trust by the Trustee. Global legacy shares are subject to disposal restrictions until 1 January 2018 (or 1 August 2018 in the case of certain Participants (**Restricted Participants**)), and Pepper Shares associated with global legacy units are subject to certain vesting conditions (and, for Restricted Participants, disposal restrictions following redemption) until 1 January 2018. On vesting, global legacy units will be redeemed for the corresponding Pepper Shares held on trust on a one-for-one basis.

The Pepper Board intends to exercise its discretion under the Global Legacy Scheme offer documents to, subject to the Scheme becoming Effective:

- vest all global legacy units, such that the units are redeemed for the corresponding Pepper Shares prior to the Scheme Record Date; and
- waive the disposal restrictions for the global legacy shares and the Pepper Shares the subject of the global legacy unit redemption.

(c) Employee Gift Offer Plan

During 2015, as part of Pepper's IPO, Pepper Shares were issued to certain employees under the Employee Gift Offer Plan for nil consideration in parcels of up to \$1,000 in value.

Pepper Shares granted under the Employee Gift Offer Plan are held on trust by the Trustee until the date which is three years from the date the Pepper Shares were allocated, or earlier upon termination of employment.

The Pepper Board intends to exercise its discretion under the rules applicable to the Employee Gift Offer Plan to waive, subject to the Scheme becoming Effective, the minimum three year holding period to enable holders to participate in the Scheme on the same basis as other Pepper shareholders.

(d) Trustee voting intentions and exercise of elections

The Trustee is required, under the terms of the rules applicable to each incentive plan, to act in accordance with a written direction of the Pepper Board in relation to any matter contemplated by the rules or any other offer document. The Pepper Board intends to direct the Trustee to appoint as its standing proxy and corporate representative the chairperson for the time being of each applicable meeting of Pepper Shareholders to exercise the voting rights attached to all Pepper Shares it holds on trust under the General Legacy Schemes, the Global Legacy Scheme and the Employee Gift Offer Plan in favour of the Resolutions in the absence of a Superior Proposal, and subject to the Independent Expert maintaining its conclusion that the Scheme is in the best interests of Pepper Shareholders.

If the Scheme becomes Effective, any Pepper Shares held by the Trustee under the General Legacy Schemes, the Global Legacy Scheme and the Employee Gift Offer Plan will, unless the Retention Option is validly elected (subject to the scale back), be acquired by Bidco under the terms of the Scheme (whether for Cash Consideration or Holdco Shares) with the Trustee making elections in accordance with the directions of the Participants.

6.9 Class ruling application

Pepper has submitted an application for class ruling in respect of certain Pepper employees seeking confirmation from the Commissioner of Taxation that, for Australian tax purposes, the replacement of performance rights granted under the LTIP to acquire Pepper Shares with rights to acquire shares in Holdco (as described in Section 6.6(a)) will be treated as a continuation of those performance rights such that the tax deferred treatment of those performance rights will be maintained until a relevant future taxing point following implementation of the Scheme.

The Commissioner has not issued a final ruling as at the date of this Scheme Booklet.

6.10 Internal Revenue Code (1986) (US)

Bidco intends to make an election under section 338 of the Internal Revenue Code (1986) (US), as amended, with respect to its purchase of the Pepper Shares.

6.11 Consents

The following parties have given and have not, before the time of registration of this Scheme Booklet by ASIC, withdrawn their written consent to be named in this Scheme Booklet in the form and context in which they are named:

- Jones Day as Australian legal adviser to Pepper;
- Citi as financial adviser to Pepper;
- PwC as tax adviser to Pepper;
- Herbert Smith Freehills as Australian legal adviser to the IBC;

- Highbury Partnership as financial adviser to the IBC;
- Grant Samuel as Independent Expert;
- Computershare Investor Services Pty Limited as the Pepper Registry; and
- Mercer (Australia) Pty Ltd.

PwC has given and has not, before the time of registration of this Scheme Booklet by ASIC, withdrawn its written consent to the inclusion of its Tax Adviser's Report in this Scheme Booklet in the form and context in which it is included and to all references in this Scheme Booklet to that report in the form and context in which they appear.

Grant Samuel has given and has not, before the time of registration of this Scheme Booklet by ASIC, withdrawn its written consent to the inclusion of its Independent Expert's Report in this Scheme Booklet in the form and context in which it is included and to all references in this Scheme Booklet to that report in the form and context in which they appear.

Each of Bidco, Holdco and KCA has given, and has not withdrawn before the time of registration of this Scheme Booklet by ASIC, its consent to be named in this Scheme Booklet in the form and context in which it is named and, in the case of Bidco, its consent to the inclusion of the Bidco Information, on the basis set out in the Section entitled "Important Notices" and as set out in the Scheme Implementation Deed.

6.12 Disclaimers

Each person referred to in Section 6.11:

- does not make, or purport to make, any statement in this Scheme Booklet other than those statements made in the capacity and to the extent the person has provided its consent, as referred to in Section 6.11; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Scheme Booklet other than as described in Section 6.11.

6.13 Transaction costs

The persons named in this Scheme Booklet as performing a function in a professional or advisory capacity in connection with the Scheme and with the preparation of this Scheme Booklet on behalf of Pepper are Jones Day as legal adviser, Citi as financial adviser, Grant Samuel as Independent Expert, PwC as tax adviser and Computershare Investor Services Pty Limited as the Pepper Registry. The IBC is being advised by Herbert Smith Freehills as legal adviser and Highbury Partnership as financial adviser.

Each of these persons will be entitled to receive professional fees charged in accordance with their normal basis for charging.

The total costs associated with the Scheme and the preparation of this Scheme Booklet incurred (or to be incurred) by Pepper are expected to be approximately \$8.5 million (plus GST). The fee paid to Grant Samuel which has provided the Independent Expert's Report is \$600,000 (plus GST).

6.14 Status of regulatory conditions

The implementation of the Scheme is subject to various approvals, consents or relief being obtained from various regulatory authorities. As at the date of lodgement of this Scheme Booklet with ASIC for registration, Pepper, Bidco and Holdco have applied for all of the regulatory approvals, consents or relief which they consider are necessary or desirable for the purposes of implementing the Scheme.

6.15 ASIC relief

Paragraph 8302(d) of Part 3 of Schedule 8 of the Corporations Regulations requires this Scheme Booklet to set out particulars of any payment or benefit proposed to be made or given to any director, secretary or executive officer of Pepper or a Related Body Corporate as compensation for loss of office in Pepper or a Related Body Corporate, or as consideration for or in connection with his or her retirement from office in Pepper or a Related Body Corporate.

ASIC has granted Pepper relief from this requirement so that this Scheme Booklet is only required to disclose particulars of payments made or benefits given to a director, secretary, executive officer in relation to their resignation or retirement from office where those payments or benefits are made in connection with or are materially affected by the implementation of the Scheme. In respect of any such payments or benefits, Pepper is able to:

- describe any such payments or benefits on an aggregate rather than individual basis; and
- refrain from discussing the name of any director, executive officer or secretary who will lose office or retire from office in connection with the Scheme, unless that person is a director of Pepper.

Paragraph 8302(h) of Part 3 of Schedule 8 of the Corporations Regulations requires this Scheme Booklet to set out whether, within the knowledge of the Directors, the financial position of Pepper has materially changed since the date of the last balance sheet laid before the company's annual general meeting or sent to Pepper shareholders in accordance with section 314 or 317 of the Corporations Act, being 31 December 2016.

ASIC has granted Pepper relief from this requirement so that this Scheme Booklet only needs to set out whether, within the knowledge of the Directors, the financial position of Pepper has materially changed since 30 June 2017 (being the last date of the 6 month period in respect of which Pepper has most recently released the financial statements since those issued in respect of the full-year ended 31 December 2016).

6.16 ASX waiver

ASX has granted Pepper:

- a waiver of ASX Listing Rule 6.23.2 to the extent necessary to permit the cancellation for consideration of 3,691,192 performance rights and the 300,000 Pepper options as set out in Sections 6.6(a) and 6.7 respectively;
- a waiver of ASX Listing Rule 6.23.3 to permit the acceleration of unvested performance rights held by former employees as set out in section 6.6(a); and
- a waiver of ASX Listing Rule 6.23.4 to permit changes to the terms of unvested performance rights as described in section 6.6(a).

6.17 No unacceptable circumstances

The Directors believe that the Scheme does not involve any circumstances in relation to the affairs of any member of Pepper that could reasonably be characterised as constituting "unacceptable circumstances" for the purposes of section 657A of the Corporations Act.

6.18 Lodgement of Scheme Booklet

The Scheme Booklet was given to ASIC on 15 September 2017 in accordance with section 411(2)(b) of the Corporations Act. ASIC takes no responsibility for the content of this Scheme Booklet.

6.19 Supplementary information

Pepper will issue a supplementary document to this Scheme Booklet upon becoming aware of any of the following between the date of lodgement of this Scheme Booklet with ASIC for registration and the Second Court Date:

- a material statement in this Scheme Booklet is false or misleading;
- a material omission from this Scheme Booklet;
- a significant change affecting a matter in this Scheme Booklet; or
- a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if it had been known at the date of lodgement of this Scheme Booklet with ASIC for registration.

Depending on the nature and the timing of the changed circumstances and subject to obtaining any relevant approvals, Pepper may, in addition to releasing the supplementary information on the ASX, circulate and publish any supplementary document by any one or more of the following methods:

- placing an advertisement in a newspaper which is circulated generally throughout Australia;
- posting the supplementary document on Pepper's website at www.pepper.com.au; or
- posting the supplementary document to all Pepper Shareholders.

6.20 Other information material to the making of a decision in relation to the Scheme

Except as set out in this Scheme Booklet, there is no other information material to the making of a decision in relation to the Scheme being information that is within the knowledge of a Director or any director of a Related Body Corporate of Pepper that has not previously been disclosed to Pepper Shareholders.

7 Glossary

The following defined terms used throughout this Scheme Booklet have the meaning set out below unless the context otherwise requires.

Defined term	Meaning
Accounting Standards	<p>means:</p> <ul style="list-style-type: none"> (a) the accounting standards made by the Australian Accounting Standards Board in accordance with the Corporations Act, and the requirements of the Corporations Act relating to the preparation and content of accounts; and (b) generally accepted accounting principles that are consistently applied in Australia, except those inconsistent with the standards or requirements referred to in paragraph (a).
Adjusted Share Number	<p>means the number of Holdco Shares determined by:</p> <ul style="list-style-type: none"> (a) all Holdco Shares on issue (plus, until the date 6 months after the Implementation Date, the aggregate number of Pepper Shares held by Retained Pepper Shareholders), excluding Holdco Group incentive shares; minus (b) any Adjusted KKR Investor Shares (as defined in the Shareholders Deed).
Adjusted Share Ownership Percentage	<p>means, in respect to the Original Pepper Shareholders from time to time, the aggregate number of Holdco Shares held the Original Pepper Shareholders (plus, until the date 6 months after the Implementation Date, the aggregate number of Pepper Shares held by Retained Pepper Shareholders), excluding Holdco Group incentive shares, expressed as a percentage of the Adjusted Share Number.</p>
Affiliate	<p>means in respect of a person (Primary Person), a person:</p> <ul style="list-style-type: none"> (a) Controlled directly or indirectly by the Primary Person; (b) Controlling directly or indirectly the Primary Person; or (c) directly or indirectly under the common Control of the Primary Person and another person or persons. <p>Control as used in this definition with respect to any person (other than an individual), means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such person, whether through the ownership of voting securities, by agreement or otherwise, and includes the following:</p> <ul style="list-style-type: none"> (a) direct or indirect ownership of more than 50% of the voting rights of such person; or (b) the right to appoint the majority of the members of the board of directors of such person (or similar governing body) or to manage on a discretionary basis the assets of such person. <p>and, for the avoidance of doubt, and, solely for the purposes of this definition:</p> <ul style="list-style-type: none"> (c) a general partner is deemed to Control a limited partnership; (d) a fund, client or account advised or managed, directly or indirectly, by a person will also be deemed to be Controlled by such person; and (e) a fund, client or account will be deemed to be an Affiliate of the Primary Person if the fund, client or account is advised or managed, directly or indirectly, by a person Controlling directly or indirectly the Primary Person or a person directly or indirectly under the common Control of the Primary

Defined term	Meaning
	Person and another person or persons.
Appointing Beneficiary	has the meaning given to it in the “Bare trusts” section of the table in Section 4.6.
ASIC	means the Australian Securities and Investments Commission.
Asset Sale	means the sale of all or substantially all of the Holdco Business and assets of the Holdco Group to one or more third parties as part of a single transaction or a series of related transactions.
Associate	has the meaning set out in section 12 of the Corporations Act, as if section 12(1) of the Corporations Act included a reference to the Scheme Implementation Deed and Pepper was the designated body.
ASX	means ASX Limited (ABN 98 008 624 691) and, where the context requires, the financial market which it operates.
ASX Listing Rules	means the listing rules of ASX as amended, varied or waived from time to time.
AUM	means assets under management.
Australian Accounting Standards	means accounting standards as that term is defined in the Corporations Act.
Bad Leaver	means an individual party who is a Non-Investor Party who is or was engaged with a Holdco Group Company on or at any time after the Implementation Date and who becomes a Leaver as a result of the Holdco Group Company terminating the employment or other engagement of the individual party for cause.
Banco Primus	Banco Primus S.A Lisbon.
Bidco	means Red Hot Australia Bidco Pty Limited (ACN 620 321 600).
Bidco Group	means Bidco and each of its Related Bodies Corporate (excluding, at any time, Pepper and its Subsidiaries to the extent that Pepper and its Subsidiaries are subsidiaries of Bidco at that time), and a reference to a ‘ Bidco Group Member ’ or a ‘ member of the Bidco Group ’ is to Bidco or any such one of its Related Bodies Corporate.
Bidco Information	means the information contained in the following parts of the Scheme Booklet: <ul style="list-style-type: none"> (a) “Frequently Asked Questions” 1.3 and 7.1 to 7.7 (inclusive); (b) Section 2.12; (c) Section 4; (d) the second paragraph of Section 5.2(b); (e) Section 5.3; and (f) Section 6.10.
Business Day	means a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Sydney, Australia.
Cash Consideration	means \$3.60 cash per Pepper Share.

Defined term	Meaning
Cash Payments	means the cash payments made to Scheme Shareholders receiving Cash Consideration in respect of any Pepper Shares they hold (either because they have not made a valid election for the Equity Alternative for those Pepper Shares or because those Pepper Shares are subject to scale back as described in Section 2.5) representing an aggregate sum of \$3.70 for each of those Pepper Shares (being the aggregate of the Cash Consideration and the Special Dividend).
Catch-up Offeree	has the meaning given in the “Emergency Matter funding” section of the table in Section 4.6.
CGT	means capital gains tax imposed under Australian income tax law.
Citi	means Citigroup Global Markets Australia Pty Limited (ACN 003 114 832).
Competing Proposal	<p>means a proposal, transaction or arrangement which, if entered into or completed, would mean a person (other than Bidco or its Related Bodies Corporate) whether alone or together with its Associates would:</p> <p>(a) directly or indirectly, acquire a Relevant Interest in, become the holder of, or otherwise acquire, have the right to acquire or have an economic interest in more than 20% of the Pepper Shares;</p> <p>(b) directly or indirectly acquire, obtain a right to acquire, or otherwise obtain an economic interest in all or a material part of the assets of or business conducted by the Pepper Group;</p> <p>(c) acquire Control of Pepper; or</p> <p>(d) otherwise acquire or merge with Pepper,</p> <p>whether by way of takeover offer, scheme of arrangement, shareholder approved acquisition, capital reduction or buy-back, sale or purchase of shares or assets, joint venture, dual-listed company structure (or other synthetic merger), or other transaction or arrangement.</p>
Compulsory Transfer	means a transfer of Holdco Equity Securities following a Holdco Board determination that a Trigger Event has or will occur in respect of a Non-Investor Party pursuant to Schedule 1 of the Shareholders Deed.
Conditions Precedent	means the conditions precedent to the Scheme set out in clause 3.1 of the Scheme Implementation Deed. A summary of the Conditions Precedent is set out in Section 6.3(b)(i).
Constitution Amendment	means the proposed amendment to the Pepper Constitution as set out in the Notice of General Meeting and summarised in section 2.15 of this Scheme Booklet.
Constitution Amendment Resolution	means the resolution to approve the Constitution Amendment to be voted on at the General Meeting, as set out in the Notice of General Meeting at Annexure F and summarised in section 2.15 of this Scheme Booklet.
Control	has the meaning given to it in section 50AA of the Corporations Act.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth).
Corporations Regulations	means the <i>Corporations Regulations 2001</i> (Cth).
Court	means the Federal Court of Australia (Sydney registry) or such other court of competent jurisdiction under the Corporations Act agreed to in writing by Pepper

Defined term	Meaning
	and Bidco.
Custodian	means the independent third party trustee company appointed from time to time by Holdco to hold Holdco Equity Securities on bare trust in accordance with clause 22 of the Shareholders Deed and the Custodian Deed.
Custodian Deed	means the custodian deed entered into on or about the date of the Shareholders Deed between Holdco, the Custodian and the Appointing Beneficiaries.
Custodian Transfer	means a transfer of legal title to Holdco Equity Securities: <ul style="list-style-type: none"> (a) by a Holdco Securityholder to the Custodian to be held under a bare trust, either at the request of the Holdco Board or with the prior written consent of the Holdco Board; (b) in connection with the replacement of the Custodian in accordance with clause 11 of the Custodian Deed; or (c) by the Custodian to an Appointing Beneficiary as contemplated by the Shareholders Deed or otherwise with approval by a Holdco Board Special Majority.
Deadlocked Matter	means an action or transaction which is subject to approval in accordance with: <ul style="list-style-type: none"> (a) Part B of Schedule 3 of the Shareholders Deed and which is not approved in accordance with clause 5.1(b) of the Shareholders Deed following a proposal at a Holdco Board meeting or by written resolution to approve the action or transaction; or (b) Part C of Schedule 3 of the Shareholders Deed and which is not approved in accordance with clause 5.1(c) of the Shareholders Deed following a proposal or proposals (as applicable) at a Holdco Board meeting or by written resolution and proposal or proposals (as applicable) to the KKR Investors and Original Pepper Shareholders to approve the action or transaction.
Deed Poll	means the deed poll executed by Holdco and Bidco as set out in Annexure D.
Director or Pepper Director	means any current director of Pepper comprising part of the Pepper Board.
Disclosure Letter	means the letter identified as such provided by Pepper to Bidco and countersigned by Bidco on or about the date of the Scheme Implementation Deed.
Disclosure Materials	means the information in relation to the Pepper Group disclosed in writing by or on behalf of Pepper to Bidco and its Representatives in: <ul style="list-style-type: none"> (a) the documents and information contained in the data room made available by Pepper to Bidco and its Representatives, the index of which has been initialled by, or on behalf of, the parties for the purposes of identification; (b) any written answers to requests for further information made by Bidco and its Representatives as contained in the data room, a copy of which has been initialled by, or on behalf of, the parties for the purposes of identification; and (c) the Disclosure Letter.
Drag Seller	has the meaning given in the “Drag along rights” section of the table in Section 4.6.
EBIT	means earnings before interest and tax.

Defined term	Meaning
EBITDA	means earnings from ordinary continuing activities of the Pepper Group before interest, tax, depreciation and amortisation calculated in accordance with the accounting policies and principles applied by Pepper as at the date of the Scheme Implementation Deed, excluding all costs and expenses incurred by Pepper associated with the Scheme process and the Scheme, including all fees payable to external advisers of Pepper.
Effective	when used in relation to the Scheme, means the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under sections 411(4)(b) in relation to the Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.
Effective Date	means the date on which the Scheme becomes Effective.
Election Date	means 5.00pm on 9 November 2017.
Election Form	means an election form for the use of Pepper Shareholders who wish to elect either the Scrip Option or the Retention Option.
Eligible Pepper Shareholder	means: <ul style="list-style-type: none"> (a) in respect of a Scrip Option election, a Pepper Shareholder other than an Ineligible Foreign Shareholder; and (b) in respect of a Retention Option election, a Qualifying Tax Payer.
Emergency Matter	means any event or circumstance that results in, or the Holdco Board determines is reasonably likely to result in: <ul style="list-style-type: none"> (a) a default by a Holdco Group Company of any term or covenant under the financing documents of a Group Company (including any matter that would constitute a “review event” under the facilities); (b) any Holdco Group Company becoming insolvent; or (c) a change in the financial or operational affairs of any Holdco Group Company which would have a material adverse effect on the Holdco Group as a whole or any Holdco Group Company, and which can be addressed through the payment of money.
Encumbrance	means: <ul style="list-style-type: none"> (a) any legal or equitable interest or power reserved in or over any asset (or any interest in any asset) or created or otherwise arising or subsisting in or over any asset (or interest in any asset) under a charge, transfer, mortgage, pledge, lien, trust or power by way of security for the payment of a debt or the performance of any obligation; and (b) any “security interest” as defined in section 12(1) and 12(2) of the <i>Personal Property Securities Act 2009</i> (Cth), and includes any agreement to create any of them or allow them to exist.
End Date	means 31 December 2017, or such other date as agreed in writing between Pepper and Bidco.
Equity Alternative	means the Scrip Option and the Retention Option.
Equity Commitment Letter	has the meaning given in Section 4.3(a).

Defined term	Meaning
Exclusivity Period	means the period from and including the date of the Scheme Implementation Deed and ending on the earlier of: <ul style="list-style-type: none"> (a) the date of termination of the Scheme Implementation Deed in accordance with its terms (if terminated); (b) the Effective Date; and (c) the End Date.
Exit	means an Asset Sale, a Trade Sale or an IPO.
Fair Market Value	means, in respect of a Platform or the Holdco Group from time to time, the then most recently determined fair market value of that Platform or the Holdco Group (on an equity value basis rather than an enterprise value basis) determined in accordance with Schedule 8 of the Shareholders Deed.
Fairly Disclosed	means, in relation to a matter, event or circumstance, publicly disclosed to the ASX or disclosed to the relevant party or its Representatives to the extent, and in reasonably sufficient detail, so as to allow a reasonable and sophisticated bidder (or one of its Representatives) experienced in transactions similar to the Transaction and experienced in a business similar to any business conducted by the Pepper Group to identify or otherwise determine the nature and scope of the relevant matter, event or circumstance.
FIRB	means the Foreign Investment Review Board.
Funding SPV	means each entity, trust, subsidiary or special purpose vehicle, the sole or predominant business purpose of which is for financing warehouse securitisations, term securitisation transactions or the acquisition of securities from term securitisation transactions for the purpose of satisfying the prescribed risk retention requirements of any relevant jurisdiction.
FY	means financial year.
General Meeting	means the meeting of Pepper Shareholders at which the Constitution Amendment Resolution will be voted on and any adjournment of that meeting.
General Proxy Form	means the proxy form for the General Meeting as enclosed with this Scheme Booklet.
Government Agency	means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, including a stock or other securities exchange, or any minister of the Crown in right of the Commonwealth of Australia or any State or Territory, and any other federal, state, territorial, provincial or local government, whether foreign or Australian.
Holdco	means Red Hot Australia Holdco Pty Limited (ACN 620 321 351).
Holdco Board	means the board of Holdco Directors from time to time.
Holdco Board Special Majority	means approval by: <ul style="list-style-type: none"> (a) subject to paragraph (b) of this definition, a majority of the Holdco Board including at least 1 vote in favour of the resolution by a Holdco KKR Director (for so long as there is at least one KKR Director appointed to the Holdco Board in accordance with the Shareholders Deed) and, for so long as there is at least one Holdco Pepper Director appointed to the Holdco Board in accordance with the Shareholders Deed, at least 1 vote in favour

Defined term	Meaning
	of the resolution by a Holdco Pepper Director (other than the Holdco Group CEO where that person is not Michael Culhane)); and (b) in the case of a decision of the Holdco Board under paragraph (t) of Part B of Schedule 3 (related party transactions) of the Shareholders Deed or paragraph 5.6 of Schedule 2 of the Shareholders Deed, by the relevant Holdco Directors in accordance with that paragraph.
Holdco Business	means the business of the Holdco Group from time to time, including initially, lending, advisory services and asset servicing across the residential and commercial property sectors, as well as in consumer, auto and equipment finance.
Holdco Business Plan	means the plan for a period of time from time to time for the conduct of the Holdco Business comprising such details as the Holdco Board reasonably requires and stating the key assumptions on which it has been based, including an annual budget giving a reasonably based estimate of the income to be received, and the expenses to be incurred, in the Holdco Business for the relevant financial year.
Holdco Chairman	means the chairman of Holdco from time to time.
Holdco Constitution	means the constitution of Holdco from time to time.
Holdco Director	means a director of Holdco from time to time.
Holdco Equity Securities	means Holdco Shares and securities (of any type) convertible or exchangeable into Holdco Shares.
Holdco Group	means all the Holdco Group Companies.
Holdco Group CEO	means the chief executive officer of the Holdco Group from time to time.
Holdco Group CFO	means the chief financial officer of the Holdco Group from time to time.
Holdco Group Company	means: (a) Holdco; (b) any Subsidiary or other Related Body Corporate of Holdco; (c) any other entity in which an entity referred to in paragraph (a) or paragraph (b) of this definition holds an economic interest or of which that other entity is the trustee; or (d) any IPO Vehicle.
Holdco Pepper Director	means each Holdco Director nominated by the Original Pepper Shareholders and appointed under paragraph 1(b) of Schedule 2 of the Shareholders Deed.
Holdco Prescribed Occurrence	means the occurrence of an Insolvency Event in relation to Holdco or Bidco.
Holdco Securityholder	means a holder from time to time of any Holdco Equity Securities who is a party to the Shareholders Deed.
Holdco Share	means a fully paid ordinary share in the capital of Holdco.
Holdco Shareholders	means, from time to time, a person who holds Holdco Shares.

Defined term	Meaning
IFRS	means International Financial Reporting Standards.
Implementation Date	means the fifth Business Day after the Scheme Record Date, or such other date after the Scheme Record Date agreed to in writing between Pepper and Bidco.
Independent Board Committee or IBC	means the sub-committee of the Pepper Board, comprising (as at the date of this Scheme Booklet), Melanie Willis (Chair), Matthew Burlage and Des O’Shea.
Independent Expert or Grant Samuel	means Grant Samuel & Associates Pty Limited (ACN 050 036 372).
Independent Expert’s Report	means the report of the Independent Expert in connection with the Scheme as set out in Annexure B.
Ineligible Foreign Shareholder	means a Scheme Shareholder whose address shown in the Pepper Registry as at the Scheme Record Date is a place outside Australia or New Zealand unless Pepper and Bidco agree in writing that it is lawful and not unduly onerous or impracticable to issue Holdco Shares to that Scheme Shareholder if the Scheme Shareholder elects the Equity Alternative.
Initial KKR Investor	means Red Hot Singapore I Pte. Ltd. (UEN 201718013D).
Initial Period	has the meaning given in the “Fair Market Value” section of the table in Section 4.6.
Insolvency Event	means, in relation to an entity: <ul style="list-style-type: none"> (a) the entity resolving that it be wound up or a court making an order for the winding up or dissolution of the entity; (b) the entity being in liquidation, in provisional liquidation, under administration or wound up or a liquidator, provisional liquidator, administrator, receiver, receiver and manager or other insolvency official being appointed to the entity or in relation to the whole, or a substantial part, of its assets; (c) the entity being subject to any arrangement, assignment, moratorium or composition, protected from creditors under any statute or dissolved or the entity executing a deed of company arrangement (in each case, other than to carry out a reconstruction or amalgamation while solvent on terms approved by the other parties to this document); (d) the entity ceases, or threatens to cease to, carry on substantially all the business conducted by it as at the date of this deed; (e) the entity is or becomes unable to pay its debts when they fall due within the meaning of the Corporations Act (or, if appropriate, legislation of its place of incorporation) or is otherwise presumed to be insolvent under the Corporations Act; (f) an application or order having been made (an in the case of an application, it is not stayed, withdrawn or dismissed within 14 days), resolution passed, or any other action having been taken, in each case in connection with that person, in respect of any of the things described in paragraph (a), (b), (c), (d) or (e); (g) the entity being taken (under section 459F(1) of the Corporations Act) to have failed to comply with a statutory demand; (h) the entity being subject of an event described in section 459C(2)(b) or section 585 of the Corporations Act (or the entity making a statement from

Defined term	Meaning
	<p>which another party to this document reasonably deduces it is so subject); or</p> <p>(i) the entity being deregistered as a company or otherwise dissolved.</p>
Interim Dividend	means the fully franked cash dividend of 3 cents per Pepper Share that was paid on 5 October 2017.
IPO	means initial public offering.
IPO Vehicle	means any Related Body Corporate (actual or proposed) of Holdco and/or any special purpose vehicle established for the purpose of an IPO.
KCA	means KKR Credit Advisors (US) LLC.
Key Employees	means the Group Chief Executive Officer, the Group Chief Financial Officer, the Chief Executive Officer of the Pepper Group's business in South Korea, Spain, the United Kingdom and Ireland, the Head of the Australian Mortgage business and the Head of the Australian Asset Finance business.
KKR	means KKR & Co together with its affiliates.
KKR & Co	means Kohlberg Kravis Roberts & Co. L.P.
KKR Credit	means certain funds, clients or accounts managed or advised by KCA or its affiliates.
KKR Director	means each Holdco Director nominated by the KKR Investors and appointed by the KKR Investors in accordance with paragraph 1(a) of Schedule 2 of the Shareholders Deed.
KKR Investors	means the Initial KKR Investors and any other Holdco Securityholder who executes a deed of adherence in accordance with the Shareholders Deed as a KKR Investor (in each case, for so long as the Initial KKR Investor or other Holdco Securityholder holds any Holdco Equity Securities or other securities for which Holdco Equity Securities are exchanged in accordance with the Shareholders Deed) and KKR Investor means any one of them.
KKR Super Majority	means approval by KKR Investors with an aggregate Security Ownership Percentage of at least 66.67% (for the purposes of this definition Security Ownership Percentage will be determined as if paragraph (b) of that definition referred to the aggregate number of all Holdco Equity Securities held by the KKR Investors).
Leaver	<p>means an individual party who is or was engaged by a Holdco Group Company and:</p> <p>(a) ceases to be engaged by a Holdco Group Company;</p> <p>(b) gives or receives notice of cessation, recession or termination which will lead to the individual party ceasing to be engaged by a Holdco Group Company; or</p> <p>(c) if the individual party is employed or engaged in a Platform's division of the Holdco Business, there is a sale of the Platform by way of an initial public offering of the Platform and a Holdco Group Company retains an interest in the Platform of greater than 50%, the individual party continues to be employed or engaged by the Holdco Group Company with the interest in the Platform,</p> <p>unless, in the case of a person employed or engaged by a Holdco Group</p>

Defined term	Meaning
	Company, the person is contemporaneously re-employed or re-engaged in another position or office on terms acceptable to the Holdco Group Company. For the avoidance of doubt, a leave of absence approved by a Holdco Group Company will not be construed as ceasing to be engaged by a Holdco Group Company if the underlying relationship of employment or office holding remains during that absence.
LTIP	means Pepper Group's long term incentive plan as described in Section 6.6.
Material Contract	means a contract or commitment requiring payments by a Pepper Group Member or by Pepper Group Members together to the same party or a group of related parties over the term of the contract in excess of \$10 million.
Maximum Election Cap	has the meaning given in Section 2.5(b).
Meeting	means the Scheme Meeting or the General Meeting and ' Meetings ' means, collectively, the Scheme Meeting and the General Meeting.
Meeting Record Date	means 7.00pm on 13 November 2017, or such other date as may be agreed in writing between the Bidder and Pepper or as may be required by ASX.
Minimum Election Condition Precedent	has the meaning given in Section 2.6.
Non-Executive Directors	means Seumas Dawes, Matthew Burlage, Des O'Shea and Melanie Willis.
Non-Investor Party	means each party (other than Holdco who is not a KKR Investor, and which includes: <ul style="list-style-type: none"> (a) each Original Pepper Shareholder; (b) each related Non-Investor Party of an Original Pepper Shareholder; and (c) each party listed in Schedule 7 of the Shareholders Deed, but excludes each Retained Pepper Shareholder for so long as neither it nor any of its related Retained Pepper Shareholders holds any Holdco Equity Securities.
Non-Investor Security Holder	means each Holdco Securityholder who is not a KKR Investor, including each Original Pepper Shareholder for so long as it holds any Holdco Equity Securities or other securities for which Holdco Equity Securities are exchanged in accordance with the Shareholders Deed or is an Appointing Beneficiary for whom the Custodian holds any securities on bare trust.
Non-Solicit Period	means in respect of each Non-Investor Party, the period from the date the Non-Investor Party, or, if applicable any of its related Non-Investor Parties, first becomes a party to the Shareholders Deed until the date: <ul style="list-style-type: none"> (a) 24 months after its Restraint Trigger Time; or (b) 18 months after its Restraint Trigger Time; or (c) 12 months after its Restraint Trigger Time; or (d) 6 months after its Restraint Trigger Time; or (e) 3 months after its Restraint Trigger Time.

Defined term	Meaning
Notice of General Meeting	means the notice of the General Meeting set out in Annexure F.
Notice of Scheme Meeting	means the notice of the Scheme Meeting set out in Annexure E.
OPS ROFR	has the meaning given in the “Restrictions on transfer” section of the table in Section 4.6.
Ordinary Share Percentage	<p>means with respect to any Holdco Securityholder or Holdco Securityholders from time to time:</p> <p>(a) the aggregate number of all Holdco Shares held by that Holdco Securityholder or those Holdco Securityholders, as applicable,</p> <p>(b) expressed as a percentage of the aggregate number of all Holdco Shares on issue at that time,</p> <p>in each case, excluding all Holdco Group incentive shares then on issue.</p>
Original Pepper Shareholders	has the meaning given in Section 5.3(b)(iii).
Participant	means a person to whom Pepper Shares are issued or performance rights granted, or to (or for) whom the Trustee has issued units or holds Pepper Shares, under an employee incentive scheme established by Pepper under the Pepper Group Employee Incentive Plan and governed by the rules relating to the Pepper Group Employee Incentive Plan (as amended).
Pepper	means Pepper Group Limited (ABN 55 094 317 665).
Pepper Acquisition Determination	has the meaning given in the “Post-Scheme acquisition of Pepper Shares” section of the table in Section 4.6.
Pepper Board	means the board of directors of Pepper or any relevant board committee authorised by the board of directors to exercise powers of the full board, and a reference to and a ‘ Pepper Director ’ or ‘ Director ’ means any director of Pepper comprising part of the Pepper Board.
Pepper Consolidated Tax Group	means the Consolidated Group of which Pepper is the head company (as defined for the purposes of the <i>Income Tax Assessment Act 1997</i> (Cth))
Pepper Constitution	means the constitution of Pepper from time to time.
Pepper Group	means Pepper and each of its Subsidiaries, and a reference to an ‘ Pepper Group Member ’ or a ‘ member of the Pepper Group ’ is to Pepper or any of its Subsidiaries.
Pepper Information	means the information contained in this Scheme Booklet other than the Bidco Information, the Tax Adviser’s Report and the Independent Expert’s Report.

Defined term	Meaning
Pepper Majority	means approval by Original Pepper Shareholders with an aggregate Ordinary Share Percentage of at least 50.01% (for the purposes of this definition Ordinary Share Percentage will be determined as if paragraph (b) of that definition referred to the aggregate number of Holdco Shares held by the Original Pepper Shareholders).
Pepper Material Adverse Change	<p>means an event, change, matter or circumstance that occurs, is announced or becomes known to Bidco (including a person announcing, commencing or threatening any claim, dispute or litigation against a Pepper Group Member, whether or not it becomes public, after the date of this deed which (in each case determined in accordance with the Accounting Standards) has, has had or would reasonably be expected to result in, either individually or when aggregated with any other events, changes, matters or circumstances of a similar kind or category:</p> <p>(a) a diminution in the consolidated net assets of the Pepper Group by at least \$47 million, and calculated on a pro forma basis excluding limited recourse funding vehicles in a manner consistent with the basis of presentation contained on page 24 of the Pepper Group's Investor Presentation in respect of the 2016 calendar year and released to the ASX on 24 February 2017, against what it would reasonably have been expected to have been but for such event, change, matter or circumstance; or</p> <p>(b) a diminution in the EBITDA such that, if the change occurred as at 1 October 2017, there would have been a reduction by at least 15% (on a projected basis) of the EBITDA of the Pepper Group over the period from 1 October 2017 to 30 September 2018 against what it would reasonably have been expected to have been but for such event, change, matter or circumstance.</p> <p>but does not include any event, change, matter or circumstance:</p> <p>(c) required to be done or procured by Pepper, or expressly permitted, under this deed or the Scheme or the transactions contemplated by either;</p> <p>(d) which Bidco has previously approved in writing;</p> <p>(e) that was Fairly Disclosed in the Disclosure Materials;</p> <p>(f) that was Fairly Disclosed in documents that were publicly available prior to the date of this deed from public filings of Pepper with ASX;</p> <p>(g) relating to the costs and expenses incurred by Pepper associated with the Scheme process, including all fees payable to external advisers of Pepper, to the extent such amounts or estimates of such amounts are Fairly Disclosed in the Disclosure Materials; or</p> <p>(h) comprising or resulting from a change (including the implementation or introduction of a previously announced or made change) in any applicable law or governmental policy, any Accounting Standards, general or political conditions (including changes in foreign exchange rates and commodity prices) or financial markets, whether in Australia or elsewhere.</p>
Pepper Option	means an option over an unissued ordinary share in Pepper.
Pepper Prescribed Occurrence	<p>means, other than as:</p> <p>(a) required or expressly permitted by the Scheme Implementation Deed, the Scheme or the transactions contemplated by either;</p> <p>(b) Fairly Disclosed in the Disclosure Materials;</p> <p>(c) Fairly Disclosed in documents that were publicly available prior to the date of the Scheme Implementation Deed from public filings of Pepper with</p>

Defined term	Meaning
	ASX; or
(d)	agreed to in writing by Bidco (in the case of paragraph (r), such agreement not to be unreasonably withheld or delayed);
	the occurrence of any of the following events after the date of the Scheme Implementation Deed:
(e)	Pepper converts all or any of its shares into a larger or smaller number of shares;
(f)	Pepper resolves to reduce its share capital in any way;
(g)	Pepper reclassifies, combines, splits or redeems or repurchases directly or indirectly any of its shares, other than any on market acquisition of shares to satisfy: <ul style="list-style-type: none"> (i) the vesting, or release of forfeiture conditions in respect of (or the making of provision for either of these occurrences in respect of), any Pepper Rights listed in Schedule 2 of the Scheme Implementation Deed in accordance with their terms, including as amended as contemplated by clause 3.1(b) of the Scheme Implementation Deed; or (ii) the exercise of any Pepper Options listed in Schedule 2 of the Scheme Implementation Deed in accordance with their terms, including as amended as contemplated by clause 3.1(b) of the Scheme Implementation Deed;
(h)	Pepper: <ul style="list-style-type: none"> (i) enters into a buy-back agreement; or (ii) resolves to approve the terms of a buy-back agreement under the Corporations Act;
(i)	a member of the Pepper Group issues shares, or grants an option over its shares (including the issue of any shares in respect of any Pepper Rights or Pepper Options not listed in Schedule 2 of the Scheme Implementation Deed), or agrees to make such an issue or grant such an option, other than: <ul style="list-style-type: none"> (i) to Pepper or a directly or indirectly wholly-owned Subsidiary of Pepper; or (ii) the issue of shares upon either: <ul style="list-style-type: none"> (A) the vesting, or release of forfeiture conditions in respect of (or the making of provision for either of these occurrences in respect of) Pepper Rights in accordance with their terms (but only in respect of Pepper Rights for which Pepper Shares are not on issue at the date of the Scheme Implementation Deed); or (B) the exercise of any Pepper Options in accordance with their terms, (but only in respect of Pepper Options for which Pepper Shares are not on issue at the date of the Scheme Implementation Deed and as provision for their exercise), <p style="margin-left: 40px;">and in both cases provided that the total number of shares on the Implementation Date does not exceed the Maximum Share Number (being 184,368,905 Pepper</p>

Defined term	Meaning
	Shares, or such higher number as is agreed between Pepper and the Bidco);
(j)	<p>a member of the Pepper Group issues or agrees to issue securities or other instruments convertible into shares or debt securities (including any issue or grant of Pepper Rights) other than:</p> <p>(i) to Pepper or another Pepper Group Member; or</p> <p>(ii) the issue of shares upon either:</p> <p>(A) the vesting, or release of forfeiture conditions in respect of (or the making of provision for either of these occurrences in respect of) Pepper Rights in accordance with their terms (but only in respect of Pepper Rights for which Pepper Shares are not on issue at the date of the Scheme Implementation Deed); or</p> <p>(B) the exercise of any Pepper Options in accordance with their terms (but only in respect of Pepper Options for which Pepper Shares are not on issue at the date of the Scheme Implementation Deed as provision for their exercise),</p> <p>and in both cases provided that the total number of shares on the Implementation Date does not exceed the Maximum Share Number (being 184,368,905 Pepper Shares, or such higher number as is agreed between Pepper and the Bidco);</p>
(k)	Pepper adopts a new constitution or modifies or repeals its constitution or a provision of it;
(l)	any member of the Pepper Group disposes, or agrees to dispose of the whole or a substantial part of its business or property (but for the avoidance of doubt excluding any sale of loans as part of a Whole Loan Sale);
(m)	<p>any member of the Pepper Group creates, or agrees to create, any Encumbrance over the whole, or a substantial part, of its business or property other than:</p> <p>(i) to Pepper or another Pepper Group Member;</p> <p>(ii) any security required in connection with Pepper's debt facilities Fairly Disclosed in the Disclosure Materials;</p> <p>(iii) a lien which arises by operation of law or legislation securing an obligation that is not yet due; or</p> <p>(iv) by a Funding SPV in its ordinary course of business and consistent with past practice.</p>
(n)	<p>any member of the Pepper Group:</p> <p>(i) hiring or terminating the employment or engagement of any Key Employees or director other than any termination for serious cause entitling immediate dismissal;</p> <p>(ii) pays any of its directors or Key Employees a termination or retention payment (otherwise than in accordance with an existing</p>

Defined term	Meaning
	contract in place at the date of the Scheme Implementation Deed).
(o)	an Insolvency Event occurs in relation to a member of the Pepper Group;
(p)	Pepper makes or declares, or announces an intention to make or declare, any distribution (whether by way of dividend, capital reduction or otherwise and whether in cash or in specie), other than the Permitted Dividend, the Special Dividend or to a Pepper Group Member;
(q)	a Pepper Group Member: <ul style="list-style-type: none"> (i) enters into, agrees to enter into, or terminates a Material Contract; (ii) terminates or amends in a material manner (other than due to default by the counterparty with which the Pepper Group Member has contracted, due to illegality or on the basis that the continuation of the contract may cause damage to Pepper's reputation): <ul style="list-style-type: none"> (A) one or more servicing contracts (where a Pepper Group Member is the servicer or performs a similar role) which, in aggregate, over the 12 months following the respective date of termination or amendment, would have entitled the Pepper Group (but for the termination or the amendment) to revenue of an amount equal to 7.5% of the Pepper Group's revenue in the 12 months immediately preceding the date of the Scheme Implementation Deed; or (B) any other contract which is material to the conduct of the Pepper Group's business or which involves revenue of more than \$10 million over the term of the contract; (iii) waiving any material third party default where the financial impact of the waiver on the Pepper Group as a whole will be in excess of \$2.5 million (individually or in aggregate) other than in the ordinary course of the Pepper Group's lending business; or (iv) accepting as a settlement or compromise of a material matter (relating to an amount in excess of \$5 million) less than 80% of the full compensation due to Pepper or a Pepper Group Member (unless based on advice of appropriate legal counsel and a determination by Pepper that it would be in the best interests of the Pepper Group Member to accept such amount);
(r)	a member of the Pepper Group entering into a contract or commitment, other than as Fairly Disclosed in the Disclosure Materials, which materially restrains a member of the Pepper Group from competing with any person or conducting activities in any material market;
(s)	a member of the Pepper Group entering into or resolving to enter into a transaction with any related party of Pepper (other than a related party which is a member of the Pepper Group) as defined in section 228 of the Corporations Act which would require shareholder approval under Chapter 2E or under Chapter 10 of the Listing Rules; or
(t)	a member of the Pepper Group doing anything that would result in a de-consolidation of the Pepper Consolidated Tax Group, other than acquiring or disposing of a wholly owned subsidiary (subject always to the other provisions of the Scheme Implementation Deed).

Defined term	Meaning
Pepper Registry	means Computershare Investor Services Pty Ltd (ACN 078 279 277).
Pepper Right	means a right or other entitlement granted under a Pepper employee incentive scheme or plan to acquire by way of issue or transfer (or have vesting or forfeiture conditions satisfied in respect of) one or more Pepper Shares subject to the terms of such scheme or plan.
Pepper Share	means a fully paid ordinary share in the capital of Pepper.
Pepper Shareholder	means each person who is registered in the Register from time to time as the holder of a Pepper Share.
Pepper Super Majority	means approval by Original Pepper Shareholders with an aggregate Ordinary Share Percentage of at least 66.67% (for the purposes of this definition Ordinary Share Percentage will be determined as if paragraph (b) of that definition referred to the aggregate number of Holdco Shares held by the Original Pepper Shareholders).
Platform	means: <ul style="list-style-type: none"> (a) a business of a Holdco Group Company owned on the Implementation Date in Australia, South Korea, Hong Kong Special Administrative Region and China, United Kingdom, Ireland, Spain, Italy, Canada or the Philippines; (b) if acquired by a Holdco Group Company, any business which a Group Company enters into a binding agreement to acquire prior to the Implementation Date and which has annual revenues in the 12 months prior to acquisition of \$10,000,000 or more; and (c) any business or platform a Holdco Group Company acquires following the Implementation Date in Australia, South Korea, Hong Kong Special Administrative Region and China, United Kingdom, Republic of Ireland, Spain, Italy, Canada, the Philippines or the country of operation of a business referred to in paragraph (b) which is in the same business line as a business referred to in paragraph (a) or (b) of this definition and is operationally integrated with that business (to avoid doubt, excluding any such business or platform which offers products or services not offered by a business referred to in paragraph (a) or (b) of this definition).
Post-Scheme Restructure	means a transaction or transactions which result in the Retained Pepper Shareholders and the Holdco Securityholders owning securities in the same ultimate parent company of the Holdco Group and not in any Subsidiary of that parent company.
Proxy Form	means, as the context requires, the Scheme Proxy Form or the General Proxy Form, and ' Proxy Forms ' means both of them.
PwC	means PricewaterhouseCoopers.
Qualifying Tax Payer	means a Pepper Shareholder other than an Ineligible Foreign Shareholder who has: <ul style="list-style-type: none"> (a) declared to Pepper (as set out in the Election Form) that if Holdco Shares were to be issued to them as Scheme Consideration, it would result in tax becoming payable in a jurisdiction other than Australia or New Zealand for that Pepper Shareholder or its associate (including a beneficiary of a trust of which the Pepper Shareholder is the trustee) without the benefit of Roll-over Relief; and (b) lodged with their Election Form a copy of a certificate from their

Defined term	Meaning
	professional tax adviser (in a form prescribed by Pepper) certifying that the declaration made by them under paragraph (a) is correct.
Register	means the register of Pepper Shareholders maintained by the Pepper Registry in accordance with the Corporations Act.
Related Body Corporate	has the meaning given in section 50 of the Corporations Act, as modified by any legislative instrument issued by ASIC.
Relevant Interest	has the meaning given to it in sections 608 and 609 of the Corporations Act.
Replacement Pepper Constitution	has the meaning given in Section 4.7(a).
Representative	means, in relation to a party: <ul style="list-style-type: none"> (a) its Related Bodies Corporate; (b) a director, officer, employee of the party or any of the party's Related Bodies Corporate; or (c) an adviser to the party or any of the party's Related Bodies Corporate.
Requisite Majority	means: <ul style="list-style-type: none"> (a) in relation to the resolution to be put to the Scheme Meeting, the resolution being passed by a majority in number (more than 50%) of Pepper Shareholders, who are present and voting, either in person or by proxy, attorney or in the case of a corporation its duly appointed corporate representative and passed by at least 75% of the votes cast on the resolution. The Court has the discretion to waive the first requirement; and (b) in relation to the resolution to be put to the General Meeting, the resolution being passed by at least 75% of the votes cast by Pepper Shareholders present and voting (in person or by proxy, corporate representative or attorney), <p>and 'Requisite Majorities' means the requisite voting majorities set out in paragraphs (a) and (b) above.</p>
Resolutions	means collectively: <ul style="list-style-type: none"> (a) the Scheme Resolution; and (b) the Constitution Amendment Resolution.
Restraint Area	means in respect of each Non-Investor Party other than each Restraint Exempt Non-Investor Party: <ul style="list-style-type: none"> (a) each country in which the Holdco Group operates, or in respect of which the Holdco Group is actively taking steps with an intention to operate at a future time, in each case, as at its Restraint Trigger Time; or (b) any state, county, dominion or territory within any country in which the Holdco Group operates, or in respect of which the Holdco Group is actively taking steps with an intention to operate at a future time, in each case, as at its Restraint Trigger Time, <p>subject to certain qualifications and exceptions set out in clause 16.3(b) of the Shareholders Deed.</p>

Defined term	Meaning
Restraint Exempt Non-Investor Party	<p>means a Non-Investor Party who has not at any time on or after the Implementation Date:</p> <ul style="list-style-type: none"> (a) been, and none of whose related Non-Investor Parties at any time on or after the Implementation Date has been, engaged by a Holdco Group Company; and (b) collectively with its related Non-Investor Parties from time to time, had a Security Ownership Percentage of 2% or greater.
Restraint Period	<p>means:</p> <ul style="list-style-type: none"> (a) in respect of a Tier 1 Non-Investor Party, the period from the date the Non-Investor Party or any of its related Non-Investor Parties first becomes a party to the Shareholders Deed until the date: <ul style="list-style-type: none"> (i) 12 months after its Restraint Trigger Time; or (ii) 6 months after its Restraint Trigger Time; or (iii) 3 months after its Restraint Trigger Time; (b) in respect of a Tier 2 Non-Investor Party, the period from the date the Non-Investor Party or any of its related Non-Investor Parties first becomes a party to the Shareholders Deed until the date: <ul style="list-style-type: none"> (i) 6 months after its Restraint Trigger Time; or (ii) 3 months after its Restraint Trigger Time; or (iii) 2 months after its Restraint Trigger Time; or (iv) 1 months after its Restraint Trigger Time; (c) in respect of a Tier 3 Non-Investor Party, the period from the date the Non-Investor Party or any of its related Non-Investor Parties first becomes a party to the Shareholders Deed until the date: <ul style="list-style-type: none"> (i) 3 months after its Restraint Trigger Time; or (ii) 2 months after its Restraint Trigger Time; or (iii) 1 months after its Restraint Trigger Time.
Restraint Trigger Time	<p>means:</p> <ul style="list-style-type: none"> (a) in respect of a Non-Investor Party who is or has at any time on or after the Implementation Date been, or any of whose related Non-Investor Parties are or have at any time on or after the Implementation Date been, engaged by a Holdco Group Company: <ul style="list-style-type: none"> (i) if the Non-Investor Party or its relevant related Non-Investor Party (whomever was engaged by a Holdco Group Company) is placed by a Holdco Group Company on “garden leave” (or other comparable leave) under the terms of his or her employment or other engagement and the Holdco Group Company gives (whether at the time of placing him or her on garden leave or any time during the leave period) written notice terminating the Non-Investor Party’s employment or other engagement, and during that period of leave the relevant Non-Investor Party does not perform any role or responsibilities for the Holdco Group or otherwise have access to any confidential information, the date on

Defined term	Meaning
	<p>which the garden leave commences; or</p> <p>(ii) if paragraph (a)(i) of this definition does not apply, the date on which the Non-Investor Party or its relevant related Non-Investor Party ceases to be engaged by a Holdco Group Company; and</p> <p>(b) in respect of a Non-Investor Party not referred to in paragraph (a) of this definition, the date on which the Non-Investor Party and its related Non-Investor Parties cease to hold any Holdco Equity Securities.</p>
Retained Pepper Share	means those Pepper Shares retained by Scheme Shareholders under the Retention Option.
Retained Pepper Shareholder	means the holder of a Retained Pepper Share.
Retention Cap	has the meaning given in Section 2.5(a).
Retention Option	means the Scheme Consideration alternative described in Section 2.4(b)(ii).
ROFO	means a right of first offer.
Roll-over Relief	means either the non-recognition or deferred recognition for tax purposes of a gain.
Scheme	means the scheme of arrangement under Part 5.1 of the Corporations Act between Pepper and the Scheme Shareholders, attached as Annexure C, subject to any alterations or conditions as agreed between Pepper and Bidco in writing or made or required by the Court under section 411(6) of the Corporations Act and agreed to by Pepper and Bidco.
Scheme Booklet	means this booklet.
Scheme Consideration	<p>means:</p> <p>(a) subject to paragraphs (b) and (c) of this definition, the Cash Consideration in respect of all Pepper Shares held by a Scheme Shareholder on the Scheme Record Date; or</p> <p>(b) if a Scheme Shareholder validly elects the Scrip Option, one Holdco Share for each Pepper Share held by the Scheme Shareholder on the Scheme Record Date (subject to scale back); or</p> <p>(c) if a Scheme Shareholder validly elects the Retention Option, all Pepper Shares held by the Scheme Shareholder on the Scheme Record Date will be retained by them (subject to scale back).</p>
Scheme Implementation Deed	means the Scheme Implementation Deed dated 10 August 2017 between Pepper and Bidco relating to the implementation of the Scheme (as amended), a full copy of which was lodged with ASX on 10 August 2017 and which is summarised in Section 6.3(b).
Scheme Meeting	means the meeting of Pepper Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on this Scheme and includes any meeting convened following any adjournment or postponement of that meeting.
Scheme Proxy Form	means the proxy form for the Scheme Meeting enclosed with this Scheme Booklet.

Defined term	Meaning
Scheme Record Date	means 27 November 2017, or such other date as notified by Pepper to ASX.
Scheme Resolution	means the resolution in relation to the Scheme to be voted on at the Scheme Meeting, as set out in the Notice of Scheme Meeting set out in Annexure E.
Scheme Share	means a Pepper Share held by a Scheme Shareholder as at the Scheme Record Date.
Scheme Shareholder	means a holder of Pepper Shares recorded in the Register as at the Scheme Record Date.
Scrip Option	means for each Pepper Share in respect of which a Scheme Shareholder makes a valid election, one Holdco Share (subject to scale back).
Second Court Date	means the first day on which an application made to the Court for an order under paragraph 411(4)(b) of the Corporations Act approving the Scheme is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application or appeal is heard.
Second Court Hearing	means the hearing at which the application to the Court for an order under paragraph 411(4)(b) of the Corporations Act approving the Scheme is heard.
Security Ownership Percentage	<p>means when calculated with respect to any Holdco Securityholder or Holdco Securityholders from time to time:</p> <p>(a) the aggregate number of all Holdco Equity Securities held by that Holdco Securityholder or those Holdco Securityholders, as applicable;</p> <p>(b) expressed as a percentage of the aggregate number of all Holdco Equity Securities held by all Holdco Securityholders at that time (excluding any Holdco Group incentive shares),</p> <p>provided that:</p> <p>(c) all Holdco Equity Securities held by the Holdco Securityholders at the time will be treated as in the same class; and</p> <p>(d) for the purpose of the relevant calculation only, all Holdco Equity Securities on issue at the time which are convertible into Holdco Equity Securities or another class of Holdco Equity Securities (other than any relevant Holdco Group incentive shares), will be treated as if they had been converted into Holdco Shares (or such other class of Holdco Equity Securities in which they are convertible) immediately prior to the date of the relevant issue notice or the time of the calculation, as applicable.</p>
Selling Investor	has the meaning given in the “Tag along rights” section of the table in Section 4.6.
Shareholders Deed	means the shareholders deed in relation to Holdco in the form lodged with ASX on 10 August 2017.
Singco	means Red Hot Singapore I Pte. Ltd (company number: 201 718 013D).
Special Dividend	<p>means a fully franked cash dividend of 10 cents per Pepper Share on all Pepper Shares held by a Pepper Shareholder as at the Special Dividend Record Date:</p> <p>(a) if the Pepper Shareholder has not made a valid election for the Equity Alternative;</p> <p>(b) that will be Transferring Shares by operation of clause 6.5(b) of the Scheme; or</p>

Defined term	Meaning
	(c) in respect of which clause 5.4(g) of the Scheme will operate to deem the Pepper Shareholder to receive Scheme Consideration in the form of cash.
Special Dividend Payment Date	means 4 December 2017, or such other date as notified by Pepper to ASX.
Special Dividend Record Date	means 23 November 2017, or such other date as notified by Pepper to ASX.
Standstill Period	means the period from the date of the Shareholders Deed to the date 12 months after the Implementation Date.
Subsidiaries	<p>has, in relation to an entity, the meaning given in Division 6 of Part 1.2 of the Corporations Act but so that:</p> <p>(a) an entity will also be deemed to be a “Subsidiary” of an entity if that entity is required by the accounting standards to be consolidated with that entity;</p> <p>(b) a trust or fund may be a “Subsidiary”, for the purposes of which any units or other beneficial interests will be deemed shares; or</p> <p>(c) a corporation or trust or fund may be a “Subsidiary” of a trust or fund if it would have been a Subsidiary if that trust or fund were a corporation.</p>
Superior Proposal	<p>means a bona fide Competing Proposal which the Pepper Board, acting in good faith, and after taking written advice from its legal advisers and advice from its financial advisers, determines:</p> <p>(a) is reasonably capable of being valued and completed, taking into account all aspects of the Competing Proposal, including its conditions, the identity, reputation and financial condition of the person making such proposal, and legal, regulatory and financial matters; and</p> <p>(b) would, if completed substantially in accordance with its terms, be more favourable to Pepper Shareholders than the Transaction viewed in aggregate, taking into account all terms and conditions of the Competing Proposal (including consideration, conditionality, funding, certainty and timing).</p>
Tax Adviser’s Report	means the report issued by PwC which provides a general description of the Australian tax implications for certain Pepper Shareholders in connection with the Scheme and the Special Dividend and which is contained in Annexure A.
Third Party	means a person other than Bidco or any of their respective Associates.
Tier 1 Non-Investor Party	<p>means any of the following:</p> <p>(a) an individual party who at any time on or after the Implementation Date holds or held the position of Holdco Group CEO, Holdco Group CFO, a country chief executive officer of a Platform, the head of Australian mortgages or the head of “Australian Asset Finance”;</p> <p>(b) an individual party who at any time holds or held the position of a director of a Holdco Group Company after the Implementation Date;</p> <p>(c) any other person the Board resolves will be a “Tier 1 Non-Investor Party” for the purposes of the Shareholders Deed and who executes a deed of adherence in accordance with the Shareholders Deed specifying that he or it is a Tier 1 Non-Investor Party; and</p> <p>(d) a related Non-Investor Party of a person referred to in paragraph (a), (b) or (c) of this definition.</p>

Defined term	Meaning
Tier 2 Non-Investor Party	means any of the following: <ul style="list-style-type: none"> (a) an individual party who is not a Tier 1 Non-Investor Party and who is at any time on or after the Implementation Date a member of the Holdco Group's Global Executive Committee (or equivalent); (b) any other person the Holdco Board resolves will be a "Tier 2 Non-Investor Party" for the purposes of the Shareholders Deed and who executes a Deed of Adherence specifying that he or it is a Tier 2 Non-Investor Party; and (c) a related Non-Investor Party of a person referred to in paragraph (a) or (b) of this definition.
Tier 3 Non-Investor Party	means a Non-Investor Party who is not a Tier 1 Non-Investor Party, a Tier 2 Non-Investor Party or a Restraint Exempt Non-Investor Party.
Trade Sale	means a sale or series of related sales of all or substantially all of the Holdco Equity Securities (other than in connection with an IPO).
Transaction	means: <ul style="list-style-type: none"> (a) the proposed acquisition of the Scheme Shares (excluding Retained Pepper Shares) by Bidco through implementation of the Scheme in accordance with the terms of Scheme Implementation Deed; and (b) all associated transactions and steps contemplated in the Scheme Implementation Deed.
Transfer Securities	has the meaning given in the "Compulsory Transfers" section of the table in Section 4.6.
Trigger Event	has the meaning given in the "Compulsory Transfers" section of the table in Section 4.6.
Trigger Event Price	has the meaning given in the "Compulsory Transfers" section of the table in Section 4.6.
Transferring Shares	means Scheme Shares that are not Retained Pepper Shares.
Trustee	means, as the context requires, either (or both) Computershare Trustees (Ireland) Limited (a company registered in Ireland) or (and) CPU Share Plans Pty Limited (ACN 081 600 875).
Upstream Change of Control	means, in respect of a Non-Investor Party which is not an individual, if a change occurs after the date of the Shareholders Deed such that (in the opinion of the Holdco Board, acting reasonably) a new person or persons directly or indirectly have the power to: <ul style="list-style-type: none"> (a) direct the management or policies of the Non-Investor Party; or (b) control the membership of the board of the Non-Investor Party, whether or not the power is legally binding or arises out of formal or informal arrangements.
VWAP	means volume weighted average price.
Whole Loan Sale	means a sale by a Pepper Group Member of a portfolio of loans to a third party in the ordinary course of the Pepper Group's business.

Annexure A – Tax Adviser’s Report



Private & Confidential

The Directors
Pepper Group Limited
Level 27, 177 Pacific Highway
North Sydney NSW 2060

12 October 2017

Dear Directors

Scheme of Arrangement and Special Dividend - General Tax Implications

We have been engaged by Pepper Group Limited (**Pepper**) to provide a general summary of the Australian income tax, goods and services tax (**GST**), and stamp duty implications for certain shareholders of Pepper who participate in the proposed Scheme of Arrangement (**Scheme**) between Pepper, Red Hot Australia Bidco Pty Ltd (**Bidco**) and Scheme Shareholders under which Bidco will acquire at least 90.1% of the issued shares in Pepper.

We understand that this summary will be included in the Scheme Booklet, dated on or about 12 October 2017, which will be distributed to the Scheme Shareholders. This summary should be read together with the Scheme Booklet in general.

The terms used in this summary are consistent with those contained in the Glossary in Section 7 of the Scheme Booklet.

1. Scope of Tax Comments

This summary provides a general overview of the Australian income tax, GST, and stamp duty considerations for Scheme Shareholders who:

- participate in the Scheme and dispose of their Pepper Shares to Bidco;
- are either:
 - residents of Australia for Australian income tax purposes; or
 - non residents of Australia for Australian income tax purposes and do not hold their Pepper Shares in carrying on business through a permanent establishment in Australia; and
- hold their Pepper Shares on capital account for Australian income tax purposes.

Our tax comments as outlined below are not applicable to all Scheme Shareholders and are not intended to cover Scheme Shareholders who:

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- hold their Pepper Shares as a revenue asset (i.e. trading entities or entities who acquired their Pepper Shares for the purposes of resale at a profit) or as trading stock for Australian income tax purposes;
- acquired their Pepper Shares through, or in connection with, an employee share scheme where those shares remain subject to deferred taxation as at the Implementation Date;
- are under a legal disability;
- are temporary residents for the purposes of Australian income tax law;
- may be subject to special tax rules, such as insurance companies, partnerships, tax exempt organisations and entities subject to the Investment Manager Regime under Subdivision 842-I of the *Income Tax Assessment Act 1997* (Cth) in respect of their Pepper shares; or
- are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth) in relation to gains and losses on their Pepper Shares.

This summary is based on the Australian tax law, and our understanding of the practice of the tax authorities, at the time of issue of this summary. The laws are complex and subject to change periodically, as is their interpretation by the courts and the tax authorities. This summary is general in nature and is not intended to be an authoritative or complete statement of the applicable law. This summary does not take into account the tax law of countries other than Australia. The precise implications of ownership or disposal will depend upon each Scheme Shareholder's specific circumstances.

Our comments should not be a substitute for advice from an appropriate professional adviser having regard to each Scheme Shareholder's individual circumstances. All Scheme Shareholders are strongly advised to obtain their own professional advice on the tax implications based on their own specific circumstances.

In providing our tax comments, PricewaterhouseCoopers has relied on information obtained from documents provided to PricewaterhouseCoopers, and during various discussions with personnel from Pepper. PricewaterhouseCoopers has relied on the accuracy and completeness of the information provided and has not undertaken any procedures to validate or verify the completeness or accuracy of such information. Therefore, PricewaterhouseCoopers does not accept any responsibility or any liability arising from the inaccuracy or incompleteness of any information provided to us.

2. General Income Tax Implications of the Scheme

2.1. Dealings in Pepper Shares

2.1.1. Class Ruling Applications

Pepper has requested the Australian Taxation Office (ATO) to issue:

- a Class Ruling to confirm the availability of CGT roll-over relief for those Scheme Shareholders who are residents of Australia for income tax purposes and exchange some or all of their Pepper Shares for Holdco Shares under the Scheme;
- a Class Ruling in relation to the impact of the Scheme on certain holders of Rights; and
- a Class Ruling which seeks to confirm a range of matters relating to the income tax treatment of those Scheme Shareholders who receive the Special Dividend.

(each a **Class Ruling** and together the **Class Rulings**).

The ATO has not issued the Class Rulings requested as at the date of the Scheme Booklet.

Pepper will make an ASX announcement when any of the Class Rulings have been issued in final form. The Class Rulings will also be available on the ATO website at www.ato.gov.au.

It is anticipated that the Commissioner of Taxation's (**the Commissioner's**) views to be expressed in the Class Rulings will be generally consistent with the income tax information in this summary (to the extent that this summary deals with the position of resident taxpayers).

However, it is possible that the Commissioner may reach different conclusions. Accordingly, it is important that this summary be read on the understanding that the Commissioner will issue final rulings after the Implementation Date for the Scheme.

2.1.2. Certain Income Tax consequences of the Scheme for Scheme Shareholders

Under the Scheme, certain Scheme Shareholders will dispose of their Pepper Shares to Bidco in exchange for the Scheme Consideration, comprising either:

- (a) the Cash Consideration;
- (b) Holdco Shares; or
- (c) a mixture of the Cash Consideration and Holdco Shares.

Scheme Shareholders who receive Cash Consideration, either because they do not make a Scrip Option election or a Retention Option election or due to the scale back rules, will also receive the Special Dividend on or before the Implementation Date.

Non resident Scheme Shareholders should refer to section 2.1.9 below.

2.1.3. Capital Gains Tax Event

The disposal of Pepper Shares to Bidco under the Scheme will give rise to a CGT event at the time Scheme Shareholders transfer their Pepper Shares to Bidco under the Scheme (i.e. at the Implementation Date).

No CGT event will occur in respect of the Pepper Shares held by Retained Pepper Shareholders.



2.1.4. Calculation of Capital Gain or Loss

Scheme Shareholders will make a capital gain on the disposal of each of their Pepper Shares to the extent that the capital proceeds received in respect of the Pepper Share is more than its cost base. Conversely, Scheme Shareholders will make a capital loss to the extent that the capital proceeds in respect of each of their Pepper Shares is less than their reduced cost base for those Pepper Shares.

Scheme Shareholders who are residents of Australia for income tax purposes and make a capital gain on the transfer of their Pepper Shares may choose scrip for scrip roll-over relief to the extent they receive Holdco Shares. The availability and extent of roll-over relief is discussed below under the heading 'CGT Roll-Over Relief'.

2.1.5. Capital Proceeds

The capital proceeds from the disposal of the Pepper Shares should include the Scheme Consideration received by Scheme Shareholders.

Where a Scheme Shareholder does not make a Scrip Option election or a Retention Option election, the Scheme Shareholder will receive the Cash Consideration of \$3.60 per share for the transfer of their Pepper Shares to Bidco. In this case, the capital proceeds should include the Cash Consideration received.

The capital proceeds for the disposal of Pepper Shares should not include the amount of the Interim Dividend paid by Pepper prior to the Scheme.

The Special Dividend may also not form part of the capital proceeds for the disposal of the Pepper Shares. Nevertheless, the Commissioner may adopt a contrary view in regard to the Special Dividend due to the circumstances of the improved proposal from KKR Credit and include the Special Dividend in capital proceeds. As at the date of this Scheme Booklet, the Commissioner has not made clear his position in relation to this issue.

If the Special Dividend forms part of the capital proceeds, Scheme Shareholders who would otherwise realise a capital loss on the disposal of their Pepper Shares would have their loss reduced by the amount of the Special Dividend. Scheme Shareholders who would otherwise realise a capital gain would reduce the gain by up to the amount of the dividend in order to prevent any double taxation.

Where a Scheme Shareholder elects to take the Scrip Option and neither the Retention Cap, nor the Maximum Election Cap applies, the Scheme Shareholder will only receive Holdco Shares and the capital proceeds should be the market value of the Holdco Shares received on the Implementation Date. These capital proceeds should not include the Interim Dividend (and the Special Dividend is not payable).

In the event that either the Retention Cap or the Maximum Election Cap is breached, the scale back provisions will operate such that an affected Scheme Shareholder will receive a combination of Holdco Shares and Cash Consideration for the transfer of their Pepper Shares. In that case, the capital proceeds received in respect of the CGT event should be the sum of:

- any Cash Consideration received from Bidco; and
- the market value of the Holdco Shares issued to the Scheme Shareholder.



The Cash Consideration should not include the Interim Dividend for affected Scheme Shareholders but may include the Special Dividend. As discussed further below, a Scheme Shareholder will only obtain partial CGT roll-over relief in this situation.

2.1.6. Cost Base and Reduced Cost Base

The cost base (or reduced cost base) of each Pepper Share held by a Scheme Shareholder will broadly be:

- the amount of money paid, or the value of property given, in order to acquire the Pepper Share; plus
- any 'incidental costs' as defined in the CGT rules; plus
- any non-capital costs not claimed as an income tax deduction; less
- any previous capital returns made by Pepper.

2.1.7. CGT Discount

To the extent that CGT roll-over relief is not available (or not chosen by a Scheme Shareholder), the CGT discount should be available to those Scheme Shareholders who are individuals, trusts or complying superannuation funds and have held their Pepper Shares for at least 12 months before the Implementation Date.

Broadly, the CGT discount rules enable Scheme Shareholders to reduce their capital gain (after the application of any current year or prior year capital losses) by 50% for individuals and trusts and 33 1/3% for complying superannuation funds. The CGT discount is not available to Scheme Shareholders that are companies or non-residents.

2.1.8. Capital losses

A capital loss on the disposal of Pepper Shares may be used to offset any other capital gains derived by a Scheme Shareholder for the relevant year of income (including any capital gain derived by a Scheme Shareholder on other Pepper Shares) or may be carried forward to offset capital gains in future income years.

Specific capital loss recoupment rules apply to companies to restrict their ability to utilise capital losses in future years in some circumstances. Scheme Shareholders should obtain their own tax advice in relation to the operation of these rules.

2.1.9. Non residents

Scheme Shareholders who are not residents of Australia for income tax purposes and do not hold their Pepper Shares through a permanent establishment in Australia, should be able to disregard any capital gain or capital loss that would otherwise arise from the disposal of their Pepper Shares to Bidco. This is on the basis of advice from Pepper that the Pepper Shares will not constitute 'taxable Australian property' at the Implementation Date.

The section entitled 'CGT roll-over relief' should not apply to such shareholders as any capital gain that would otherwise arise should be disregarded for income tax purpose.



2.1.10. CGT Roll-over Relief

Scheme Shareholders who are residents of Australia for income tax purposes and would make a capital gain on the disposal of their Pepper Shares for Holdco Shares are eligible to choose whether or not to apply CGT roll-over relief to this gain. There is no roll-over relief if the Scheme Consideration is entirely a cash amount.

Where a resident Scheme Shareholder chooses CGT roll-over relief and the resident Scheme Shareholder only receives Holdco Shares as consideration for transferring their Pepper Shares, the entire capital gain that they would otherwise make on the disposal of their Pepper Shares should be disregarded.

Where a resident Scheme Shareholder chooses CGT roll-over relief and receives a mixture of Cash Consideration and Holdco Shares as consideration for transferring their Pepper Shares (as a result of the scale back provisions described above), only a portion of the capital gain that they would otherwise make on the disposal of their Pepper Shares will be disregarded. A resident Scheme Shareholder may calculate the extent of roll-over relief in this situation by applying the proportion produced by the following formula against the total capital gain that would otherwise arise:

Market value of Holdco Shares

Market value of Holdco Shares + Cash Consideration received

If the Special Dividend is included in capital proceeds on disposal of the Pepper Shares, it will be included in “Cash Consideration received” in the formula above.

A resident Scheme Shareholder must make a choice to apply CGT roll-over relief before lodging an income tax return for the income year in which the Implementation Date occurs. A resident Scheme Shareholder evidences the choice by excluding the disregarded capital gain (or relevant part thereof) from assessable income in their income tax return. There is no need to lodge a separate notice with the ATO.

Where a resident Scheme Shareholder chooses CGT roll-over relief and the resident Scheme Shareholder only receives Holdco Shares as consideration for transferring their Pepper Shares, the cost base of the Holdco Shares received will be the cost base of the Pepper Shares exchanged for those Holdco Shares.

Where a resident Scheme Shareholder chooses CGT roll-over relief and receives a mixture of Cash Consideration and Holdco Shares as consideration for transferring their Pepper Shares, the cost base of the Holdco Shares received should reflect only a portion of the cost base of their Pepper Shares. A resident Scheme Shareholder may determine the cost base of the Holdco Shares by applying the proportion produced by the following formula against the total cost base of Pepper Shares transferred to Bidco:

Market value of Holdco Shares

Market value of Holdco Shares + Cash Consideration received



If the Special Dividend is included in capital proceeds on disposal of the Pepper Shares, it will be included in “Cash Consideration received” in the formula above.

The following simplified example illustrates the principles described above.

Assume a Scheme Shareholder who acquired 1000 Pepper Shares at \$2.60 per share is subject to a 10% scrip scale back such that they receive 900 Holdco Shares, Cash Consideration of \$360 and the Special Dividend of \$10 for disposing of their Pepper Shares (on the basis that their capital proceeds include the Special Dividend). Assume further that the market value of the Holdco Shares is \$3.60 per share.

Their capital gain on the disposal of each share will be \$1.00, being a total of \$1000 across all their Pepper Shares. Their initial capital gain of \$1,010 should be reduced by the Special Dividend of \$10 under the anti-overlap rules in order to arrive at the net capital gain of \$1,000.

The formula above will determine the portion of the gain subject to roll-over relief and the portion of the cost base of the Pepper Shares that becomes the cost base of the HoldCo Shares, as follows:

$$\frac{\$3,240}{\$3,240 + \$360 + \$10} = 89.75\%$$

<i>Capital gain before roll-over relief</i>	<i>\$1,000</i>
<i>Less portion subject to roll-over relief (89.75% x \$1,000)</i>	<i><u>(\$897.50)</u></i>
<i>Capital gain included in assessable income</i>	<i><u>\$102.49</u></i>
<i>Cost base of Holdco Shares (90% x \$2,600)</i>	<i>\$2,340</i>

Where a resident Scheme Shareholder chooses CGT roll-over relief, the resident Scheme Shareholder will be taken to have acquired the Holdco Shares acquired under the Scheme:

- for general CGT purposes, on the Implementation Date; and
- for the purposes of the applying the CGT discount to any future dealings in the Holdco Shares, on the date they acquired the relevant Pepper Shares.

2.1.11. If CGT Roll-over Relief Not Chosen

If a resident Scheme Shareholder does not choose or cannot choose CGT roll-over relief in respect of Pepper Shares exchanged for Holdco Shares, e.g. the Scheme Shareholder would make a capital loss on the disposal of their Pepper Shares, the resident Scheme Shareholder will make a capital gain or loss as discussed above. The cost base of the Holdco Shares received under the Scheme will be the market value of the Pepper Shares exchanged on the Implementation Date.

Where CGT roll-over relief is not available, the date of acquisition of Holdco Shares for CGT purposes will be the Implementation Date.



This date will be relevant for the purpose of qualifying for the CGT discount with respect to future CGT events happening to the Holdco Shares.

2.1.12. Stamp duty

No stamp duty should be payable by Scheme Shareholders on the disposal of Pepper Shares under the Scheme or on the acquisition of Holdco Shares under the Scheme.

2.1.13. GST

No GST will be payable by Scheme Shareholders in respect of the disposal of their Pepper Shares or the acquisition of Holdco Shares under the Scheme. Scheme Shareholders may however be charged GST on their costs (such as advisor fees) that relate to their participation in the Scheme.

Scheme Shareholders may be entitled to full or partial input tax credits for any GST payable on such costs, but this will depend on each Scheme Shareholder's individual circumstances. Scheme Shareholders should seek independent advice in this regard.

2.2. Receipt of Special Dividend

2.2.1. Overview

The Special Dividend will only be paid to those Scheme Shareholders who receive an amount of Cash Consideration for the disposal of their Pepper Shares to Bidco. This will be the case where either the Scheme Shareholder does not make a Scrip Option election or a Retention Option election or the scale back rules operate such that a Scheme Shareholder making either of these elections receives some portion of Cash Consideration for the disposal of their Pepper Shares.

Pepper is required to allocate the maximum possible amount of franking credits to the Special Dividend. Based on its current franking account balance, Pepper expects to "fully frank" the Special Dividend.

The Special Dividend will be paid on or before the Implementation Date to affected Scheme Shareholders who hold Pepper Shares on the Dividend Record Date.

The Special Dividend will not reduce the Cash Consideration of \$3.60 per Pepper Share that Bidco agrees to pay to Scheme Shareholders as consideration for the acquisition of their Pepper Shares.

This summary does not consider the treatment of the Interim Dividend which will be paid prior to, and is entirely independent of, the Scheme.

2.2.2. Announced but unenacted change in law

In the Mid-Year Economic and Fiscal Outlook 2016-17, the Government announced that it would introduce a specific measure to prevent a company from attaching franking credits to distributions to shareholders made outside or additional to the company's normal dividend cycle, to the extent the distributions are funded directly or indirectly by capital raising activities that result in the issue of new equity interests.



This measure was stated to apply to distributions made after 12:00pm (AEDT) on 19 December 2016.

As the Government is yet to release draft legislation in relation to this measure, it is not possible to comment on whether it might apply to the Special Dividend and nor is Pepper able to request a ruling from the Commissioner on the potential for the new measure to apply to the Special Dividend.

The following comments should therefore be read in the knowledge that the legislation, once enacted, could apply to prevent franking credits from being attached to the Special Dividend.

2.2.3. Implications for resident Scheme Shareholders

Resident Scheme Shareholders who receive the Special Dividend should be assessable on the amount of the Special Dividend.

Such Scheme Shareholders should be required to include the amount of any franking credits attached to the Special Dividend in their assessable income and should be entitled to claim a tax offset equal to the amount of those franking credits (the 'gross up and offset' approach) in the calculation of their income tax liability. Resident Scheme Shareholders that are a complying superannuation fund or an individual may be entitled to a refund of any excess franking offsets that exceeds their income tax liability for the relevant year of income. Other Scheme Shareholders will simply reduce their income tax liability by the amount of the franking credit attached to the Special Dividend.

In order for this 'gross up and offset' approach to apply, a Scheme Shareholder would need to satisfy the '45 day / at risk' rules in connection with the Special Dividend.

Broadly speaking, the '45 day / at risk' rules require a Scheme Shareholder to hold their Pepper Shares 'at risk' for a continuous period of 45 days (not including the day of acquisition and day of disposal) during the period commencing on the day they acquired their Pepper Shares and ending on the day that they dispose of their Pepper Shares, i.e. the Implementation Date.

Scheme Shareholders will not be treated as holding their Pepper Shares 'at risk' in relation to any day on which they have 'positions' that reduce their exposure to gains and losses in respect of those shares below 30%. Any days on which Scheme Shareholders are not treated as holding their shares 'at risk' do not count towards the 45 day requirement, but do not break the continuity of the 'at risk' period.

Scheme Shareholders should not be treated as holding their Pepper Shares 'at risk' on and from the Scheme Record Date. To qualify for franking benefits, a Scheme Shareholder would at least need to hold their Pepper Shares 'at risk' for 45 days starting on the day after they acquired their Pepper Shares and ending on the day before the Scheme Record Date.



If there is a 'related payment' in relation to the Special Dividend, the period within which a Scheme Shareholder must hold their Pepper Shares 'at risk' is truncated so that it would start 45 days before the Ex-Dividend Date and end 45 days after the day after the Ex-Dividend Date (the Ex-Dividend Date being one day after the Dividend Record Date).

Our view is that there is nothing in the terms of the Scheme which should result in a 'related payment' occurring in connection with the Special Dividend and so this stricter testing period should not apply. However, Scheme Shareholders should also consider whether they may have separately entered into any other arrangements that may result in a 'related payment', e.g. hedging transactions such as options.

Under the 'small shareholder exemption', a Scheme Shareholder who is an individual will not be required to satisfy the '45 day / at risk' rules where the total amount of franking credits attached to dividends received by that individual over the course of an income year is less than or equal to \$5,000 and they do not make a related payment in relation to any of those dividends.

Even if a Scheme Shareholder satisfies the '45 day / at risk' rules, there are separate anti-avoidance rules by which the Commissioner may prevent a Scheme Shareholder from utilising any franking credits attached to the Special Dividend. We do not expect the Commissioner to apply these anti-avoidance rules in relation to the franking credits attached to the Special Dividend.

Pepper has lodged a Class Ruling application with ATO in which it has requested the Commissioner to confirm:

- that he will not use the franking anti-avoidance rules to deny any franking offsets that would otherwise be available to Scheme Shareholders;
- that no 'related payment' will occur in relation to the Special Dividend (such that the testing period for the '45 day / at risk' rules will be the longer test period described above); and
- that Scheme Shareholders will no longer hold their Pepper Shares 'at risk' on and from the Scheme Record Date.

However, as at the date of this Scheme Booklet, the Class Ruling has not been issued in final and so the final position of the Commissioner on these issues is unknown. It is possible that the Commissioner may take a contrary position to the views we have put forward in this Summary.

Special dividend franking rules apply to Pepper Shares held by trusts and companies. Scheme Shareholders who are trusts or companies should seek professional advice in relation to the taxation treatment of the Special Dividend.

2.2.4. Implications for non-resident Pepper Shareholders

Where the Special Dividend is fully franked (as expected), Scheme Shareholders who are not residents of Australia for income tax purposes and who are not acting through a permanent establishment in Australia in connection with their Pepper Shares should not be assessable on the Special Dividend and no amount of withholding tax should be deducted from the Special Dividend. The “gross up and offset” approach described above should not apply.

2.3. Certain tax implications from holding and dealing in Holdco Shares

2.3.1. Corporate actions – dividends

Where a Scheme Shareholder receives Holdco Shares as consideration for the disposal of their Pepper Shares, a wide range of corporate actions may occur in the future in relation to their holding of Holdco Shares. The income tax treatment that will apply to the holder of the Holdco Shares will vary according to the nature of the corporate action and the circumstances of the shareholder.

The following comments only consider the treatment of dividends paid in respect of the Holdco Shares and holders of Holdco Shares are strongly encouraged to seek professional taxation advice in relation to the treatment of any future corporate actions.

Where Holdco pays an unfranked dividend in respect of Holdco Shares:

- A holder of Holdco Shares who is a resident of Australia for income tax purposes should be assessable on the amount of the dividend received; and
- A holder of Holdco Shares who is not a resident of Australia for income tax purposes and who is not acting through a permanent establishment in Australia in connection with their Holdco Shares may be liable to pay dividend withholding tax in respect of the unfranked dividend.

Holdco should withhold the appropriate amount of tax from the dividend as a final tax such that the holder receives the dividend net of any relevant withholding tax liability.

Where Holdco pays a dividend that is partly or fully franked, a holder of Holdco Shares that is a resident of Australia for income tax purposes would generally be required to include both the amount of the dividend and any attached franking credits in its assessable income. The holder should then be permitted to claim a franking offset equal to the amount of the franking credits as a reduction in their income tax liability. Certain taxpayers such as individuals and complying superannuation funds may be entitled to a cash refund for any excess or unused franking offsets. Special rules apply to trusts and companies.

In order to apply this “gross up and offset” approach, the holder of Holdco Shares would need to satisfy various integrity rules in the tax law, including the ‘45 day / at risk’ rules which require the holder to have a sufficient economic interest in the Holdco Shares for certain prescribed time periods. These rules are described in further detail in section 2.2.

Where Holdco pays a partly franked dividend to a holder that is not a resident of Australia for income tax purposes and who is not acting through a permanent establishment in Australia in connection with their Holdco Shares, the unfranked portion of the dividend should be subject to dividend withholding tax as described above. If the dividend is fully franked, no dividend withholding tax should be payable.

2.3.2. Future disposal of Holdco Shares

Transferor is a resident of Australia for income tax purposes

Where a resident holder of Holdco Shares sells, transfers or otherwise disposes of their Holdco Shares to a third party, this should give rise to a CGT event for the holder of the shares.

The holder should realise a capital gain to the extent that the capital proceeds in respect of the CGT event exceed their cost base in the Holdco Shares. The holder should realise a capital loss to the extent that their reduced cost base in the Holdco Shares exceeds the capital proceeds in respect of the CGT event.

Where a capital gain arises, individuals, trustees and complying superannuation funds may be entitled to reduce the capital gain under the CGT discount rules subject to (a) the gain first being reduced by any available capital losses and (b) the shares being held for at least 12 months before the CGT event.

In relation to (b), where CGT roll-over relief applied to the exchange of the Pepper Shares for Holdco Shares, the Holdco Shares will be treated as having been acquired on the same date as the original Pepper Shares.

The CGT discount is 50% for individuals and trustees and 33 1/3% for complying superannuation funds. The CGT discount does not apply to companies or non residents.

Where a capital loss arises, that loss cannot be offset against ordinary income and must be offset against other capital gains arising in the same income year or future income years.

To the extent that the holder of the Holdco Shares claimed CGT roll-over relief on the original exchange of the Pepper Shares for Holdco Shares, the cost base and reduced cost base for those Holdco Shares would have reflected the appropriate portion of the cost base and reduced cost base of the Pepper Shares.

Transferor is not a resident of Australia for income tax purposes

Any capital gain or loss that arises from the disposal of Holdco Shares by a holder that is not a resident of Australia for income tax purposes should be disregarded so long as the shares are not 'taxable Australian property' at the time of the CGT event.

GST and stamp duty

Neither stamp duty nor GST should apply to any future disposal of the Holdco Shares.

Disclaimer

To persons receiving this summary in Australia:



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Yours sincerely

A handwritten signature in black ink, appearing to read 'Paul Abbey', with a horizontal line underneath.

Paul Abbey
Tax Partner

Annexure B – Independent Expert’s Report



12 October 2017

The Directors
Pepper Group Limited
Level 27, 177 Pacific Highway
North Sydney NSW 2060

Dear Directors

Proposal from KKR Credit Advisors (US) LLC

1 Introduction

On 10 August 2017, Pepper Group Limited (“Pepper”) announced that it had entered into a scheme implementation deed with Red Hot Australia Bidco Pty Ltd (“Bidco”), an entity owned by certain funds, clients or accounts managed or advised by KKR Credit Advisors (US) LLC (“KKR”) or its affiliates, under which it is proposed that Bidco will acquire all of the shares in Pepper (other than those shares not acquired under the Retention Option (as described below)) by way of a scheme of arrangement under Section 411 of the Corporations Act (Cth) (“Scheme”). If the Scheme is implemented, Pepper shareholders not electing the Scrip Option (as described below) or the Retention Option were to receive \$3.60 cash for each Pepper share.

On 25 September 2017, Pepper announced that it had received an improved proposal from Bidco under which Pepper shareholders who were to receive cash payments¹ under the Scheme will receive \$3.70 per Pepper share, comprising:

- cash consideration of \$3.60 for each Pepper share held as at the Scheme record date²; plus
- a fully franked special dividend of 10 cents for each Pepper share held as at the special dividend record date³ for which a Pepper shareholder receives cash consideration. The special dividend:
 - is separate to, and will not be reduced by, the interim dividend of 3 cents per share determined by the Pepper Board in respect of the six months ended 30 June 2017 and paid on 5 October 2017;
 - will not be paid to those Pepper shareholders that validly elect the Scrip Option or the Retention Option (except to the extent that the cash payments are received for Pepper shares as a result of the scale back arrangements) and will not reduce the amount of the scrip consideration under the Scheme (refer below); and
 - will only become payable if the Scheme becomes effective and will be paid on or before implementation of the Scheme.

KKR has indicated that this improved proposal represents its final offer and will not be increased, in the absence of a superior proposal.

¹ As a result of a Pepper shareholder not making a valid election to receive either the Scrip Option or the Retention Option or as a result of the scale back arrangements.

² The Scheme record date for payment of the cash consideration is the fourth business day after the date on which the court order in relation to the Scheme comes into effect.

³ The special dividend record date for payment of the special dividend is the second business day after the date on which Pepper lodges the court order approving the Scheme with the Australian Securities and Investments Commission.

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Perpetual Limited (and its related bodies corporate), which controls 14.8% of total Pepper shares, has indicated to Pepper that, in light of the improved proposal, it intends to approve the Scheme by voting in favour of the resolutions⁴, in the absence of a proposal that it considers to be a superior proposal.

Other features of the Scheme include the following:

- Pepper shareholders (other than certain ineligible foreign shareholders) are offered a scrip alternative under which they may elect to receive one share in Red Hot Australia Holdco Pty Ltd (“Holdco”), the owner of 100% of the shares in Bidco, for each Pepper share held as at the Scheme record date (“Scrip Option”)⁵;
- any Pepper shareholder (other than certain ineligible foreign shareholders) whose receipt of a Holdco share under the Scrip Option would result in tax becoming payable in a jurisdiction other than Australia or New Zealand for that shareholder or the relevant beneficial shareholder without the benefit of rollover relief, will have the option to retain their Pepper shares (“Retention Option”)⁵. Following implementation of the Scheme, Holdco will explore alternative means of acquiring those shares to minimise the adverse tax consequences. The Retention Option is subject to:
 - pro rata scale back if shareholders holding an aggregate of 9.9% or more of Pepper shares elect this option, in which case the cash payments of \$3.70 per Pepper share will be paid in respect of the excess shares; and
 - compulsory acquisition of the retained Pepper shares by Bidco at any time in the three year period following implementation of the Scheme for a cash amount per Pepper share equal to the then fair market value of a Holdco share if they have not otherwise been acquired by Holdco or its nominee;
- there will be a separate pro rata scale back if valid elections for the Scrip Option and the Retention Option (after any applicable scale back) relate to more than 48.5% of total Pepper shares, in which case the cash payments of \$3.70 per Pepper share will be paid in respect of the excess; and
- the cash payments and the amount of the scrip consideration will not be reduced by the interim dividend of 3 cents per share determined by the Pepper Board in respect of the six months ended 30 June 2017 and paid on 5 October 2017.

The Scheme is subject to a number of conditions that are set out in the Notice of Meeting and Explanatory Statement (“Scheme Booklet”). One of the key conditions is that eligible shareholders holding at least 35.11% of total Pepper shares elect the Equity Alternative. Pepper shareholders that receive or hold shares as a result of electing the Equity Alternative will become parties to a Shareholders’ Deed. Mr Seamus Dawes, Chairman of Pepper, Mr Michael Culhane, Group Chief Executive Officer and Mr Cameron Small, Group Chief Financial Officer and each of their respective affiliates, who together hold or control 35.4% of Pepper shares⁶, have each indicated that they intend to approve the Scheme by voting in favour of the resolutions, in the absence of the Pepper Board recommending a superior proposal and subject to an independent expert concluding that the Scheme is in the best interests of Pepper shareholders, and to elect the Equity Alternative.

The directors of Pepper have unanimously recommended that Pepper shareholders approve the Scheme by voting in favour of the resolutions, and each director intends to vote all the Pepper shares held or controlled by them in favour of the resolutions, in the absence of a superior proposal and subject to an independent expert concluding that the Scheme is in the best interests of Pepper shareholders.

An Independent Board Committee (“IBC”) was established to consider the transaction. The IBC has engaged Grant Samuel & Associates Pty Limited (“Grant Samuel”) to prepare an independent expert’s report setting out whether, in its opinion, the Scheme is in the best interests of shareholders. A copy of the report (including this letter) will accompany the Scheme Booklet to be sent to shareholders by Pepper. This letter contains a summary of Grant Samuel’s opinion and main conclusions.

⁴ The resolutions are the approval of the Constitutional amendment to facilitate payment of the special dividend and approval of the Scheme.

⁵ The Scrip Option and the Retention Option are collectively referred to as the “Equity Alternative”.

⁶ Excluding certain incentive shares held directly or indirectly by Mr Culhane (equal to approximately 0.39% of fully diluted Pepper shares) and Mr Small (equal to approximately 0.25% of fully diluted Pepper shares) in respect of which they do not currently have voting rights.



2 Opinion

In Grant Samuel’s opinion, the Scheme is fair and reasonable and, therefore, is in the best interests of Pepper shareholders, in the absence of a superior proposal.

3 Key Conclusions

- Pepper has been valued in the range \$661-756 million, equivalent to \$3.52-4.02 per share

Grant Samuel’s valuation of Pepper is summarised below:

Pepper - Valuation Summary (\$ millions)			
	Full Report Section Reference	Value Range	
		Low	High
Australia and New Zealand	5.3	440.0	480.0
Pepper Savings Bank	5.4	170.0	195.0
Europe	5.5	310.0	355.0
Corporate costs	5.6	(210.0)	(240.0)
Value of business operations		700.0	790.0
Investment in PrimeCredit	5.7	95.0	100.0
Other assets and liabilities	5.8	17.4	17.4
Enterprise value		812.4	907.4
Adjusted corporate net borrowings at 30 June 2017	5.9	(151.3)	(151.3)
Value of equity		661.1	756.1
Fully diluted shares on issue (millions)	3.6.1	188.1	188.1
Value per share		\$3.52	\$4.02

The valuation represents the estimated full underlying value of Pepper assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Pepper shares to trade on the Australian Securities Exchange (“ASX”) in the absence of a takeover offer.

The value attributed to the business operations of \$700-790 million is an overall judgement having regard to a number of valuation methodologies and parameters, including discounted cash flow (“DCF”) analysis and capitalisation of earnings (multiples of EBITDA⁷ and adjusted NPAT⁸).

The DCF analysis for each of Pepper’s business operations:

- forecasts nominal geared after tax cash flows (for the lending business operations in Australia and Europe), nominal ungeared after tax cash flows (for the servicing business operations in Europe) and the income available to be distributed as dividends after the retention of earnings to service the regulatory capital adequacy requirements of the business (for Pepper Savings Bank) from 1 July 2017 to 31 December 2026, with a terminal value calculated to represent the value of cash flows in perpetuity;
- applies discount rates of:
 - 10.5-11.5% for Pepper Australia and New Zealand, 11.5-12.5% for Pepper’s lending business operations in the United Kingdom and Ireland, 12.0-13.0% for Pepper’s lending business operation in Spain and 13.0-14.0% for Pepper Savings Bank (cost of equity); and
 - 7.5-8.5% for Pepper’s servicing business operations in the United Kingdom and Ireland and 8.5-9.5% for Pepper’s servicing business operation in Spain (weighted average cost of capital); and
- considers a number of different scenarios in forming a view on value.

⁷ EBITDA is earnings before net interest, tax, depreciation and amortisation.

⁸ NPAT is net profit after tax. Adjusted NPAT is before amortisation of acquired intangible assets.



The valuation allows for:

- the capitalised value of corporate costs (see Section 5.6 of the full report for details);
 - the 12% investment in PrimeCredit (see Section 5.7 of the full report for details);
 - other non-operating assets, which are the outstanding balance of limited recourse loans to Pepper executives and investments (see Section 5.8 of the full report for details); and
 - Pepper’s interim dividend for the six months ended 30 June 2017 of 3 cents per share (paid on 5 October 2017).
- **The multiples implied by the valuation of Pepper reflect recent investment in new products and businesses that are expected to make a material contribution to future earnings, offset by the funding requirements of the lending businesses**

The multiples implied by the valuation of Pepper are summarised below:

Pepper – Implied Valuation Parameters			
	Variable (S million)	Range of Parameters	
		Low	High
Multiple of adjusted NPAT (times)			
Year ended 31 December 2016 (actual)	61.0	10.8	12.4
Year ending 31 December 2017 (broker median) ⁹	69.7	9.5	10.8
Year ending 31 December 2018 (broker median) ⁹	81.5	8.1	9.3
Multiple of assets as at 30 June 2017 (times)			
Net tangible assets	401.9	1.6	1.9

The multiples are considered to be appropriate taking into account market evidence from recent relevant transactions, the trading multiples of comparable companies and the particular attributes of each of Pepper’s business operations, including factors such as its:

- leading market positions in specialist lending in Australia and in third party servicing in Europe;
- integrated operating model across the complementary businesses of specialist lending and servicing, which is scalable within a market and replicable across markets;
- track record of performance (across risk management and funding) through the economic cycle;
- global diversification with a track record of successful, opportunistic acquisitions (targeting dysfunctional markets);
- diversified and capital efficient funding model for the lending businesses, and the implications of this model, including:
 - the requirement for Pepper to contribute equity to funding vehicles on an ongoing basis to achieve forecast lending growth (except in the case of Pepper Savings Bank which is deposit funded). The equity contributions are substantial and must be funded from existing cash, additional debt or equity raisings (which may not always be available on suitable terms); and
 - the potential that further capital (in addition to that referred to above) may be required to be contributed to funding vehicles to support the credit position of senior investors or to support the regulatory requirements of Pepper Savings Bank.

⁹ While Pepper has provided guidance statements in relation to CY17 adjusted NPAT, it has not publicly disclosed earnings forecasts for CY17 or CY18 and the directors have decided not to include any forecasts in the Scheme Booklet. Accordingly, the forecast multiples are based on the median of broker’s forecasts (“broker median”) for Pepper (refer to Appendix 3 of the full report for details). The broker medians are sufficiently close to Pepper’s CY17 budget and CY18 forecast to be useful for analytical purposes.



At least \$150 million of incremental equity capital in excess of organic cash generation is expected to be required over the next two years to fund business as usual growth and the acquisition of Banco Primus S.A. (Lisbon). Grant Samuel's DCF analysis indicates that approximately \$60 million of capital is required annually to fund growth in Pepper's lending business operations over the long term. This ongoing requirement for capital has a material impact on value;

- exposure to:
 - relatively higher risk non-conforming mortgages and consumer loans;
 - extensive regulation in each of the regions in which it operates and the impact of changes in regulation on its business operations;
 - competitive markets and the potential for competitive behaviour to put pressure on servicing fees or net interest margins;
 - multiple foreign currencies and fluctuations in exchange rates; and
 - economic conditions in countries in which it operates (in particular, inflation, unemployment, interest rates, house prices and general demand for credit) and the impact of these conditions on debt servicing ability; and
 - positive short to medium term outlook for the lending businesses as a result of expanding the product base in Australia (asset finance and personal loans) and the ramp up of the European lending businesses, particularly in the United Kingdom and Spain (albeit this growth is not without risk in terms of timing and quantum of success). The implied multiples reflect the current status of these lending businesses (some of which are expected to be loss making in CY17, increasing the implied multiples).
- **The Scheme is fair and reasonable. Therefore, it is in the best interests of Pepper shareholders, in the absence of a superior proposal**

Grant Samuel has assessed the full underlying value of Pepper to be in the range \$3.52-4.02 per share. The cash payments under the Scheme of \$3.70 per share fall within this range. Accordingly, the Scheme is fair.

Moreover, 10 cents of the cash payments of \$3.70 per share is to be paid as a fully franked special dividend. For shareholders who can use the attached franking credits, this dividend may deliver additional value of up to 4.3 cents per share¹⁰.

As the Scheme is fair, it is also reasonable. In any event, there are a number of factors to support the conclusion that the Scheme is reasonable:

- the cash payments under the Scheme of \$3.70 per share represent a material premium over the Pepper share price prior to the Scheme. The following table summarises the premiums over the Pepper share price up to 26 May 2017, the last trading day prior to speculation in the media on 28 May 2017 that Pepper might be the subject of a change in control transaction:

Pepper – Premium over Pre-announcement Prices		
Period	Pepper Price/VWAP	Premium
26 May 2017 closing price	\$2.950	25.4%
1 week prior to 26 May 2017 - VWAP ¹¹	\$2.871	28.9%
1 month prior to 26 May 2017 – VWAP	\$2.866	29.1%
3 months prior to 26 May 2017 - VWAP	\$2.788	32.7%
6 months prior to 26 May 2017 - VWAP	\$2.545	45.4%

¹⁰ The ability to utilise any franking credits attached to the special dividend is subject to receipt of a class ruling in relation to, among other things, whether the Commissioner of Taxation will exercise his discretion to deny access to the franking credits. This class ruling will not be issued prior to implementation of the Scheme.

¹¹ VWAP is volume weighted average price.



The cash payments of \$3.70 per share represent a 25-33% premium over recent trading prices. Premiums of this magnitude are broadly consistent with the level of premiums typically expected in takeovers, which tend to fall in the range 20-35%. The premium is higher (circa 45%) when compared to prices over the prior six months but this is not unexpected given the elapsed time and the company specific events that were announced over this period (such as the release of the CY16 results on 24 February 2017) that would have had an impact on Pepper's share price.

While trading in Pepper shares is relatively illiquid and accordingly less reliance can be placed on the share price as a good indicator of fair value, trading in Pepper shares has generally been in line with the S&P/ASX 300 Index and the S&P/ASX 300 Banks Index (other than in response to company specific events);

- in the absence of the Scheme or any alternative offer (or speculation as to any offer) it is likely that, under current market conditions and its current ownership structure, Pepper shares would trade at prices below the cash payments under the Scheme of \$3.70 per share; and
- the Scheme is the culmination of an extensive process over a period of time that involved consideration by the IBC (which engaged its own financial and legal advisers) of a number of proposals from a range of local and global potential bidders. The proposal from KKR delivered the highest cash payment and the greatest certainty for Pepper shareholders (and was subsequently increased through the improved proposal). While Pepper has agreed to no shop, no talk and no due diligence provisions, it can respond to unsolicited approaches from third parties. The meeting at which Pepper shareholders will vote on the Scheme is scheduled for 15 November 2017. This should be ample time (since 28 May 2017) for an alternative offeror to come forward. However, while it is conceivable that a third party could make a higher offer, the complexities of the business, in particular its future funding requirements, may deter other bidders.

■ **The Equity Alternative is unlikely to be attractive to most shareholders**

For eligible shareholders, the decision to elect the Scrip Option and hold Holdco shares or elect the Retention Option and continue to hold Pepper shares under the Equity Alternative is independent of a decision to approve the Scheme.

Pepper shareholders that elect the Equity Alternative will retain an economic interest in Pepper's business operations and assets (although the extent of this interest could be diluted in the event that any scale back applies). These shareholders:

- will, to the extent that they elect the Scrip Option and receive Holdco shares, be able to defer the capital gains consequences of the Scheme as capital gains tax rollover relief will be available (see Annexure A to the Scheme Booklet); and
- may be able to participate in any future exit by Bidco of its investment in Pepper (which may be at a higher value or a lower value than the cash payments under the Scheme). However, the timing of any potential exit and the exit mechanism have not yet been determined.

On the other hand, they:

- will no longer have the protections offered under the ASX Listing Rules and Australian corporate law for listed public companies in relation to takeovers, acquisition of substantial shareholdings and certain minority protection rights;
- will be subject to the provisions of the Shareholders' Deed (see Sections 4.6 and 4.7 of the Scheme Booklet); and
- most importantly, will no longer have a liquid market in which to realise their investment.



Prima facie, the underlying value of a share in Holdco (or a retained Pepper share) on implementation of the Scheme will be the same as the underlying value of a share in Pepper before implementation of the Scheme¹². However, the realisable value of a share in Holdco (or a retained Pepper share) will be quite different. Shareholders that elect the Equity Alternative will hold a share in an unlisted, highly illiquid vehicle where:

- there are substantial restrictions on the ability to transfer shares (see Section 4.6 of the Scheme Booklet); and
- there is no guarantee as to whether or when shareholders might be able to extract value, and what price, if any, shareholders might be able to realise for their shares.

In the short term (at least for the initial 12 months given the standstill period that will apply in most cases¹³), shareholders are unlikely to be able to realise any value for their shares. The price that shareholders might realise for their shares thereafter will be influenced by a variety of factors, including the future performance of the business, the terms of the Shareholders' Deed and whether there is a future realisation event for the business. Given these factors and the associated uncertainties, it is not possible to reliably estimate the value that might ultimately be realised for the shares. However, absent a subsequent sale of the business or other liquidity event, the realisable value per share would be expected to incorporate a substantial discount reflecting the illiquidity of the market for the shares. In these circumstances, shareholders could realise significantly less than the cash payments under the Scheme of \$3.70 per share.

In addition, under the Shareholders' Deed, Bidco will be able to compulsorily acquire the retained Pepper shares at any time in the three year period following implementation of the Scheme at their then fair market value. The Shareholders' Deed does not set out how fair market value is determined in this circumstance, other than providing that it is to be determined by a Holdco Board special majority (i.e. approval by at least one Holdco director appointed by KKR and one Holdco director appointed by the original Pepper shareholders) acting reasonably.

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 Pepper 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 Scheme Booklet issued by Pepper in relation to the Scheme.

Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Scheme, the responsibility for which lies with the directors of Pepper. In any event, the decision whether to vote for or against the Scheme 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 Scheme should consult their own professional adviser. Similarly, it is a matter for individual shareholders as to whether to elect the Scrip Option and hold shares in Holdco or elect the Retention Option. These are investment decisions upon which Grant Samuel does not offer an opinion and independent of a decision on whether to vote for or against the Scheme. Shareholders should consult their own professional adviser in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

¹² Except to the extent of the transaction costs and other expenses related to the Scheme of approximately \$15 million (for both Bidco and Pepper) that will either be funded by Pepper or, if the required shareholder approvals are not obtained post implementation of the Scheme, will be equity funded by KKR (by way of an equity injection into Holdco).

¹³ Except for a sale to another Pepper shareholder or to KKR under the right of first refusal provisions of the Shareholders' Deed, a sale consented to by KKR or a sale approved by a Board special majority of at least one KKR director and one original Pepper director.

GRANT SAMUEL



This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully
GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates



**Financial Services Guide
and
Independent Expert's Report
in relation to the Proposal from
KKR Credit Advisors (US) LLC**

Grant Samuel & Associates Pty Limited
(ABN 28 050 036 372)

12 October 2017



Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Pepper Group Limited ("Pepper") in relation to the proposal from KKR Credit Advisors (US) LLC ("the Pepper Report"), Grant Samuel will receive a fixed fee of \$600,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 7.3 of the Pepper Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Pepper Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 7.3 of the Pepper Report:

"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Pepper or KKR, Holdco or Bidco, or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Scheme. Grant Samuel advises that Grant Samuel Debt Structuring & Advisory Pty Limited, a company related to Grant Samuel, did, over the period from 2012 to 2014, undertake a number of debt advisory roles for Pepper. The Grant Samuel group also sold its property advisory business to Pepper in 2012. Grant Samuel does not consider these assignments capable of affecting its ability to provide an unbiased opinion in relation to the Scheme.

Grant Samuel had no part in the formulation of the Scheme. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$600,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Scheme. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the Pepper Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the Pepper Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.



Table of Contents

1	Details of the Scheme.....	1
2	Scope of the Report.....	5
2.1	Purpose of the Report	5
2.2	Basis of Evaluation.....	5
2.3	Sources of Information	6
2.4	Limitations and Reliance on Information	7
3	Profile of Pepper	11
3.1	Background.....	11
3.2	Business Model and Funding Strategy	11
3.3	Financial Performance.....	14
3.4	Financial Position	17
3.5	Taxation Position.....	19
3.6	Capital Structure and Ownership.....	19
3.7	Share Price Performance.....	21
4	Profile of Business Divisions	23
4.1	Australia and New Zealand.....	23
4.2	Asia	34
4.3	Europe	42
5	Valuation of Pepper.....	58
5.1	Summary.....	58
5.2	Methodology	60
5.3	Value of Australia and New Zealand.....	65
5.4	Value of Pepper Savings Bank	77
5.5	Value of Pepper Europe.....	83
5.6	Corporate Costs.....	92
5.7	Investment in PrimeCredit	92
5.8	Other Assets and Liabilities.....	95
5.9	Corporate Net Borrowings	95
6	Evaluation of the Scheme.....	97
6.1	Opinion.....	97
6.2	Fairness	97
6.3	Reasonableness	98
6.4	Shareholder Decision	103
7	Qualifications, Declarations and Consents	104
7.1	Qualifications	104
7.2	Disclaimers.....	104
7.3	Independence	104
7.4	Declarations	104
7.5	Consents	105
7.6	Other.....	105
Appendices		
1	Selection of Discount Rates	
2	Market Evidence	
3	Broker Consensus Forecasts	

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1 Details of the Scheme

On 10 August 2017, Pepper Group Limited (“Pepper”) announced that it had entered into a scheme implementation deed with Red Hot Australia Bidco Pty Ltd (“Bidco”), an entity owned by certain funds, clients or accounts managed or advised by KKR Credit Advisors (US) LLC (“KKR”) or its affiliates, under which it is proposed that Bidco will acquire all of the shares in Pepper (other than those shares not acquired under the Retention Option (as described below)) by way of a scheme of arrangement under Section 411 of the Corporations Act (Cth) (“Scheme”). If the Scheme is implemented, Pepper shareholders not electing the Scrip Option (as described below) or the Retention Option were to receive \$3.60 cash for each Pepper share.

Announcement of the Scheme followed speculation in the media that Pepper might be the subject of a change of control transaction on 28 May 2017 and the announcement by Pepper on 5 July 2017 that it had received an indicative, non-binding proposal from KKR, on behalf of itself, certain of its affiliates and/or certain funds, clients or accounts managed or advised by KKR, in relation to a potential control transaction under which shareholders may receive \$3.60 per share and with permission for the Directors to declare and pay a fully franked dividend of up to 3 cents per share (“KKR indicative proposal”). The Pepper Board agreed to grant exclusivity to KKR to enable it to undertake due diligence and negotiate definitive transaction documents.

On 25 September 2017, Pepper announced that it had received an improved proposal from Bidco under which Pepper shareholders who were to receive cash payments¹ under the Scheme will receive \$3.70 per Pepper share, comprising:

- cash consideration of \$3.60 for each Pepper share held as at the Scheme record date²; plus
- a fully franked special dividend of 10 cents for each Pepper share held as at the special dividend record date³ for which a Pepper shareholder receives cash consideration. The special dividend:
 - is separate to, and will not be reduced by, the interim dividend of 3 cents per share determined by the Pepper Board in respect of the six months ended 30 June 2017 and paid on 5 October 2017;
 - will not be paid to those Pepper shareholders that validly elect the Scrip Option or the Retention Option (except to the extent that the cash payments are received for Pepper shares as a result of the scale back arrangements) and will not reduce the amount of the scrip consideration under the Scheme (refer below); and
 - will only become payable if the Scheme becomes effective and will be paid on or before implementation of the Scheme.

KKR has indicated that this improved proposal represents its final offer and will not be increased, in the absence of a superior proposal.

Perpetual Limited (and its related bodies corporate) (“Perpetual”), which controls 14.8% of total Pepper shares, has indicated to Pepper that, in light of the improved proposal, it intends to approve the Scheme by voting in favour of the resolutions⁴, in the absence of a proposal that it considers to be a superior proposal.

¹ As a result of a Pepper shareholder not making a valid election to receive either the Scrip Option or the Retention Option or as a result of the scale back arrangements.

² The Scheme record date for payment of the cash consideration is the fourth business day after the date on which the court order in relation to the Scheme comes into effect.

³ The special dividend record date for payment of the special dividend is the second business day after the date on which Pepper lodges the court order approving the Scheme with the Australian Securities and Investments Commission (“ASIC”).

⁴ The resolutions are the approval of the Constitutional amendment to facilitate payment of the special dividend and approval of the Scheme.



Other features of the Scheme include the following:

- Pepper shareholders (other than certain ineligible foreign shareholders) are offered a scrip alternative under which they may elect to receive one share in Red Hot Australia Holdco Pty Ltd (“Holdco”), the owner of 100% of the shares in Bidco, for each Pepper share held as at the Scheme record date (“Scrip Option”)⁵;
- any Pepper shareholder (other than certain ineligible foreign shareholders) whose receipt of a Holdco share under the Scrip Option would result in tax becoming payable in a jurisdiction other than Australia and New Zealand for that shareholder or the relevant beneficial shareholder without the benefit of rollover relief, will have the option to retain their Pepper shares (“Retention Option”)⁵. Following implementation of the Scheme, Holdco will explore alternative means of acquiring those shares to minimise the adverse tax consequences. The Retention Option is subject to:
 - pro rata scale back if shareholders holding an aggregate of 9.9% or more of Pepper shares elect this option, in which case the cash payments of \$3.70 per Pepper share will be paid in respect of the excess shares; and
 - compulsory acquisition of the retained Pepper shares by Bidco at any time in the three year period following implementation of the Scheme for a cash amount per Pepper share equal to the then fair market value of a Holdco share if they have not otherwise been acquired by Holdco or its nominee;
- there will be a separate pro rata scale back if valid elections for the Scrip Option and the Retention Option (after any applicable scale back) relate to more than 48.5% of total Pepper shares, in which case the cash payments of \$3.70 per Pepper share will be paid in respect of the excess; and
- the cash payments under the Scheme and the amount of the scrip consideration will not be reduced by the interim dividend of 3 cents per share determined by the Pepper Board in respect of the six months ended 30 June 2017 and paid on 5 October 2017.

The Scheme is subject to a number of conditions that are set out in the Notice of Meeting and Explanatory Statement (“Scheme Booklet”). In summary, the key conditions include:

- eligible shareholders holding at least 35.11% of total Pepper shares⁶ elect to take the Equity Alternative. Pepper shareholders that receive or hold shares as a result of electing the Equity Alternative will become parties to a Shareholders’ Deed.

Mr Seamus Dawes, Chairman of Pepper, Mr Michael Culhane, Group Chief Executive Officer and Mr Cameron Small, Group Chief Financial Officer and each of their respective affiliates, who together hold or control 35.4% of Pepper shares⁷, have each indicated that they intend to approve the Scheme by voting in favour of the resolutions, in the absence of the Pepper Board recommending a superior proposal and subject to an independent expert concluding that the Scheme is in the best interests of Pepper shareholders, and to elect the Equity Alternative;

- all Pepper options and performance rights are converted, exercised, amended, cancelled, exchanged or acquired or are subject to legally binding arrangements for their conversion, exercise, amendment, cancellation, exchange or acquisition prior to the Scheme record date, on terms acceptable to Bidco, conditional only on the Scheme becoming effective (refer below);
- each counterparty to each of certain Pepper debt and warehousing funding facilities consents to the change of control arising from implementation of the Scheme;

⁵ The Scrip Option and the Retention Option are collectively referred to as the “Equity Alternative”.

⁶ After the scheme implementation deed was entered into and announced on 10 August 2017, Bidco gave consent for Pepper to issue 312,031 new Pepper shares (in addition to those issues of Pepper shares permitted under the scheme implementation deed) to satisfy entitlements under Pepper’s long term incentive plan. The scheme implementation deed was amended to reflect the new maximum number of shares of 184,368,905 as a result of this issue. To ensure that the equity commitment letter between Bidco and KKR continues to provide sufficient funds for the maximum amount of the cash payments to be paid under the Scheme, the minimum election condition precedent in the scheme implementation deed was also changed from 35% to 35.11%.

⁷ Excluding certain incentive shares held directly or indirectly by Mr Culhane (equal to approximately 0.39% of fully diluted Pepper shares) and Mr Small (equal to approximately 0.25% of fully diluted Pepper shares) in respect of which they do not currently have voting rights.



- receipt of regulatory approvals from the Foreign Investment Review Board in Australia and from certain other local and foreign regulatory bodies (including approval from the Central Bank of Ireland and the Competition and Consumer Protection Commission in Ireland, acceptance and approval from the Fair Trade Commission of Korea and approval from the Financial Conduct Authority (“FCA”) in the United Kingdom);
- Pepper shareholder approval of the resolution or resolutions required under the Corporations Act and Pepper’s Constitution to permit payment of the special dividend by the necessary majority at an extraordinary general meeting to be held immediately prior to the Scheme meeting;
- declaration or determination by the Pepper Board of the fully franked special dividend in the amount of 10 cents per share;
- Pepper shareholder approval of the Scheme by the necessary majorities;
- Federal Court of Australia approval of the Scheme; and
- no material adverse change or prescribed occurrences.

Pepper shareholder approval of the Scheme by the necessary majorities is linked to Pepper shareholder approval of the resolution required to amend Pepper’s Constitution to facilitate payment of the special dividend such that each approval is only effective if the other approval is also obtained.

In addition:

- Pepper has agreed with Bidco that options issued to non-executive directors and certain securities issued as part of its long term incentive plan (refer to Section 3.6.1 for details of these securities) will be treated as follows, subject to the Scheme becoming effective:
 - 300,000 options issued to non-executive directors will be cancelled for cash consideration on the Scheme becoming effective⁸. The cash consideration will represent the difference between the cash payments under the Scheme of \$3.70 and the relevant exercise price of the options;
 - in respect of the 4,028,803 unvested performance rights on issue, the Pepper Board intends to exercise its discretion under the plan rules to waive all vesting conditions other than the continuing employment condition⁸. In addition, the terms of those performance rights are proposed to be amended by agreement such that, if the Scheme is implemented, the holders who are current employees will be entitled to receive shares in Holdco (rather than Pepper) upon satisfaction of the continuing employment condition. Separately, the Pepper Board intends, subject to the Scheme becoming effective, to exercise its discretion to accelerate the vesting of 26,233 out of the 337,611 unvested performance rights that are held by former employees (so that 26,233 Pepper shares will be issued to those former Pepper employees shortly following the effective date). The remaining 311,378 unvested performance rights held by former employees will lapse for no consideration; and
 - in respect of the 3,628,903 unvested loan shares on issue, the Pepper Board intends to exercise its discretion under the plan rules to waive all vesting conditions other than the continuing employment condition upon the relevant holder electing the Scrip Option or the Retention Option and, in respect of any holder who elects the Scrip Option, agreeing to amend the terms of the limited recourse loan agreement applicable to their loan shares such that the loan and associated security applies to corresponding Holdco shares acquired by them under the Scheme. Holders of the 487,572 vested loan shares who wish to elect the Scrip Option will also be required to make similar amendments to their loan agreements referable to Holdco shares acquired under the Scheme; and
- Pepper and Bidco have agreed to certain exclusivity restrictions including no shop, no talk and no due diligence provisions. These restrictions do not apply to the extent that they would restrict Pepper or the Pepper Board from taking or refusing to take any action in relation to a competing proposal provided that the Pepper Board has determined, acting in good faith, that the competing

⁸ Subject to the receipt of any waivers required under the ASX Listing Rules.



proposal is or could reasonably be considered to become, a superior proposal and failing to respond to the competing proposal would, or would be reasonably likely to, constitute a breach of the Pepper Board's fiduciary or statutory obligations;

- Pepper must inform Bidco if it receives any unsolicited approach with respect to any competing proposal (and must disclose to Bidco all material details of the competing proposal), receives any request for information relating to Pepper which Pepper suspects may be in connection with a competing proposal, or provides any information relating to Pepper in connection with a competing proposal;
- Pepper must not enter into any agreement to give effect to a competing proposal and must use its reasonable endeavours to procure that none of its directors withdraw or change their recommendation to approve the Scheme unless the Pepper Board, acting in good faith and in order to satisfy its statutory or fiduciary duties, determines that the competing proposal would be, or would be likely to be, a superior proposal, Pepper has provided Bidco with the material terms and conditions of the competing proposal, Pepper has given Bidco as least five business days to provide a matching or superior proposal to the terms of the competing proposal and Bidco has not provided a matching or superior proposal by the expiry of the five business day period. If Bidco does propose a matching or superior proposal, Pepper and the Bidco must use their reasonable endeavours to implement the Bidco counterproposal;
- Pepper must pay Bidco a break fee of approximately \$6.6 million if, during the exclusivity period:
 - a competing proposal is announced and, within 12 months of the date of announcement, the proponent of the competing proposal acquires a relevant interest in more than 50% of Pepper's shares and the competing proposal is or becomes free from any defeating conditions (or in the case of a scheme of arrangement, the scheme becomes effective);
 - a Pepper director fails to recommend, withdraws or adversely changes his or her recommendation that Pepper shareholders approve the Scheme (other than as a result of the independent expert concluding that the Scheme is not in the best interests of Pepper shareholders or Pepper being entitled to terminate the scheme implementation deed because of Bidco's material breach of the deed); or
 - Bidco terminates the scheme implementation deed due to Pepper materially breaching the scheme implementation deed; and
- Bidco must pay Pepper a break fee of approximately \$6.6 million if:
 - Pepper terminates the scheme implementation deed due to Bidco materially breaching the deed or breach of a Bidco representation or warranty that is not remedied within 10 business days and is material in the context of the Scheme taken as a whole; or
 - Bidco does not provide the consideration in accordance with the terms of the scheme implementation deed.

An Independent Board Committee ("IBC") comprising Melanie Willis (Chair), Matthew Burlage and Des O'Shea has been established that has considered the transaction and will consider any competing proposal.

The directors of Pepper have unanimously recommended that Pepper shareholders approve the Scheme by voting in favour of the resolutions, and each director intends to vote all the Pepper shares held or controlled by them in favour of the resolutions, in the absence of a superior proposal and subject to an independent expert concluding (and continuing to conclude) that the Scheme is in the best interests of Pepper shareholders.



2 Scope of the Report

2.1 Purpose of the Report

The Scheme is to be implemented by a scheme of arrangement under Section 411 of the Corporations Act 2001 (Cth) (“Corporations Act”) between Pepper and its shareholders. Under Section 411 the Scheme must be approved by a majority in number (i.e. more than 50%) of each class of shareholders present and voting (either in person or by proxy) at the meeting, representing at least 75% of the votes cast on the resolution. If approved by Pepper shareholders, the Scheme will then be subject to approval by the Federal Court of Australia.

Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in relation to schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert’s report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement has a prescribed shareholding in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert’s report must state whether the scheme of arrangement is in the best interests of shareholders subject to the scheme and must state reasons for that opinion.

In addition, Pepper shareholders must approve the resolution or resolutions required under the Corporations Act and Pepper’s Constitution to permit payment of the special dividend. This resolution must be passed as a special resolution (i.e. at least 75% of votes cast by Pepper shareholders present and voting (either in person or by proxy)) at a general meeting to be held immediately prior to the Scheme meeting.

Although there is no requirement in the present circumstances for an independent expert’s report pursuant to the Corporations Act or the Australian Securities Exchange (“ASX”) Listing Rules, the IBC has engaged Grant Samuel & Associates Pty Limited (“Grant Samuel”) to prepare an independent expert’s report setting out whether, in its opinion, the Scheme is in the best interests of Pepper shareholders and to state reasons for that opinion. A copy of the report will accompany the Scheme Booklet to be sent to shareholders by Pepper.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Pepper 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 Scheme Booklet issued by Pepper in relation to the Scheme.

Voting for or against the Scheme is a matter for individual shareholders based on their 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 Scheme should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to hold securities in Holdco. This is an investment decision upon which Grant Samuel does not offer an opinion and independent of a decision on whether to vote for or against the Scheme. Shareholders should consult their own professional adviser in this regard.

2.2 Basis of Evaluation

There is no legal definition of the expression “in the best interests”. However, the Australian Securities & Investments Commission (“ASIC”) has issued Regulatory Guide 111 (“RG111”) which establishes guidelines in respect of independent expert’s reports. RG111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between “fair”



and “reasonable”. A proposal that was “fair and reasonable” or “not fair but reasonable” would be in the best interests of shareholders (being the opinion required under Part 3 of Schedule 8). For most other transactions, the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. If the advantages outweigh the disadvantages, a proposal would be in the best interests of shareholders.

The Scheme is economically the same as a takeover offer. Accordingly, Grant Samuel has evaluated the Scheme as a control transaction and formed a judgement as to whether the proposal is “fair and reasonable”.

Fairness involves a comparison of the offer price with the value that may be attributed to the securities that are the subject of the offer based on the value of the underlying businesses and assets. For this comparison, value is determined assuming 100% ownership of the target and a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length. Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer such as:

- the offeror’s existing shareholding;
- other significant shareholdings;
- the probability of an alternative offer; and
- the liquidity of the market for the target company’s shares.

An offer could be considered “reasonable” if there were valid reasons to accept the offer notwithstanding that it was not “fair”.

Fairness is a more demanding criteria. A “fair” offer will always be “reasonable” but a “reasonable” offer will not necessarily be “fair”. A fair offer is one that reflects the full market value of a company’s businesses and assets. An offer that is in excess of the pre-bid market prices but less than full value will not be fair but may be reasonable if shareholders are otherwise unlikely in the foreseeable future to realise an amount for their shares in excess of the offer price. This is commonly the case where the bidder already controls the target company. In that situation, the minority shareholders have little prospect of receiving full value from a third party offeror unless the controlling shareholder is prepared to sell its controlling shareholding.

Grant Samuel has determined whether the Scheme is fair by comparing the estimated underlying value range of Pepper with the offer price. The Scheme will be fair if it falls within the estimated underlying value range. In considering whether the Scheme is reasonable, the factors that have been considered include:

- the existing shareholding structure of Pepper;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of Pepper shares in the absence of the Scheme; and
- other advantages and disadvantages for Pepper shareholders of voting in favour of the Scheme.

2.3 Sources of Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Scheme Booklet (including earlier drafts);
- annual reports of Pepper for the two years ended 31 December 2016;
- half year announcement of Pepper for the six months ended 30 June 2017;



- press releases, public announcements, media and analyst presentation material and other public filings by Pepper including information available on its website;
- brokers' reports and recent press articles on Pepper and the mortgage and consumer lending and loan servicing sectors of the financial services industry; and
- sharemarket data and related information on Australian and international listed companies engaged in the banking as well as the mortgage and consumer lending and loan servicing sectors of the financial services industry and on acquisitions of companies and businesses in these sectors.

Non-Public Information provided by Pepper

- management accounts for Pepper for July and August 2017;
- detailed forecasts by country for each of Pepper's business operations for the years ending 31 December 2017 to 2019 prepared by Pepper management;
- high level projections by country for each of Pepper's business operations for the years ending 31 December 2020 to 2021; and
- other confidential documents, board papers, presentations and working papers.

In preparing this report, Grant Samuel has held discussions with, and obtained information from, senior management of Pepper and its advisers. It has also met with the Independent Board Committee.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by Pepper and its advisers. Grant Samuel has considered and relied upon this information. Pepper has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Scheme is in the best interests of Pepper shareholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert. In this context, Grant Samuel advises that:

- the detailed due diligence reports on Pepper prepared by KKR's accounting and legal advisers have not been provided to Grant Samuel;
- it is not in a position nor is it practicable to undertake its own "due diligence" investigation of the type undertaken by accountants, lawyers or other advisers; and



- it has therefore relied on the fact that Bidco has confirmed, by entering into the scheme implementation deed, that the directors of Bidco are satisfied with the results of the due diligence process that has been undertaken by it and its advisers.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Pepper. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included:

- the detailed budget for Pepper (and each of its business operations by country) for the year ending 31 December 2017 (“2017 Budget”) prepared by management and adopted by the directors of Pepper;
- detailed forecasts for Pepper (and each of its business operations by country) for the years ending 31 December 2018 and 2019 prepared by management; and
- high level projections for Pepper (and each of its business operations by country) for the years ending 31 December 2020 and 2021 prepared by management.

Pepper is responsible for the information contained in the 2017 Budget, the forecasts and the projections (“the forward looking information”). Grant Samuel has considered and, to the extent deemed appropriate, relied on this information for the purposes of its analysis. The major assumptions underlying the forward looking information were reviewed by Grant Samuel in the context of current economic, financial and other conditions. It should be noted that the forward looking information and the underlying assumptions have not been reviewed (nor is there a statutory or regulatory requirement for such a review) by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions.

Subject to these limitations, Grant Samuel considers that, based on the inquiries it has undertaken and only for the purposes of its analysis for this report (which do not constitute, and are not as extensive as, an audit or accountant’s examination), there are reasonable grounds to believe that the forward looking information has been prepared on a reasonable basis. In forming this view, Grant Samuel has taken the following factors into account that:

- the 2017 Budget and the detailed forecasts have been prepared through a detailed budgeting process involving preparation of “ground up” budgets by the management of individual business operations and review by management of Pepper;
- the 2017 Budget has been endorsed by the Directors of Pepper and the detailed forecasts and high level projections have been reviewed by the Directors of Pepper;
- actual performance for the six months ended 30 June 2017 is broadly in line with the 2017 Budget;
- Pepper’s third party servicing business operations (which represent ~55% of revenue) are generally underpinned by medium (3-5 year) term contracts and therefore a significant proportion of revenue is relatively stable and predictable; and
- senior management has advised that the overall performance of Pepper in September 2017 is expected to be broadly in line with 2017 Budget expectations.



While Pepper has provided guidance for profit after tax for the year ending 31 December 2017, the directors of Pepper have decided not to include the 2017 Budget or the forecasts in the Scheme Booklet and therefore this information has not been disclosed in this report.

To provide an indication of the expected financial performance of Pepper, Grant Samuel has considered brokers' forecasts for Pepper (see Appendix 3). Grant Samuel has used the median of the brokers' forecasts to review the parameters implied by its valuation of Pepper. These forecasts are sufficiently close to Pepper's 2017 Budget to be useful for analytical purposes.

Grant Samuel has no reason to believe that the forward looking information reflects any material bias, either positive or negative. However, the achievability of the 2017 Budget and the forecasts and projections is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable.

As part of its analysis, Grant Samuel has reviewed the sensitivity of net present values to changes in key variables. The sensitivity analysis isolates a limited number of assumptions and shows the impact of variations to those assumptions. No opinion is expressed as to the probability or otherwise of those variations occurring. Actual variations may be greater or less than those modelled. In addition to not representing best and worst outcomes, the sensitivity analysis does not, and does not purport to, show the impact of all possible variations to the business model. The actual performance of the business may be negatively or positively impacted by a range of factors including, but not limited to:

- changes to the assumptions other than those considered in the sensitivity analysis;
- greater or lesser variations to the assumptions considered in the sensitivity analysis than those modelled; and
- combinations of different variations to a number of different assumptions that may produce outcomes different to the combinations modelled.

The Chairman of Pepper and certain members of the Pepper senior management team who together hold or control 35.4% of Pepper shares have indicated that they intend to approve the Scheme⁹ and to elect the Scrip Option or the Retention Option, such that they will be investing alongside Holdco in the bid vehicle. This situation gives rise to a potential conflict of interest in relation to the information provided to Grant Samuel, particularly in relation to forecasts and prospects. In this context:

- Grant Samuel's engagement was conducted through the independent non-executive directors of Pepper;
- Grant Samuel has had access to the data room provided to KKR and other potential acquirers and has been advised that it has had access to all the information made available to KKR including management presentations, the 2017 Budget, the forecasts and projections and other presentations;
- details of the 2017 Budget and the forecasts and projections have been discussed with senior management team members who have not provided a voting intention statement in relation to the Scheme; and
- the 2017 Budget was prepared in the normal course of events on a "ground up" basis by each of the business operations and was formally approved by the directors of Pepper on 22 May 2017.

⁹ In the absence of the Board recommending a superior proposal and subject to an independent expert concluding that the Scheme is in the best interests of Pepper shareholders.



In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the assessments by Pepper and its advisers with regard to legal, regulatory, tax and accounting matters relating to the transaction are accurate and complete;
- the information set out in the Scheme Booklet sent by Pepper to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Scheme will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Scheme are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.



3 Profile of Pepper

3.1 Background

Pepper was established in 2000 and commenced lending as a specialist residential mortgage lender in the Australian market in March 2001. Through a combination of organic growth and targeted acquisitions, it has subsequently become a specialist lending and loan servicing group. Its major acquisitions have included:

- GE Capital's \$5 billion home lending business in Australia and New Zealand (August 2011);
- GE Capital's €650 million Irish residential mortgage business and the servicing of GE Capital's Irish portfolio of personal, small enterprise and auto loans (September 2012);
- Celeris Group's €290 million Spanish consumer loan business and operating platform as well as the servicing of Celeris Group's €300 million portfolio of residential mortgages (February 2013);
- Oakwood Global Finance LLP ("Oakwood"), one of the leading independent loan servicing and asset management platforms in the United Kingdom (September 2013);
- South Korean mutual savings bank, Evergreen Savings Bank (subsequently renamed Pepper Savings Bank) (October 2013); and
- a 12% equity interest in PrimeCredit Limited in Hong Kong and Shenzhen PrimeCredit Limited in Shenzhen, China (together "PrimeCredit"), as part of a consortium including China Travel Service ("CTS") and funds managed by York Capital Management (May 2015). Pepper also has management services contracts with the PrimeCredit businesses under which Pepper participates in the strategic development of the platforms, and for which it receives a combination of base and performance related management fees.

Most of these acquisitions reflect Pepper's approach of focusing on regions facing difficult market conditions and with distressed or otherwise motivated sellers (reflected in the entry price for the various platforms).

Pepper listed on the ASX in July 2015 via an initial public offer priced at \$2.60 per share and raising \$144.5 million. The proceeds from the IPO were used to repay existing corporate debt and strengthen Pepper's balance sheet.

Today, Pepper is a specialist residential mortgage and consumer lender and loan servicer, operating in targeted market segments in Australia and internationally, many of which are underserved by traditional bank and other prime lenders. It offers a broad range of lending products including residential mortgages, commercial real estate mortgages, auto and equipment finance, point-of-sale ("POS") finance and personal loans. Pepper also provides loan servicing for its own products as well as for third parties across residential mortgages, consumer unsecured and secured loans and commercial real estate backed loans. As at 30 June 2017, Pepper had \$53.3 billion of assets under management ("AUM").

In July 2017, Pepper announced that it had signed a share purchase agreement to acquire 100% of Portuguese consumer finance business, Banco Primus S.A. (Lisbon) ("Banco Primus") from Credit Foncier de France for €65 million. The transaction is subject to Bank of Portugal and European Central Bank approval and is not expected to complete until the first quarter of 2018.

Prior to speculation in the media on 28 May 2017 that Pepper might be the subject of a change in control transaction, it had a market capitalisation of \$538 million.

3.2 Business Model and Funding Strategy

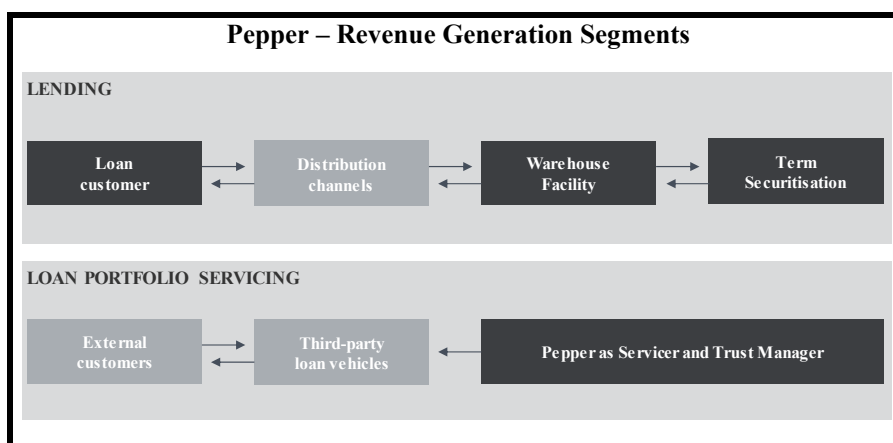
Business Model

Over the past 17 years, Pepper has transformed from a non-conforming residential mortgage lender in Australia to a specialist lender and loan servicer in global markets underserved by banks. During the global financial crisis (when securitisation markets closed), it focused on



diversifying its income base into third party servicing (while also calling its term securitisations at their first available call dates and successfully refinancing its warehouse facilities). Post the global financial crisis, Pepper's business model has been based on utilising its ability to combine its consumer credit and risk-based loan underwriting expertise with its specialist loan servicing and collections management capabilities. Its global expansion has largely been opportunistic, building scale through targeted acquisitions in specific jurisdictions, initially in Europe in loan servicing. This approach enables Pepper to use its expertise in servicing while it develops an understanding of the characteristics of a new lending market (without risking significant capital), with the intention of commencing loan origination once the market is well understood and there is sufficient liquidity to fund new originations. The expertise and analytics learned from servicing is used to continually improve credit underwriting standards, develop new products and enter new markets.

Pepper focuses on those segments of the lending and servicing value chain where it can apply its core capabilities to derive the strongest risk adjusted returns (shown as black boxes in the chart below):



Source: Pepper

Its key strengths are:

- use of, and relationships with, third party distributors (brokers, aggregators, white label partners). Pepper's lending business primarily originates product through third party distributors. It has recently introduced a direct to consumer mortgage and personal loan model in Australia although origination through this channel is relatively small;
- underwriting expertise;
- a capital efficient funding model, utilising limited recourse funding and including access to third party funding and a well established securitisation platform (refer below for details)¹⁰; and
- loan servicing experience (where collections and arrears management and proactive and effective customer relationship management are core capabilities). Servicing platforms are also capital efficient and scalable.

Pepper derives its revenue from:

- loan origination fees (settlement fees and mortgage risk fees);
- lending income, which includes Pepper's share of net income distributed from limited recourse funding vehicles where Pepper holds residual income units, net interest revenue from Pepper's investment in equity notes within funding vehicles and net interest income from on-balance sheet loans (in South Korea only), as well as revenue from whole loan sales (refer below for further details);

¹⁰ Other than in South Korea, where Pepper Savings Bank is funded by retail deposits.



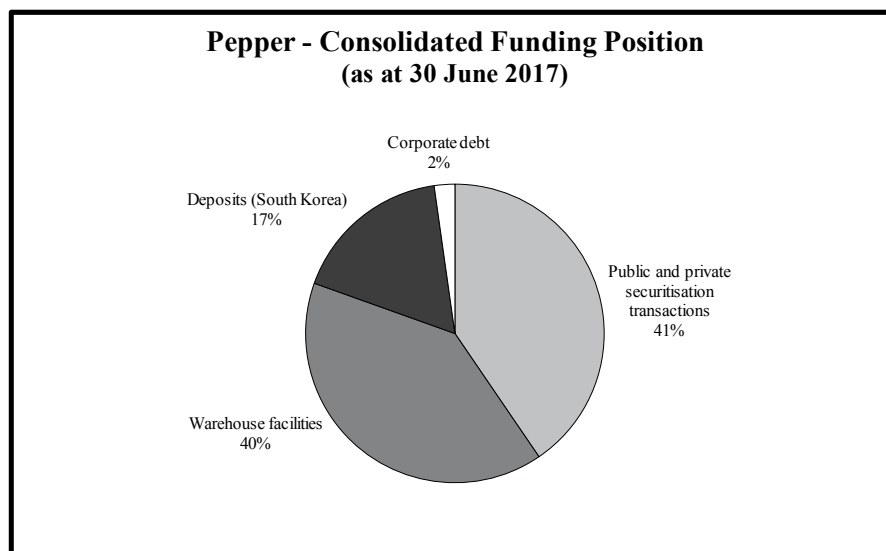
- servicing and loan administration income which includes contracted servicing and management fees on Pepper originated or acquired loans, servicing fees from third party funding vehicles where Pepper is the contracted loan servicer and performance fees; and
- advisory income (fees from property and loan due diligence and advisory income from Pepper Property Group).

Funding Strategy

Pepper’s funding strategy is based on established relationships with a diverse range of funders and the use of long term limited recourse loan funding structures. It has strong support from the major Australian banks, which is supplemented by funding from international investment banks and institutional investors. In addition to its surplus cash, the funding options available to Pepper are:

- warehouse facilities, where funding partners provide finance to limited recourse funding vehicles which are used by Pepper to fund the origination or purchase of loans. These facilities can be drawn and repaid on an ongoing basis up to agreed facility limits and eligibility criteria;
- public and private term securitisations, where a group of loan assets are pooled together and refinanced by being sold to a new funding vehicle that issues securities against those assets to investors. Pepper provides a level of “first loss” capital to the funding vehicle and/or a limited guarantee to credit enhance the position of the funding investors. Typically, loans are initially funded via warehouse facilities and are then periodically refinanced through the issuance of term securitisations in debt capital markets;
- whole loan sales (in Australia, South Korea and the United Kingdom), which involves the sale of pools of loans at a premium to their par value and provides Pepper with the opportunity to recycle capital;
- retail deposits, which are used as the source of funding for Pepper Savings Bank in South Korea where securitisation markets are less developed; and
- corporate debt facility, a revolving facility which is used to fund a range of business activities including working capital, acquisition of new businesses and the provision of subordinated loans or notes in warehouse facilities and term securitisations.

As at 30 June 2017, Pepper’s consolidated funding requirement was \$8.4 billion, although the majority of this funding (~81%) was provided by non-recourse funding vehicles:



Source: Pepper



3.3 Financial Performance

Historical Financial Performance

The historical financial performance of Pepper for the three years ended 31 December 2016 and the six months ended 30 June 2017 is summarised below:

Pepper – Financial Performance (\$ millions)				
	Year ended 31 December			Six months ended
	2014 pro forma	2015 pro forma	2016 actual	30 June 2017 actual
<i>Lending originations</i>	1,650.3	3,255.8	4,928.5	2,828.4
<i>Lending AUM</i>	4,183.0	5,612.2	7,035.1	7,993.7
<i>Servicing AUM</i>	24,440.2	39,926.0	45,353.7	45,301.7
<i>Total AUM</i>	28,623.2	45,538.2	52,388.8	53,295.4
Lending income	83.6	105.9	191.7	114.3
Loan origination fees	16.6	14.8	35.1	18.5
Servicing and loan administration income	114.3	167.4	169.0	77.2
Advisory and other income	20.4	16.2	17.5	9.4
Net income	234.9	304.3	413.2	219.4
Operating expenses	(178.4)	(240.7)	(326.9)	(175.4)
Depreciation and amortisation	(6.3)	(13.7)	(10.5)	(7.1)
Interest expense on corporate borrowings	(1.9)	(1.9)	(5.5)	(5.4)
Operating profit before tax	48.3	48.0	70.3	31.4
Share of profit/(loss) of associates	-	5.9	9.0	5.4
Income tax expense	(14.1)	(11.8)	(17.7)	(8.7)
NPAT¹¹	34.2	42.1	61.6	28.1
Outside equity interests	0.1	-	-	-
NPAT attributable to Pepper shareholders	34.3	42.1	61.6	28.1
Amortisation of acquired intangible assets	0.8	6.5	(0.6)	0.2
Adjusted NPAT attributable to Pepper shareholders	35.1	48.6	61.0	28.3
Statistics				
<i>Basic earnings per share</i>		24.3c ¹²	35.6c	16.2c
<i>Dividends per share</i>		3.0c ¹³	8.4c	3.0c
<i>Dividend payout ratio</i>		nmc ¹⁴	24%	19%
<i>Amount of dividend franked</i>		100%	100%	100%
<i>Lending originations growth</i>		+97.3%	+51.4%	+27.9%
<i>Lending AUM growth</i>		+34.2%	+25.4%	+24.2%
<i>Servicing AUM growth</i>		+63.4%	+13.6%	-2.7%
<i>Total AUM growth</i>		+59.1%	+15.0%	+0.6%
<i>Net income growth</i>		+29.5%	+35.8%	+13.1%
<i>Adjusted NPAT growth</i>		+38.3%	+25.7%	+19.9%
<i>Operating cost to income ratio</i>	75.9%	79.1%	79.1%	80.0%
<i>Adjusted NPAT margin</i>	14.9%	16.0%	14.8%	12.9%
<i>Effective tax rate</i>	29.2%	21.9%	22.3%	23.6%
<i>Full time equivalent employees</i>	1,083	1,523	1,846	1,876

Source: Pepper and Grant Samuel analysis

¹¹ NPAT is net profit after tax.

¹² Basic earnings per share is calculated assuming 173,390 shares were on issue for the full calendar year.

¹³ Dividend per share is for the six month period from July 2015 (following listing) to December 2015.

¹⁴ nmc = not a meaningful calculation.



Pepper's financial performance is shown net of the income and expenses relating to limited recourse funding vehicles which better reflects the underlying performance of Pepper. Adjustments have been made to deconsolidate the income recorded by limited recourse funding vehicles and recognise the coupon interest and distribution income and the servicing and administration income received from funding vehicles. This is different to the statutory presentation in the Scheme Booklet which consolidates limited recourse funding vehicles.

In addition, as Pepper commenced trading on the ASX in July 2015 following its IPO:

- the historical financial performance for CY14¹⁵ is pro forma financial information sourced from Pepper's prospectus and financial statements. This financial information reflects adjustments to net finance costs (assuming the debt pay down associated with the IPO was completed as at 1 January 2014), the new long term incentive plan structure for management and the costs associated with being a listed entity;
- CY15 was a partial year as an ASX listed company. The historical financial performance for CY15 is based on the statutory results for CY15 (net of income and expenses relating to limited recourse funding vehicles) but includes pro forma adjustments to:
 - remove the impact of expenses incurred as part of the July 2015 IPO, business acquisition transaction costs and acceleration of the management long term incentive plan;
 - provide for a full year of net finance costs (assuming the debt pay down associated with the IPO was completed as at 1 January 2014), a full year of PrimeCredit equity investment and management fee, the new long term incentive plan structure for management and listed company costs; and
- CY16 was Pepper's first full year as an ASX listed company.

Pepper has generated consistent double digit growth in lending originations, lending AUM, net income and NPAT over the last two and a half years. Key drivers of Pepper's performance have been attractive macro-economic conditions in countries in which it operates, resulting in:

- very strong growth in origination volumes (particularly in the Australian mortgage business across all distribution channels and in consumer lending in South Korea); and
- significant servicing contract wins in Europe, where further bank deleveraging has resulted in 20 new servicing portfolios in CY15 (although this has been offset to some extent by further amortisation of the GE managed portfolio in Australia and New Zealand). Servicing and loan administration fees also include performance fees of \$20.0 million in CY14, \$14.0 million in CY15 and \$4.8 million in CY16.

This growth has been achieved notwithstanding:

- significant investment in start up businesses (lending commenced in the United Kingdom in CY15 and Ireland in CY16 and personal loans was launched in Australia in CY16) and brand (*Pepper Money* was launched in CY16). Pepper also acquired its 12% interest in PrimeCredit in CY15. These investments are expected to contribute to future growth in Pepper's AUM and earnings; and
- an increase in the cost base. The increase in the operating cost to income ratio in CY15 reflects the front loading of employee costs ahead of servicing contracts commencing CY16, with further cost increases in CY16 associated with investment in brand and a move to software as a service licencing fees.

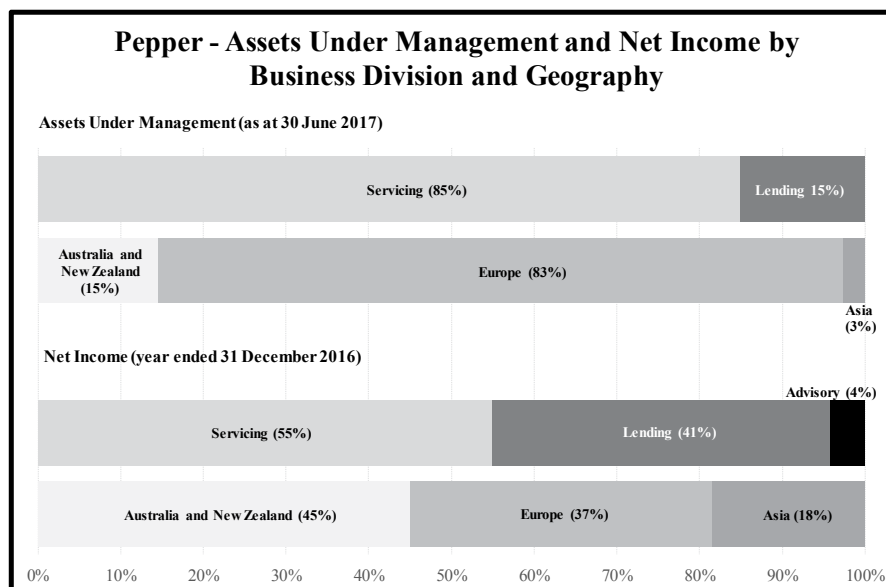
Despite the operating cost to income ratio stabilising in 1HY17¹⁶, the adjusted NPAT margin fell from around 15% to 12.9% as the effective tax rate increased due to start up businesses becoming profitable.

¹⁵ CYXX is the calendar year end 31 December 20XX.

¹⁶ 1HY17 is the six months ended 30 June 2017.



Pepper's AUM and net income are diversified by region and activity. Its servicing activities in Europe account for a significant proportion of AUM and net income, representing over 80% of total AUM and approximately one third of net income in CY16. However, Pepper generates the largest share of its revenue in Australia and New Zealand, which represented 45% of net income in CY16:



Outlook

Pepper has not publicly released detailed earnings forecasts for the year ending 31 December 2017. To provide an indication of the expected future financial performance of Pepper, Grant Samuel has considered brokers' forecasts for Pepper (see Appendix 3) as follows:

Pepper – Forecast Financial Performance (\$ millions)			
	Year end 31 December		
	2016 actual	2017 broker consensus (median)	2018 broker consensus (median)
Net income	413.2	460.3	508.3
Adjusted NPAT	61.0	69.7	81.5

Source: Grant Samuel analysis (see Appendix 3).

On 25 August 2017, in conjunction with the release of its 1HY17 results, Pepper confirmed its previous advice that, subject to market conditions and excluding performance fees, it remains on track to achieve an adjusted NPAT of at least \$67.5 million for CY17. Each of Pepper's key regions is experiencing favourable macro and micro economic environments, although there continue to be regulatory risks and challenges to be managed. NPAT is weighted towards 2HY17¹⁷, reflecting the continuing growth in residential and consumer lending books in Australia, South Korea, the United Kingdom and Ireland. The median consensus brokers' forecasts indicate a 14.3% increase in adjusted NPAT to \$69.7 million in CY17 which is consistent with Pepper's guidance.

Adjusted NPAT by region is estimated in the table below (refer to Appendix 3 for details):

¹⁷ 2HY17 is the six months ending 31 December 2017.



Pepper – Adjusted NPAT by Region (\$ millions)		
Region	Allocated Consensus Median Adjusted NPAT	
	CY17	CY18
Australia and New Zealand	46.4	49.3
Pepper Savings Bank	22.2	25.7
PrimeCredit	9.0	9.2
Europe	26.9	30.4
Corporate	(34.8)	(33.1)
Total	69.7	81.5

The Australian business is the core growth platform, although long term growth will come from the investment in the European lending platforms (particularly the United Kingdom residential mortgage and Spanish consumer lending markets). Pepper has also acknowledged that investment in lending platforms is a prerequisite for future earnings growth. At least \$150 million of incremental equity capital in excess of organic cash generation is expected to be required over the next two years to fund business as usual growth and the Banco Primus acquisition.

3.4 Financial Position

The financial position of Pepper as at 31 December 2016 and 30 June 2017 is summarised below:

Pepper – Financial Position (\$ millions)		
	As at 31 December 2016 actual	As at 30 June 2017 actual
Cash and cash equivalents	360.1	209.7
Securities	80.7	0.1
Receivables	128.7	112.0
Loans and advances	1,231.2	1,489.3
Deferred tax assets	13.9	11.5
Investments	213.0	262.2
Investment in associate	99.3	96.0
Property, plant and equipment	22.0	24.2
Intangible assets	40.5	47.8
Goodwill	22.2	22.0
Other assets	287.9	37.1
Total assets	2,239.5	2,311.9
Deposits	1,383.1	1,451.4
Trade and other payables	29.5	26.7
Current tax liabilities	5.5	6.8
Borrowings	141.7	191.1
Provisions	34.8	24.5
Other liabilities	187.7	139.7
Total liabilities	1,782.3	1,840.2
Net assets	457.2	471.7
Statistics		
Shares on issue at period end (million)	182.0	182.5
Net assets per share (\$)	2.51	2.58
NTA ¹⁸ per share (\$)	2.17	2.20

Source: Pepper and Grant Samuel analysis

¹⁸ NTA is net tangible assets, which is calculated as net assets less intangible assets.



Pepper's financial position is shown net of the assets and liabilities relating to limited recourse funding vehicles which better reflects the underlying financial position of Pepper. Adjustments have been made to deconsolidate the assets and liabilities attributable to limited recourse funding vehicles. This is different to the statutory presentation in the Scheme Booklet which consolidates limited recourse funding vehicles.

The majority of Pepper's net assets represent its core lending activities in Australia (over 50% of net assets) and the consolidation of Pepper Savings Bank (over 20% of net assets including the loans and advances, securities and deposits balances).

Deferred tax assets are primarily \$9.1 million of tax losses in relation to Pepper Savings Bank (\$7.3 million) and Pepper's Spanish operations (\$1.8 million).

Investments represent capitalised deal costs, investments in third party funding vehicles and investments in Pepper owned trusts. It also includes an investment property held by Pepper Savings Bank and a number of equity investments held at fair value.

Investment in associate represents Pepper's 12% interest in PrimeCredit which is carried at its cost plus Pepper's share of retained earnings for each period (converted from HK\$ to A\$). The decline in the carrying amount of this investment in the six months to 30 June 2017 reflects the strengthening of the A\$ against the HK\$ over the last six months (and not the underlying performance of PrimeCredit which has been strong).

Intangible assets comprise licence fees and software of \$15.5 million (which are amortised over periods of 2-3 years), mortgage servicing rights associated with contracts acquired in the United Kingdom (which are amortised over up to 10 years) and the South Korean mutual savings bank registration which gives Pepper Savings Bank the right to operate as a mutual savings bank in South Korea for an indefinite period (which is not amortised).

Goodwill relates to the acquisition of Pepper Property Group in Australia in 2012 (\$7.7 million) and the Oakwood servicing business in the United Kingdom in 2013 (\$14.3 million).

Provisions are primarily bonuses and other employee benefits.

Pepper's consolidated indebtedness as at 30 June 2017 (both non-recourse and recourse) is summarised below:

Pepper – Consolidated Indebtedness as at 30 June 2017	
Funding Vehicle Debt	\$ millions
Warehouse facilities	3,351.5
Term securitisation funding	3,392.9
Total limited recourse debt	6,744.4
Restricted cash and cash equivalents in funding vehicles	(443.0)
Net limited recourse debt – warehouse facility and term securitisation funding	6,301.4
Corporate Debt	
Loans and borrowings	191.1
Spanish settlement facility (non-recourse)	(3.0)
Accrued facility interest	(0.2)
Total corporate borrowings¹⁹	187.9
Unrestricted corporate cash and cash equivalents	(44.0)
Net corporate debt (net recourse debt)	143.9

Source: Pepper

¹⁹ Total corporate borrowings include the corporate debt facility drawn to \$188.0 million (net of \$1.6 million of capitalised borrowing costs), a premium funding facility drawn to \$1.2 million and an IPP loan facility of \$0.3 million.



Warehouse facility borrowing and term securitisation funding is disclosed in Pepper's statutory accounts but is deconsolidated in the financial position shown above. As at 30 June 2017, Pepper had an undrawn balance of \$1.3 billion on its warehouse funding facilities.

Corporate borrowings exclude retail customer deposits in South Korea that are disclosed separately. The total aggregate limit under the corporate debt facilities is \$210 million. As at 30 June 2017, Pepper had an undrawn balance of approximately \$22 million on its corporate debt facilities. The corporate debt facilities bear interest at the bank bill swap rate plus a margin and are subject to certain financial covenants (interest cover, leverage and net asset cover ratios).

Unrestricted corporate cash and cash equivalents adjusts cash and cash equivalents as at 30 June 2017 of \$209.7 million for \$101.4 million of restricted cash held in Pepper Savings Bank that is not able to be transferred from South Korea and \$64.3 million held on trust as part of Pepper's day-to-day clearing and origination operations.

3.5 Taxation Position

Under the Australian tax consolidation regime, Pepper and its wholly owned Australian resident entities are taxed as a single entity.

As at 31 December 2016, Pepper and its subsidiaries had carried forward income tax losses (for which an asset has been booked on the balance sheet) of approximately \$40.8 million. A deferred tax asset in relation to losses of \$9.1 million were recognised in the balance sheet as at 31 December 2016 (approximately \$7.3 million in relation to Pepper Savings Bank and \$1.8 million in relation to Pepper's Spanish operations). These losses are expected to be used against future profits of the relevant entities. There are substantial carry forward tax losses related to Pepper's business operations in Ireland (approximately \$303 million). The ability to utilise these losses is being contested with the Irish Revenue and as a result they have not been recognised on the balance sheet. There are no material capital losses within the Pepper group of companies.

As at 30 June 2017, Pepper had \$61.0 million of accumulated franking credits. Approximately \$2.4 million of these credits will be utilised for the fully franked interim dividend of 3 cents per share paid on 5 October 2017. The estimated accumulated franking credits after payment of the interim dividend is \$61.3 million, which also reflects tax instalments.

3.6 Capital Structure and Ownership

3.6.1 Capital Structure

As at 10 October 2017, Pepper had the following securities on issue:

- 184,342,671 ordinary shares (including 487,572 vested loan shares and 3,628,903 unvested loan shares);
- 300,000 options over unissued ordinary shares; and
- 4,028,803 unvested performance rights over ordinary shares.

On 5 August 2015, in conjunction with the IPO, each of Pepper's non-executive directors received a one off grant of 75,000 options for no consideration as part of their remuneration package. Each option entitles the director to acquire one Pepper share on payment of the exercise price. The exercise price is \$2.60, equivalent to the IPO offer price. The options become exercisable in three equal tranches on the 12, 24 and 36 month anniversaries of the grant. Any unexercised options will expire on 5 August 2022. The options are not subject to any performance or service conditions and do not carry any dividend or voting rights prior to vesting and exercise. Any dealing with the options is prohibited, unless the Board determines otherwise. The terms of the options also provide for automatic vesting of the options on a change of control of Pepper, unless the Pepper Board determines otherwise.



Since the IPO in 2015, Pepper has operated a long term incentive plan under which certain executives and senior management have been granted awards comprising:

- performance rights; and/or
- loan shares.

Performance rights are an entitlement to receive a Pepper share for no consideration on satisfaction of applicable vesting conditions. Performance rights do not confer any right to vote, attend shareholder meetings or participate in a distribution of profit or a return of capital before vesting.

Participants in the long term incentive plan who have received loan shares are provided with a loan from Pepper to subscribe for shares to be held either on trust for them or by participants directly, but in either case subject to satisfaction of applicable vesting conditions and repayment of the loan (with recourse limited to the loan shares). Loans are interest free and have a term of seven years. Any loan shares that vest continue to be held on trust or under escrow arrangements until the loan is repaid in full or the loan period expires. While the loans remain outstanding, participants are entitled to the income received on the underlying shares but any income will be first applied towards repayment of the outstanding loan amount, except to the extent of a provision made for the participant to satisfy tax obligations in relation to the income. Participants are generally not entitled to vote loan shares, with the trustee being entitled to vote loan shares held on trust and Pepper otherwise being entitled to vote loan shares held directly by participants.

In the event of a takeover event, the Pepper Board has discretion to vest any performance rights or loan shares, based on performance against the performance conditions up to the date of the change of control. Where only some of the performance rights or loan shares are vested on a change of control, the remainder will lapse or be forfeited. The Pepper Board also has discretion to provide a participant with shares in a company that has obtained control of Pepper on vesting of performance rights.

3.6.2 Ownership

There are less than 600 registered shareholders in Pepper. The top 10 registered shareholders account for just over 70% of the ordinary shares on issue.

Other than current and former management and directors, the top ten registered shareholders are principally institutional nominee or custodian companies. Pepper does not have a significant retail investor base. Based on an analysis of holders of 97.9% of Pepper's shares prepared by Orient Capital Pty Ltd in September 2017, private stakeholders/investors (excluding current and former management and directors) represented around 10% of shares on issue. Pepper shareholders are predominantly Australian based investors (representing approximately 81% of shares on issue).

Pepper has received notices from the following substantial shareholders:

Pepper – Substantial Shareholders			
Shareholder	Date of Notice	Number of Shares	Percentage ²⁰
Mr Seamus Dawes	28 February 2017	54,740,439	29.7%
Perpetual	29 August 2017	27,208,443	14.8%
CVI CVF II Lux Securities Trading SARL	5 August 2015	10,952,500	5.9%

Source: Pepper

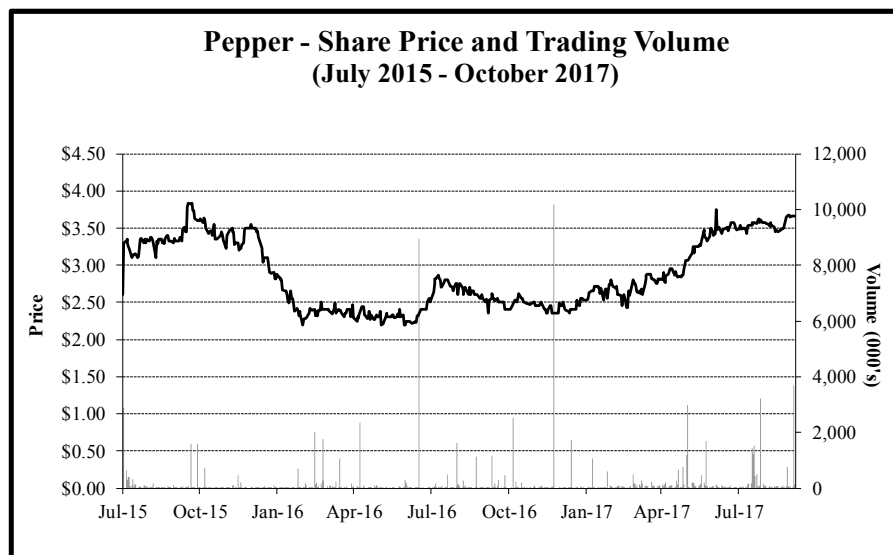
²⁰ Based on 184,342,671 shares on issue.



3.7 Share Price Performance

3.7.1 Share Price History

The following graph illustrates the movement in the Pepper share price and trading volumes since it listed on the ASX on 31 July 2015:



Source: IRESS

Pepper's shares were issued at \$2.60 through the IPO. Trading in Pepper shares opened on 31 July 2015 at \$3.05 and the shares traded as high as, and closed at, \$3.30 on the first day of trading. The share price continued to increase over the following three months on the back of substantial new contract wins for the servicing business in Ireland and Pepper releasing its half year results and confirming it was on track to meet its CY15 year prospectus forecast. It reached an all time high of \$3.84 on 16 October 2015.

The share price fell substantially in the first quarter of 2016, on little company specific information (the only announcement was in relation to the launch of a new lending business in Ireland) and on low volumes (only 6.7 million shares traded over the period from January to March 2016). However, the fall in the share price did coincide with a material fall in the share prices of Australia's major banks as funding costs increased and the regulators increased their focus on the home lending market and responsible lending.

The share price stabilised at around \$2.20-2.40 following the release of Pepper's CY15 full year results at the end of February 2016 which exceeded the prospectus forecast and payment of a maiden fully franked dividend in line with the prospectus forecast. Pepper shares traded in the range \$2.20-2.40 through to mid-July 2016 and reacted positively to the sale by Goldman Sachs (joint lead manager for the IPO) of 8.8 million shares, a portion of which was acquired by Perpetual Limited ("Perpetual"), increasing its shareholding from 9.98% to 12.4%. The shares traded as high as \$2.87 in early August 2016 before settling at around \$2.40-2.60 through to the end of January 2017, after which it traded upwards following the release of Pepper's CY16 results (which were slightly ahead of guidance and included the announcement of a 5.4 cents per share fully franked final dividend). However, trading has continued to be on low volumes.

The Pepper share price closed at \$2.95 on 26 May 2017, the last trading day prior to speculation in the media that Pepper might be the subject of a change of control transaction. Since announcement that Pepper had received the KKR indicative proposal and entered into an exclusivity agreement on 5



July 2017, Pepper shares have traded in the range \$3.40-3.79²¹, at a volume weighted average price of \$3.59, below the cash payments of \$3.70 per share (plus a fully franked interim dividend of 3 cents per share), in part reflecting the conditional and non-binding nature of the KKR indicative offer and, once the Scheme was announced and the improved proposal subsequently received, the requirement for regulatory approvals and the time until payment.

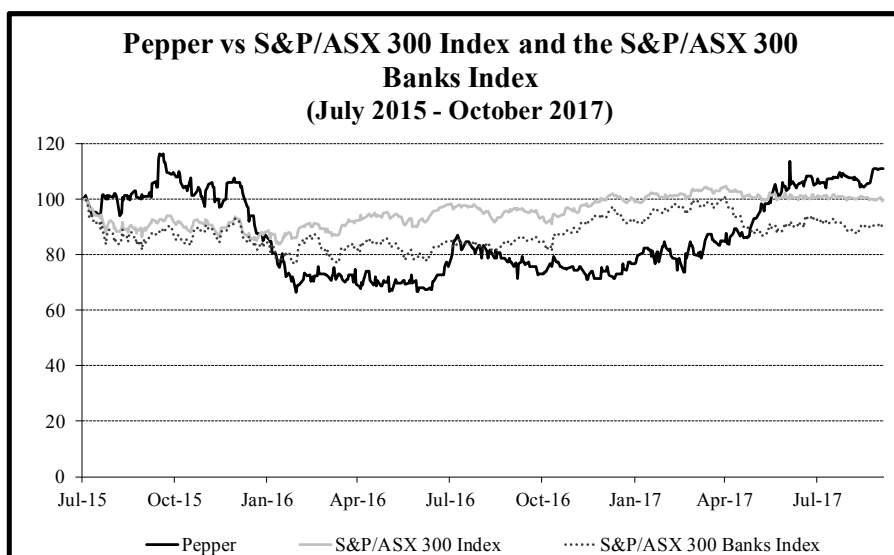
3.7.2 Liquidity

Approximately 45% of Pepper shares are held by current management personnel (including 29.7% held by Mr Dawes).

Given its limited free float (~55% of total issued shares), trading in Pepper shares has been relatively illiquid. Average weekly volume over the twelve months prior to the announcement of the Scheme represented approximately 0.5% of average shares on issue or annual turnover of around 27% of total average issued capital (50% of the free float).

3.7.3 Relative Performance

Pepper's limited free float results in it being excluded from most indices other than the All Ordinaries Index (where its weighting is less than 0.05%). However, to give some indication of relative performance, Grant Samuel has considered the performance of Pepper shares since 31 July 2015 relative to the S&P/ASX 300 Index and the S&P/ASX 300 Banks Index:



Source: IRESS

Prior to speculation in the media that Pepper might be the subject of a change of control transaction on 28 May 2017, Pepper shares generally traded in line with the S&P/ASX 300 Index and the S&P/ASX 300 Banks Index other than:

- the period of outperformance immediately post listing in mid-2015 (not reflected in the above chart);
- the sharp decline in share price over period in the first quarter of 2016 (discussed above); and
- the increase in the share price from mid-July to mid-August 2016 following the sell down by Goldman Sachs and the increase in the substantial shareholding of Perpetual.

²¹ Trading at prices above the cash payments under the Scheme of \$3.70 per share has been on extremely low volumes. For example, only one share traded at the \$3.79 price at the top end of this trading range. The highest share price excluding this trade was \$3.68.



4 Profile of Business Divisions

4.1 Australia and New Zealand

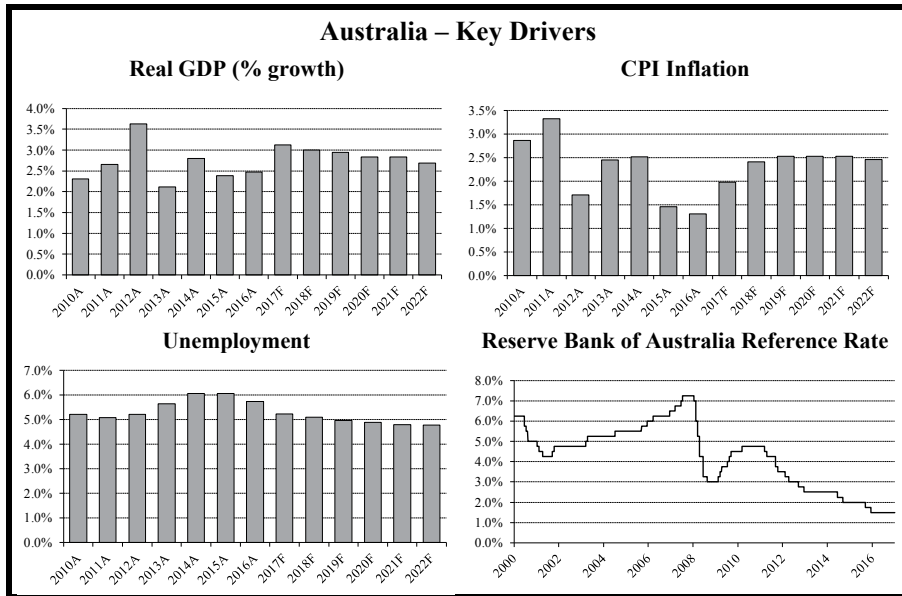
4.1.1 Industry Overview

Residential Mortgages - Australia

Key Drivers

Residential mortgages are the largest credit exposure in the Australian banking system. Over the past 15 years, the value of all residential housing loans financed by Authorised Deposit-taking Institutions (“ADIs”) in Australia has grown from approximately \$400 billion in June 2003 to \$1.6 trillion as at June 2017, an average annual growth rate of 10.4%.

The Australian economy has had a period of continued moderate and stable economic growth, with GDP rising by 2.4% in 2016. The ongoing expansion in the Australian mortgage market has been driven by a combination of “borrower-friendly” factors including a growing domestic population, stable unemployment and historically low interest rates:



Source: International Monetary Fund, Reserve Bank of Australia

According to the Australian Bureau of Statistics, Australia’s population grew by 1.6% to approximately 24.4 million people in the 12 months ended 31 December 2016, with all states and territories experiencing positive growth. The increase in population has contributed to increased competition for housing, in particular in major cities, resulting in higher house prices. Furthermore, a relatively stable unemployment rate of between 5 to 6% over the last five years has allowed households to generate the income needed to service their mortgage obligations.

The official cash rate in Australia remains at historically low levels, with the rate as at September 2017 sitting at 1.50%. In 2016, the Reserve Bank of Australia (“RBA”) reduced the cash rate twice, each time by 25 basis points. The RBA’s decision to lower the cash rate was mainly due to the Australian economy’s low levels of inflation and wages growth.

Borrowers have been able to capitalise on the historically low cash rate, with lenders offering very competitive pricing on their residential mortgage products. However, a low cash rate environment



is not necessarily always beneficial for mortgage lenders as the decline in interest income earned on mortgage loans offsets the benefits of greater demand for mortgages and larger volumes attributable to increased housing values.

Housing loan approvals in Australia rose sharply throughout 2016 and into the first half of 2017, particularly for investors. Investor housing loan approvals came close to overtaking owner-occupied housing loans (in terms of value) in 2017 causing the Australian Prudential Regulation Authority (“APRA”) to respond, introducing new measures aimed at slowing the growth in investor loans (including a 30% cap on interest only loans and tighter servicing requirements from lenders).

Housing prices also continued to increase throughout 2016, especially in Sydney and Melbourne. This has led to Australians borrowing greater amounts as a percentage of their disposable income to fund the purchase of a property. Despite this trend, the low interest rate environment has meant that households are contributing a lower amount into their mortgage repayments.

Competition

The Australian residential mortgage market is highly concentrated and is dominated by the four major domestic banks, Commonwealth Bank of Australia Limited (“CBA”), Westpac Banking Corporation Limited (“WBC”), Australia and New Zealand Banking Group Limited (“ANZ”) and National Australia Bank Limited (“NAB”). The four major banks represented approximately 78% of total mortgage industry revenue in 2016/17.

The major domestic banks, along with other ADIs, tend to focus their residential mortgage lending activities on prime borrowers as they satisfy stringent underwriting and regulatory standards. Prime residential mortgages are provided to borrowers who are perceived by lenders to be high credit quality borrowers and have a below-average chance of missing a required payment or defaulting on the required loan payments. Prime borrowers must be able to demonstrate that they meet the required compliance criteria of mortgage lenders and insurers.

Non-conforming residential mortgages, where Pepper has traditionally focussed its operating activities, refers to those borrowers that either fail to meet the specified prime borrower criteria or have experienced some form of historical credit history impairment (such as unemployment, illness, divorce etc.). Non-conforming loans tend to have a shorter average loan life than prime loans as the borrower is often able transition their credit profile up the credit curve and refinance into the prime segment. In addition to Pepper, the key market participants in the Australian non-conforming residential mortgage industry include Liberty Financial, La Trobe Financial, RESIMAC and Bluestone Mortgages.

Regulation

The Australian residential mortgage industry is primarily regulated by APRA (ADIs) and ASIC (non-bank financial institutions). A number of regulatory changes are proposed or have been announced which will or may impact Pepper’s operations:

- the Federal Government announced in the 2017-18 Budget that APRA would be given new powers in respect of the provision of credit by entities that are not ADIs for the purposes of addressing financial stability risks. An exposure draft was issued in July 2017 and the consultation period closed in August 2017 but the timing of any legislation is unknown. This is similar to powers granted to overseas regulators where Pepper operates and could have unintended consequences of reducing consumer choice and creating uncertainty for debt investors;
- changes to Prudential Standard APS 120 aimed at ensuring ADIs manage the risks associated with securitisation and the holding of sufficient regulatory capital will apply from 1 January 2018. APRA will no longer allow ADIs to use internal modelling to determine the risk weighting and regulatory capital for securitisation exposures and will instead need to apply a standardised or external ratings based approach.

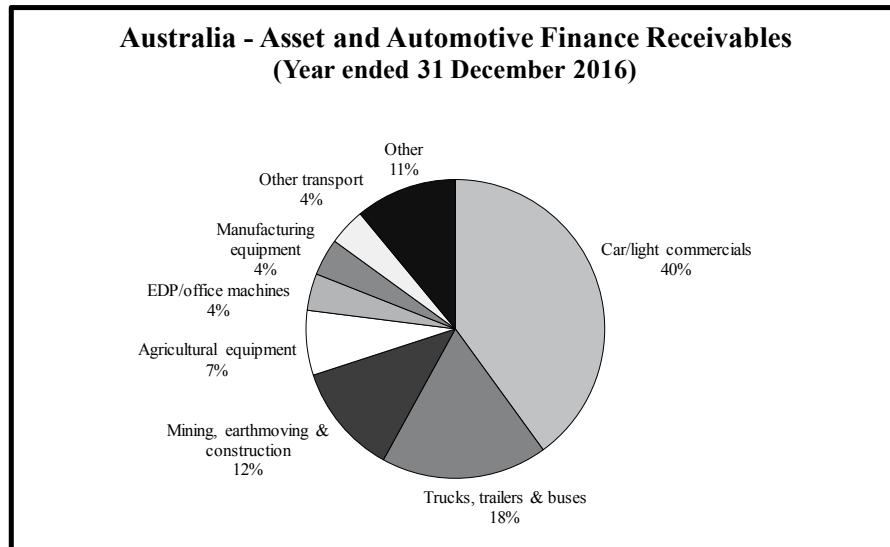


This approach will lead to a higher risk weighting applied to senior warehouse funding, resulting in increased regulatory capital requirements for ADIs. For ADIs to meet their return on equity targets, they will need to increase the margins on senior warehouse funding facilities and/or reduce the amount of leverage they provide (with the resulting gap being filled by non-ADI institutional investors but generally at higher margins than the equivalent funding provided by banks) which will directly impact the cost of funds for non-bank financial institutions such as Pepper; and

- APRA limits on investor lending growth for ADIs (i.e. limit on new interest only lending to 30% of new lending and limit on investor lending portfolio growth of 10%. However, Pepper has historically operated under warehouse facility limits on investor lending and the composition of its loan book has been largely unchanged despite a marginal increase in investor loan applications.

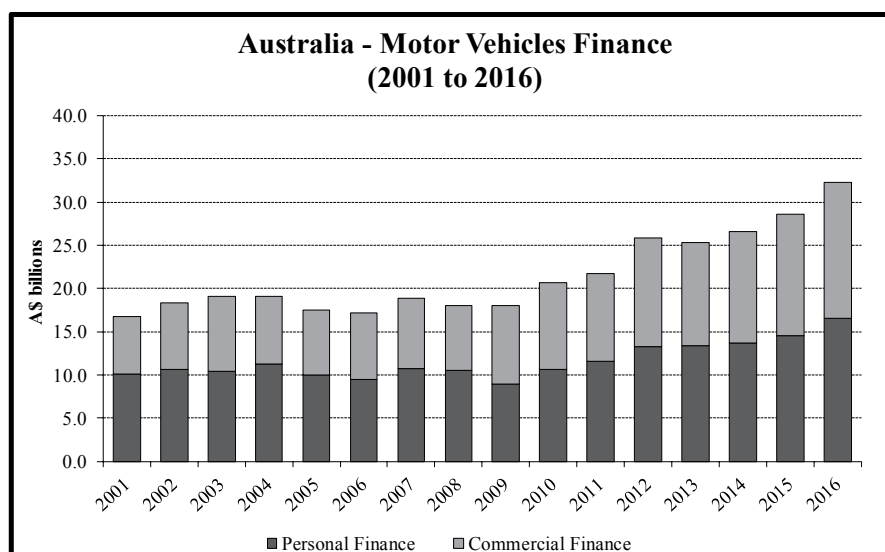
Asset & Equipment Finance - Australia

Australian equipment finance capital expenditure is largely focussed on a few key industries including transport, mining, construction and agriculture. According to the Australian Equipment Lessors Association (“AELA”), general equipment finance volumes (excluding fleet leasing) grew by 1.8% to \$38.6 billion in 2016. The total size of the general equipment finance industry at the end of December 2016 was \$89.7 billion, with cars and light commercial vehicles accounting for 40% of the receivables balance:



Source: AELA, White Clarke Group

The motor vehicles finance sector in Australia has experienced steady growth from 2001 to 2016, with average annual growth of 4.5% to \$32.3 billion in 2016:



Source: Australian Bureau of Statistics

Post the lows experienced during the global financial crisis, the motor vehicle finance industry has been driven by favourable macroeconomic conditions and continued growth in consumer spending habits.

Over the past five years, the auto finance and equipment market has seen significant consolidation activity via either acquisition (e.g. the acquisitions of Capital Finance Australia Ltd by Westpac at the end of 2013 and Esanda by Macquarie Bank in October 2015) or foreign owned financiers exiting the market following the global financial crisis. The market is currently heavily dominated by the auto manufacturers, Macquarie Bank and Westpac (including St George Bank). Pepper's strategy to enter the market in November 2014 was predominantly due to the opportunity associated with the lack of an independent specialist asset finance provider.

ASIC has recently conducted a review into the flex commissions that a car dealer or finance broker can earn on a sale. Flex commissions are an arrangement where a party other than a lender can set the interest rate payable by the consumer, with that party able to earn a higher commission if a higher interest rate is charged. ASIC has concluded that flex commissions are unfair to the consumer under the *National Consumer Credit Protection Act 2009* and will be abolished from September 2018.

Third Party Servicing - Australia and New Zealand

The major domestic and regional banks in both Australia and New Zealand usually service and collect on their own originated loan portfolios. As a result, the majority of outsourced third party servicing in these regions tends to be provided by non-bank lenders that either originate loans or have acquired whole loan portfolios in run-off.

Third party servicing became more common in Australia during the global financial crisis when a number of non-bank lenders ceased originations and exited the market. As a result, their originated portfolios required a servicer to step in and manage the loan portfolios. Pepper was successful in being awarded a number of mandates to act as a third party servicer on loan portfolios during this period.

Other than Pepper, the key participants in the Australian and New Zealand third party servicing industry are AMAL Asset Management, a specialist loan receivable servicer of residential and



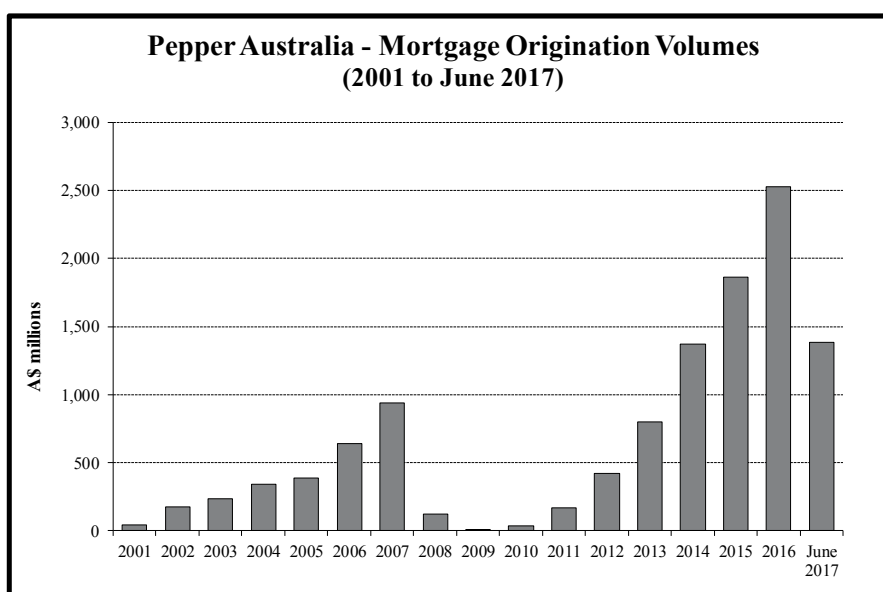
commercial mortgages servicing and Unisys, a primary servicer which principally focuses on residential loan servicing for non-bank originators.

4.1.2 Operations

Residential Mortgages - Australia

Pepper's residential mortgage offering in Australia consists of two main segments, prime and non-conforming. Pepper has historically focused its lending activities on the non-conforming segment of the Australian residential market as borrowers that fall into this segment are typically ineligible to be serviced through more traditional bank and other prime lender channels. Post the global financial crisis, there has been an expansion in Pepper's target addressable non-conforming market due to the tightening of underwriting and credit provisions by the major banks and other ADIs.

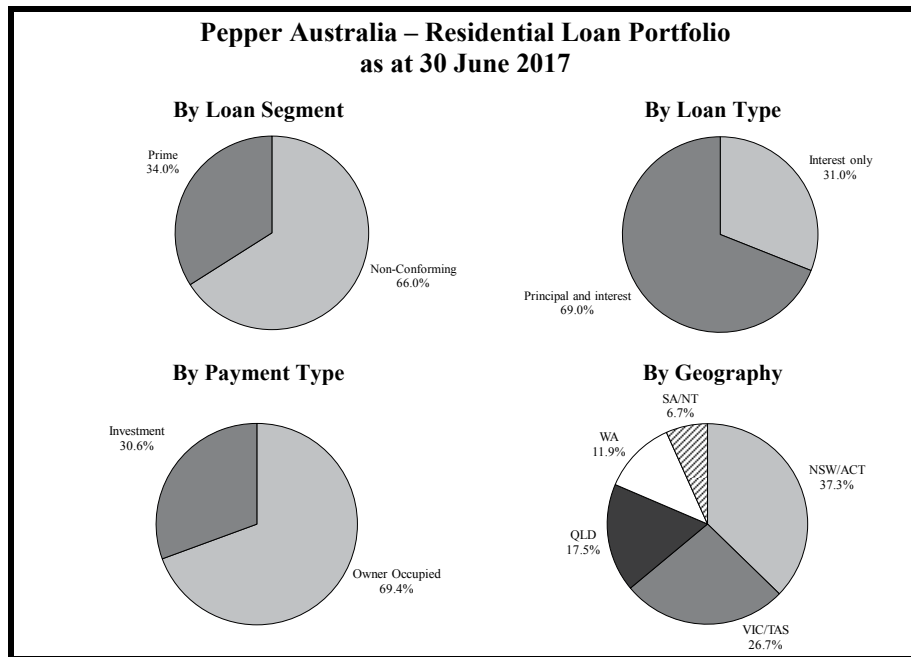
Between 2001 and 2016, Pepper experienced strong growth in its Australian residential mortgage origination volumes, achieving average annual growth of 31.0%. This growth was achieved despite volumes being severely impacted by the global financial crisis between 2008 and 2010:



Source: Pepper

In CY16, Pepper's residential mortgage originations exceeded \$2.5 billion, with approximately 62% (or \$1.6 billion) of this volume being non-conforming mortgages. This trend has continued in 1HY17, with residential mortgage originations of \$1.4 billion.

Pepper's underwriting capabilities have enabled it to construct a diversified book. As at 30 June 2017, Pepper's residential mortgage book was skewed towards the target non-conforming segment, which represented 66% of the portfolio. The portfolio was also predominantly made up of owner-occupier loans:



Source: Pepper

The book is also well diversified across the states and territories, with NSW/ACT representing the largest exposure with approximately 37% of the loan portfolio. The concentration and risk exposure of Pepper’s residential mortgage portfolio is closely monitored by the risk management team, evidenced by Pepper’s decision to reduce the lending exposure to large scale mining areas (such as the Hunter Valley and Western Australia), given the cyclical downturn in the industry.

Pepper utilises Automated Valuation Model reports provided by CoreLogic RP Data to update the loan to value ratios (“LVRs”) on its outstanding residential mortgage portfolio. As at 30 June 2017, Pepper’s originated residential mortgage portfolio had a weighted average LVR of 70.9% and its acquired portfolio had a weighted average LVR of 65.5%.

Products

Pepper offers a broad range of mortgage products in Australia to customers across the credit spectrum. This mortgage product suite provides Pepper’s brokers and distribution network with a full range of options to offer customers. The residential mortgage products that Pepper currently offers are outlined below:




Pepper Australia – Residential Mortgage Product Offering				
Product	Description	Maximum Loan Term	Maximum Loan Amount	Maximum LVR
Prime	Customers who qualify for a loan product from a major bank	30 years	\$2,000,000	95%
Near Prime	Customers who fail to qualify for a major bank product due to minor issues	40 years	\$2,500,000	95%
Specialist	Customers who have suffered a life event resulting in an adverse credit file	40 years	\$2,500,000	95%

Source: Pepper



Distribution

Pepper's Australian residential mortgage lending business is distributed via a multi-channel platform of third party distributors as well as direct to consumers:

Pepper Australia – Residential Mortgage Distribution Channels			
Distribution Channel	Description	CY16 Mortgage Originations (%)	Partners/Brands
Broker Aggregators	Over 30 strategic partnerships that result in access to approximately 9,600 accredited mortgage brokers	Non-Conforming: 60% Prime: 36%	
White Label Distributors	Provides infrastructure and products to over 20 white label partners	Non-Conforming: 35% Prime: 56%	
Pepper Direct	Distribute directly to customers	Non-Conforming: 5% Prime: 8%	

Source: Pepper

In CY16, 2,670 unique mortgage brokers originated at least one of Pepper's branded lending products (excluding white label distribution). Pepper management estimates that it has a 35-40% market share of all new non-conforming mortgage and non-mortgage insured prime lending originated in Australia via its mortgage broker distribution network.

Pepper is an accredited partner to the National Mortgage & Finance Association of Australia ("MFAA") and the Finance Brokers Association of Australia Limited ("FBAA"). As a minimum acceptance criteria, Pepper requires all mortgage aggregators to also be a member of the MFAA or the FBAA. More recently, Pepper has been focussed on rolling out its direct-to-consumer retail channel, underpinned by the launch of the *Pepper Money* challenger brand in 2016.

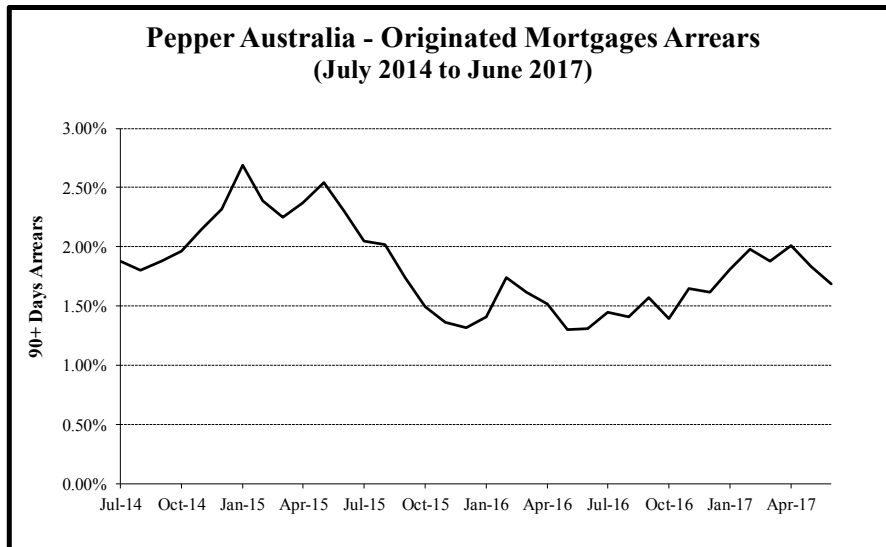
Funding

Pepper has a diversified funding structure for its residential mortgage portfolio, comprising:

- three non-conforming warehouse facilities and one prime warehouse facility totalling \$2.1 billion with three major Australian banks and two key mezzanine funders. These warehouse facilities generally operate on a 12 month rolling basis to provide flexibility (although in some cases the facility terms are longer);
- securitisation. Pepper aims to undertake two non-conforming securitisation issues each year (generally in or around March and October). As at 30 June 2017, Pepper had issued approximately \$7.5 billion of non-conforming residential mortgage-backed securities ("RMBS") and \$1.6 billion of prime RMBS; and
- whole loan sales, which in CY16 amounted to \$1.0 billion (and for which Pepper retains the servicing). A further \$610 million of whole loan sales has been completed to date in 2017.

Credit Performance

Pepper's extensive expertise in credit underwriting, loan servicing and arrears management has ensured that the arrears and cumulative losses of its residential portfolio have remained at relatively low levels. The Australian residential mortgage book saw further improvement in credit performance in 2016, with 90+ day arrears reaching 1.36% (down from a high of 2.69% in January 2015):

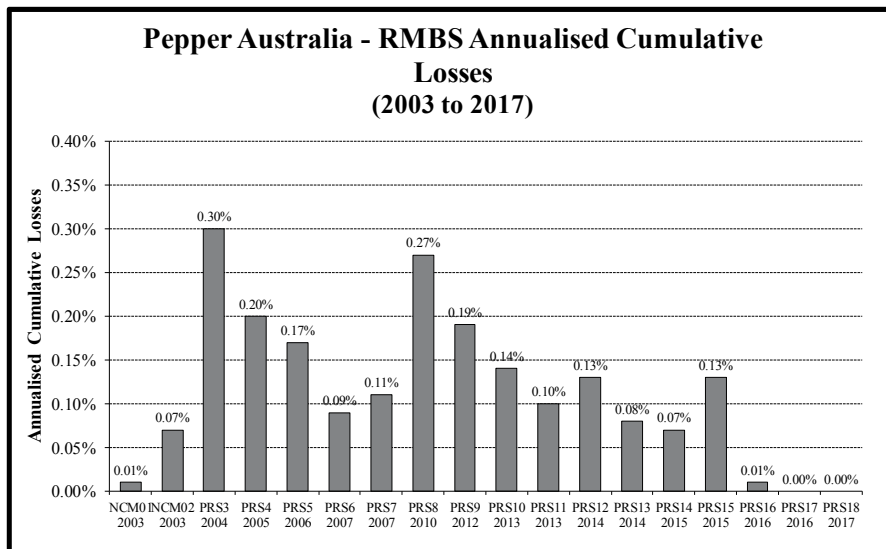


Source: Pepper

Although there was a slight increase in the arrears rate in the second quarter of CY17 to 2.01%, this had reduced to 1.69% in June 2017.

Pepper’s aggregated annualised losses on the Australian residential mortgage portfolio is approximately 12.5 basis points of the receivables balance.

Pepper has established a very strong track-record of credit performance associated with its RMBS public market issuances. Total realised cumulative losses for the combined non-conforming transactions have been \$22.4 million, equating to an average annualised cumulative loss rate of approximately 15 basis points per annum:



Source: Pepper



Prime residential mortgage-backed issuance has had only \$390,000 of cumulative losses to date, equating to an average annualised cumulative loss rate of 1 basis point.

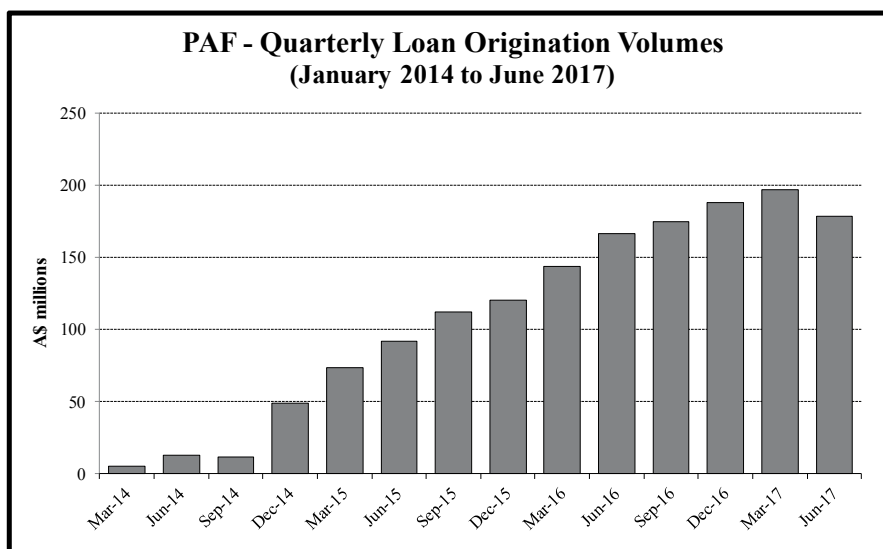
Asset & Equipment Finance - Australia

Pepper officially expanded its product offering into the auto and equipment asset classes with the launch of Pepper Asset Finance (“PAF”) in November 2014. Prior to this launch, Pepper had gained experience in the auto and equipment sector from 2008 when it commenced third party servicing of auto and equipment loans. The business was further expanded with the acquisition of a broker originated auto and equipment portfolio from Suncorp in 2012.

PAF was designed to act as disruptive player in the asset and equipment finance market and to offer consumers an alternative to more traditional bank lenders. PAF benefits from using Pepper’s proprietary risk-based pricing methodology to offer a broader and more flexible product range supported by Pepper’s credit underwriting and servicing experience.

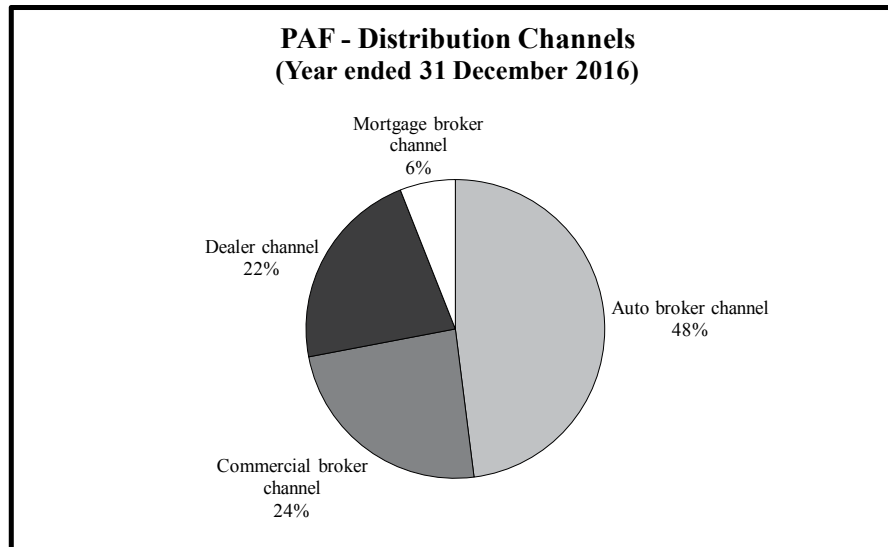
PAF offers finance to both consumer and commercial customers to fund a range of asset types that include motor vehicles, motorcycles, light commercial vehicles, marine, trucks, caravans, tractors, computers and office equipment. Finance is offered across a variety of structures that include consumer and commercial loans, mortgage contracts, finance leases, novated leases and chattel mortgages.

Quarterly loan origination volumes have grown strongly since the official launch of PAF in November 2014. In 2016, PAF originated \$673 million of new loans, representing a 69% increase on the previous year. Quarterly origination volumes continued to increase in the first quarter of 2017, although there was a decline in originations in the second quarter of 2017 which reflected seasonal factors and a focus on higher return market segments:



Source: Pepper

As at 30 June 2017, approximately 73% of PAF’s total loan book was motor vehicle loans, mainly for used cars. PAF predominantly distributes its auto and equipment loans in Australia through motor dealers, auto brokers and commercial brokers. PAF also utilises cross-sell opportunities with the existing mortgage broker distribution network and direct to consumer channel:



Source: Pepper

PAF is funded via longer term warehouse facilities (two existing warehouses, with discussions underway to establish a third warehouse). A private placement was also completed in 1HY17.

PAF has accumulated two years of performance history, with the 30+ day arrears peaking in January 2016 at 2.65%, before reducing from early 2016 due to a combination of a tighter credit underwriting approach and an enhanced collections capability resulting from greater asset finance experience and better processes and procedures. Net accounting losses on the portfolio as at the end of December 2016 were \$14.1million or 2.16% of average receivables balance for 2016, with PAF recording an overall recovery rate of 36%.

Personal Loans - Australia

Pepper launched its online unsecured personal loans business in 2016 through the *Pepper Money* brand. Pepper will lend amounts ranging from \$5,000 to \$50,000 for a period of up to seven years. In the six months ended 30 June 2017, origination volumes were \$12.2 million and AUM was \$15.5 million.

Pepper's personal loans business is funded via a dedicated warehouse facility.

Third Party Servicing - Australia and New Zealand

Pepper provides third party servicing of loan portfolios in both Australia and New Zealand:

- in Australia during the global financial crisis, Pepper secured a number of third party servicing mandates for portfolios funded primarily by major Australian banks and various global investment banks. This allowed Pepper to manage a range of performing, sub-performing and non-performing loan portfolios across various asset classes including residential mortgages, commercial mortgages, auto loans, equipment finance and consumer loans.

Pepper has also made a number of loan portfolio acquisitions, most significantly those connected to the acquisition of GE Capital's Australian and New Zealand home lending business in August 2011. In a number of these transactions, Pepper has partnered with investors who have participated in the equity alongside Pepper, with Pepper providing loan servicing for the portfolios.



Pepper has been rated as a “strong” residential loan servicer by Standard & Poor’s (S&P) since January 2012 and is included on S&P’s Global Select Servicer List. As at 30 June 2017, Pepper had third-party servicing contracts in Australia representing \$1.8 billion in AUM (including \$1.3 billion from whole loan sales). Growth in Australian servicing income has recently been driven by whole loan sales by Pepper where it has retained the servicing, which has offset the amortisation of earlier portfolios originated by other lenders; and

- while Pepper does not currently originate residential mortgages in New Zealand, it does continue to service the GE Capital loan book acquired in 2011. As at 30 June 2017, New Zealand AUM was \$88.4 million. Pepper manages the portfolio from its Parramatta Servicing Centre and has been successful in improving the performance of the portfolio since it took over servicing the book.

Advisory

Pepper Property Group focuses on providing property and capital solutions for corporations, investors and developers across three key product areas, occupier advisory, real estate capital and sales and acquisition.

4.1.3 Financial Performance

The historical financial performance of Pepper Australia and New Zealand for the three years ended 31 December 2016 and the six months ended 30 June 2017 is summarised below:

Pepper Australia and New Zealand – Historical Financial Performance (\$ millions)				
	Year ended 31 December			Six months ended
	2014 pro forma	2015 pro forma	2016 actual	30 June 2017 actual
<i>Lending originations</i>	1,452.5	2,260.7	3,205.5	1,769.7
<i>Lending AUM</i>	3,984.8	4,761.2	5,424.5	5,981.5
<i>Servicing AUM</i>	932.4	1,004.1	1,641.0	1,792.0
Total AUM	4,917.2	5,765.3	7,065.5	7,773.5
Lending income	60.3	72.1	111.5	63.1
Loan origination fees	16.1	13.6	27.0	14.8
Servicing and loan administration income	35.9	32.8	32.0	21.4
Advisory and other income	12.4	13.9	15.1	4.7
Net income	124.7	132.3	185.5	104.0
Operating expenses	(65.3)	(80.4)	(121.9)	(68.3)
Depreciation and amortisation	(2.3)	(2.7)	(3.8)	(4.0)
Operating profit before tax	57.1	49.2	59.8	31.7
Income tax expense			(17.9)	(9.0)
NPAT			41.9	22.7
Statistics				
<i>Lending originations growth</i>		+55.6%	+41.8%	+19.0%
<i>Lending AUM growth</i>		+19.5%	+13.9%	+15.4%
<i>Servicing AUM growth</i>		+7.7%	+63.4%	+43.6%
<i>Total AUM growth</i>		+17.2%	22.6%	+20.9%
<i>Net income growth</i>		+6.1%	+40.1%	+24.7%
<i>Operating profit before tax growth</i>		-13.8%	+21.4%	+27.2%
<i>Operating cost to income ratio</i>	52.4%	60.8%	65.7%	65.7%
<i>Operating profit before tax margin</i>	45.8%	37.2%	32.2%	30.5%
<i>Effective tax rate</i>			30.0%	28.5%
<i>Full time equivalent employees</i>	354	436	555	531

Source: Pepper and Grant Samuel analysis



The vast majority of Pepper Australia and New Zealand's originations, AUM, net income and operating profit before tax is generated by its residential mortgage portfolio and the strong growth in this business over the last three and a half years reflects the attractive economic conditions in Australia over this period (steady economic growth, growing population, stable unemployment and historically low interest rates) as well as Pepper's increased focus on establishing new distribution channels and expanding the penetration of its existing broker network. This is not unexpected given the start-up nature of PAF (launched in November 2014) and the personal loans business (commenced in 2016). These businesses (in particular, personal loans) generate a relatively small proportion of net income and have been loss making since they commenced operations (although PAF originations have been growing strongly and in 1HY17 represented 21% of total originations). Advisory and other income includes fee income received by the Pepper Property Group business and the payments received by Pepper under the management services agreement it has in place with PrimeCredit (\$3.1 million in CY15, \$4.6 million in CY16 and \$2.3 million in 1HY17).

Growth in servicing AUM has largely resulted from whole loan sales where Pepper retains the servicing. This is particularly evident in CY16, where \$1 billion of prime residential mortgage portfolios was sold to ADI buyers, although this did not translate into material increased in servicing revenue as the sales were staggered during the calendar year (\$400 million across March and April, \$400 million across August and September and \$200 million in November), with the full year impact reflected in 1HY17 net income. In addition, servicing and loan administration income in CY14, CY15 and CY16 includes performance fees of \$16 million, \$7 million and \$2 million respectively, primarily relating to the management of the GE Capital Australia and New Zealand portfolio.

Operating profit before tax has been more erratic, reflecting the impact of loss making start up businesses, where a significant cost base needs to be in place prior to generating sufficient critical mass to become profitable. In particular, broker commissions for PAF in 1HY17 were similar in size to the Australian residential mortgages business. While the operating cost to income ratio has increased from 52% in CY14 to 66% in CY16, it appears to have stabilised in 1HY17 (at 66%). Despite the impact of the start up businesses, operating profit before tax has grown strongly in CY16 and 1HY17 as start up losses have been more than offset by growth in the residential mortgages business.

4.1.4 Outlook

Pepper aims to achieve above system growth in prime and non-conforming mortgages by increasing penetration of distribution channels and investing in brand positioning to improve retail customer awareness.

The implementation of the APS120 regulatory changes by APRA is likely to reduce the amount of senior funding provided by banks to Pepper. This funding gap will need to be supplemented with funding from other investors and will result in an overall increase in Pepper's senior warehouse cost of funds.

In its first two years of operation, PAF has developed a strong platform that can now grow significantly with modest increase in cost. It aims to generate high growth by focusing on niche markets where it can compete best, being data driven in its risk management and investing in the latest technology (being rolled out in 1HY18). PAF is expected to be loss making in CY17 but reach breakeven on a monthly basis during CY18.

4.2 Asia

4.2.1 Pepper Savings Bank

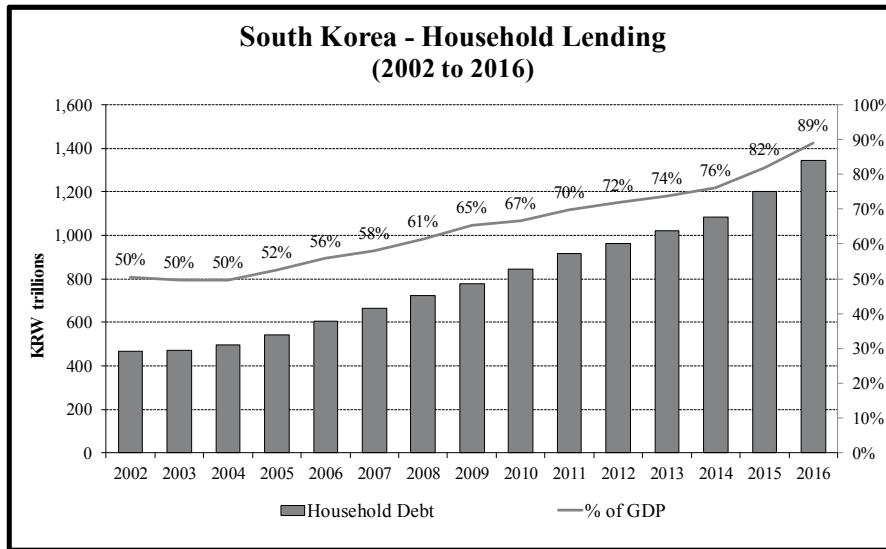
Pepper entered the South Korean banking market through the acquisition of Evergreen Savings Bank (subsequently renamed Pepper Savings Bank) in October 2013. This acquisition provided



Pepper with a customer base, banking systems and a distribution network with limited legacy issues to develop its lending business in South Korea.

Industry Overview

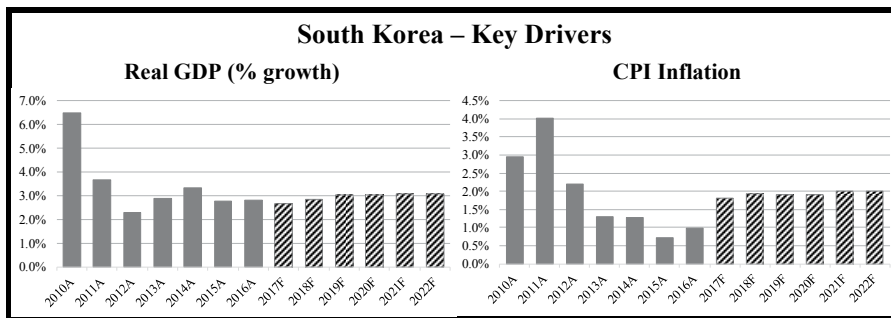
The South Korean household lending market reached KRW1,340 trillion (89% of GDP) as at 31 December 2016, an increase of 73% since the end of 2009. Since 2002, household debt has increased at an average annual rate of 8%, with real GDP growing by an average rate of 4% over the same period:

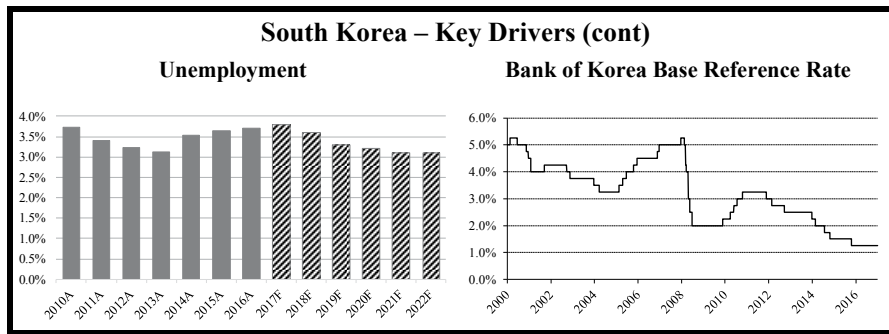


Source: Bank of Korea, International Monetary Fund

The high rate of household borrowing has prompted the government to intervene in the lending market through stricter annual percentage interest rate (“APR”) guidelines, higher capital requirements and more stringent checks and controls placed on the lending institutions.

The South Korean economy has experienced solid growth in recent years (with average annual growth in real GDP of 3.0% between 2010 and 2016) and is expected to continue growing at a similar pace from 2016 to 2022. This consistent growth is supported by increasing consumer spending, low unemployment (3.7% in 2016), expansionary fiscal policy, interest rate cuts and a robust property market:





Source: International Monetary Fund

According to the Commissioner of Statistics Korea, the South Korean population rose by 0.4% in 2016 to 51.2 million and is expected to peak in 2031 at 52.9 million, after which it is expected to decline. While population growth is not in itself a strong factor for housing demand, approximately 40% of the population was still renting in 2016, while owner-occupied households have increased by less than 3% between 2010 and 2015.

The Bank of Korea reference interest rate declined to a low of 1.25% in June 2016 and has remained at this level in 2017, reflecting domestic uncertainty driven by political turmoil, subdued levels of domestic spending, weak job growth, geopolitical risks surrounding North Korea and an increasingly protectionist stance on imports by the United States. While analysts do not expect a rate rise in 2017, an increase in the first half of 2018 is plausible, in line with the recent United States Federal Reserve rate increases.

Although the fundamental macroeconomic landscape in South Korea is positive, 2017 has seen several geopolitical and economic risks which may impact the economy and, subsequently, the lending sector. These risks include the impeachment of President Park, North Korea's military threats in the region, worsening trade relations with China and the United States and increasing global interest rates.

Despite concern about the high level of household debt, household lending by non-bank financial institutions has continued to increase as a result of the inflow of deposits to non-bank financial institutions due to their advantageous interest rates (South Korea has a special interest tax exemption for credit cooperatives until 2018).

Bank of Korea expects that growth in lending will slow down due to:

- the impact of government policies related to household lending. The government has introduced measures to address household lending by non-bank financial institutions. These include on-site inspections of institutions that have experienced excessive household lending growth, an increase in the targeted proportion of amortising and fixed interest rate home mortgage loans for non-bank financial institutions and greater supervision of asset quality of high-risk loans of savings banks, mutual credit cooperatives and credit-specialised financial institutions;
- increases in the Bank of Korea reference interest rate. If the South Korean reference interest rate increases in line with future increases in the United States Federal Reserve's base interest rate, this will lead to an increase in household interest rates which may, in turn, deter new home buyers and lead to a slowdown household loan demand; and
- slowing trend in real estate pricing. The Bank of Korea expects lending volumes to track housing market prices and to the extent that the upward trend in prices slows, the number of transactions and the level of lending is expected to decline.



Competitors

The lending market in South Korea comprises first-tier banks, second-tier banks, non-bank lenders and consumer finance companies. First-tier banks (national banks) operate in the lower margin lending segment, which is highly competitive and represent approximately 52% of the South Korean lending market.

As a result of loan to value (“LVR”) caps imposed on traditional banks, South Korean consumers have been increasingly relying on less traditional methods of obtaining debt, in particular, turning to specialty finance providers to provide higher LVR residential mortgages and higher cost consumer debt products. Mutual savings banks are second tier banks that have benefited from this change. They are regulated deposit-taking institutions that provide retail and small business banking on a small scale but are not classified as banks for supervision purposes.

As at 30 June 2017, there were 79 mutual savings banks in South Korea. Due to high loan defaults experienced in the early 2010s, many of the largest mutual savings banks were shut down or reorganised and sold to new owners. The largest mutual savings banks are now run by major bank holding companies (i.e. Kookmin Bank, Shinhan Bank and Hana Bank) or new entities with strong capital backing (i.e. Softbank and J Trust).

The major mutual savings banks operating in South Korea and their strategies are set out below:

South Korea – Major Mutual Savings Banks		
Bank	Current Strategy	Loans ²² (A\$ billions)
SBI	<ul style="list-style-type: none"> ▪ largest mutual savings bank ▪ focus on retail lending and aggressive corporate lending 	5.3
OK	<ul style="list-style-type: none"> ▪ Japanese backed bank with experience in subprime consumer lending ▪ focus on small ticket, high APR loans ▪ strategy to transfer accounts and balances from sister consumer finance companies 	4.0
HK	<ul style="list-style-type: none"> ▪ owned by JC Flowers via Acuon Capital ▪ focus on retail lending 	2.4
Korea Investment	<ul style="list-style-type: none"> ▪ market leader in real estate project financing and commercial/ corporate lending 	2.4
Hyundai Savings Bank	<ul style="list-style-type: none"> ▪ focus on retail unsecured lending, primarily high APR loans 	1.8
Welcome	<ul style="list-style-type: none"> ▪ owned by Welcome Consumer Finance (focus on subprime lending) ▪ focus on small ticket, high APR loans 	1.8
Orix Savings Bank	<ul style="list-style-type: none"> ▪ originally focused on non-conforming mortgages ▪ now sole focus is commercial/corporate lending 	1.7
Pepper Savings Bank	<ul style="list-style-type: none"> ▪ focus on retail lending with opportunistic commercial/ corporate lending as well as product/portfolio diversification 	1.4
J-Trust	<ul style="list-style-type: none"> ▪ Japanese backed bank ▪ focus on corporate lending and small retail loans 	0.8

Source: Pepper

Regulation

Mutual savings banks in South Korea are governed by the *Mutual Savings Bank Act* and are regulated by the Financial Supervisory Service (“FSS”) and the Financial Services Commission. Mutual savings banks are required to maintain a liquidity ratio (i.e. liquid assets divided by liquid

²² Loans as at 31 March 2017, converted from KWN to A\$ at an exchange rate of A\$1 = KWN852.16.

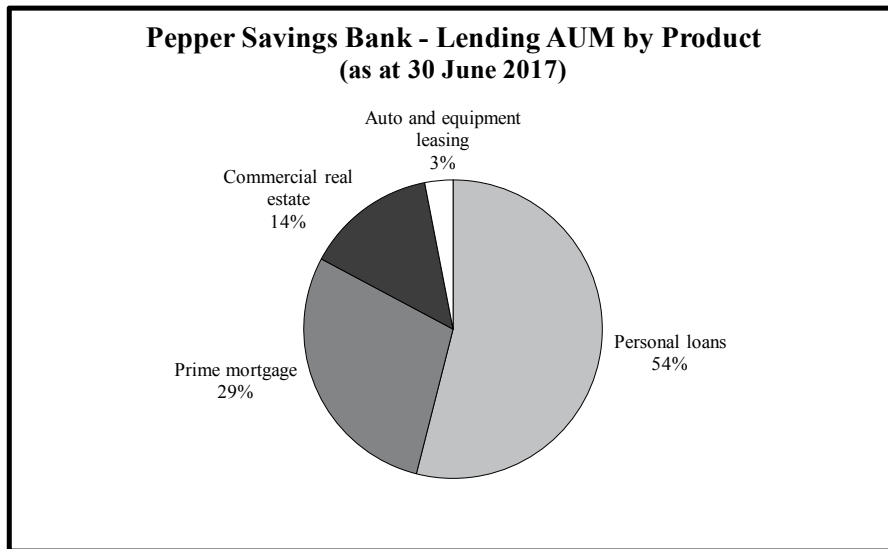


liabilities) of above 100% and must also hold regulatory capital against their assets. Mutual savings banks are currently required to maintain a minimum Bank for International Settlements (“BIS”) capital ratio of 7% (but are expected to maintain a buffer of at least 2%). The FSS can also request that a mutual savings bank hold BIS capital in excess of the minimum.

In addition, deposit taking institutions are regulated by the Korea Deposit Insurance Corporation (“KDIC”), which was established to protect depositors and maintain the stability of the financial system.

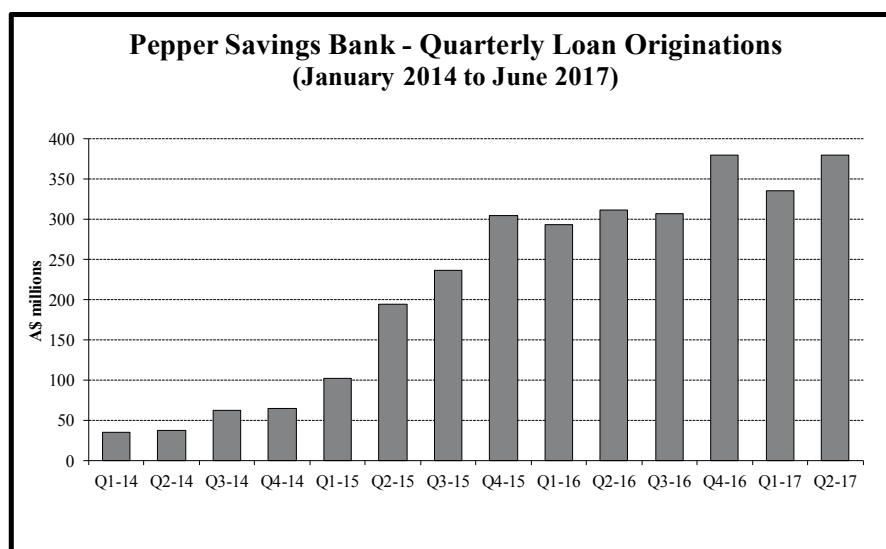
Products

Pepper Savings Bank targets lending segments where it can generate higher risk adjusted returns by leveraging Pepper’s risk-based pricing techniques. Its key products include higher margin loan products, including residential mortgages with higher LVR (60-85%) limits than traditional standard bank products (which are capped at 60%). These products generate higher lending margins and do not compete with the national banks. Pepper Savings Bank also offers personal loans and auto loans. As at 30 June 2017, it had \$1.4 billion in loan assets:



Source: Pepper

Since its acquisition in October 2013, Pepper Savings Bank has focused on developing the infrastructure to organically grow new lending volumes. This has included implementing its own proprietary risk models for underwriting, developing distribution channels and building an efficient and scalable operational system for customer booking and post-settlement loan servicing. As a result, quarterly originations have grown considerably since acquisition:



Source: Pepper

Pepper Savings Bank has consistently originated \$300-350 million of loans per quarter since the end of 2015.

As at 30 June 2017, Pepper Savings Bank had over 100,000 active accounts and approximately 269 full time employees. It is the eighth largest mutual savings bank (out of a total of 79) based on total assets but has less than 1% of the lending market in South Korea.

Distribution

Pepper Savings Bank's loan products are distributed through five retail branches and two sales centres and over 540 direct sales representatives ("DSRs"), who market loans directly to customers largely on a commission only basis.

Funding

Pepper Savings Bank is funded through retail customer deposits. Unlike Pepper's other core markets, there is a limited market for securitisation and warehouse funding in South Korea, particularly for non-standard residential mortgages and personal loans.

South Korean depositors are typically focused on ease of banking and price. Mutual savings banks in South Korea have a consolidated deposit base of approximately KRW47 trillion while national banks have over KRW1,240 trillion as at 30 June 2017. This large potential depositor base provides the opportunity for Pepper Savings Bank to generate sustainable growth in its retail customer deposits.

Mutual savings banks in South Korea also benefit from a government guarantee on deposits up to KRW50 million (\$55,000). This guarantee results in a stable, relatively low cost source of funding which enables Pepper Savings Bank to generate attractive net interest margins.

4.2.2 PrimeCredit

Pepper acquired a 12% interest in PrimeCredit for US\$65.9 million in May 2015, as part of a consortium including CTS (55%) and funds managed by York Capital Management (33%).

PrimeCredit provides unsecured loans and credit cards to local Hong Kong residents and to domestic helpers from the Philippines and Indonesia who work in Hong Kong. It has 30 branches in Hong Kong as well as direct sales and remote sourcing distribution channels. PrimeCredit is the



leading non-bank provider of unsecured consumer finance in Hong Kong, with a share of around 27% of the non-bank market²³.

PrimeCredit also has a consumer lending business in Guangdong, China, where it has a microfinance licence issued by Shenzhen Financial Service Office and is focused on unsecured personal loan products. It operates through four branches as well as a team of DSRs in Shenzhen and remote sourcing distribution channels. At the beginning of 2017, PrimeCredit was successful in obtaining both a national online lending licence and an offline microfinance licence in Chongqing, which provides the opportunity for significant expansion in the Chinese market.

PrimeCredit's Hong Kong operations are funded through syndication loans from local banks in Hong Kong and Macau as well as term warehouse facilities provided by commercial lending banks from the United States, Europe, Asia and Australia. The China business is funded through equity and bank facilities, although it is close to completing an inaugural rated asset backed securities transaction.

Pepper also has management services contracts with the PrimeCredit businesses under which it participates in the strategic development of the platforms, and for which it receives a combination of base and performance related management fees from both Hong Kong and China.

4.2.3 Financial Performance

The historical financial performance of Pepper Asia for the three years ended 31 December 2016 and the six months ended 30 June 2017 is summarised below:

Pepper Asia – Historical Financial Performance (\$ millions)				
	Year ended 31 December			Six months ended
	2014 pro forma	2015 pro forma	2016 actual	30 June 2017 actual
<i>Lending originations</i>	174.0	839.2	1,283.1	715.7
<i>Lending AUM</i>	178.7	700.0	1,176.5	1,441.2
Lending income	17.0	27.0	76.2	40.2
Advisory and other income	3.1	-	-	-
Net income	20.1	27.0	76.2	40.2
Operating expenses	(19.2)	(31.7)	(52.8)	(30.7)
Depreciation and amortisation	(1.2)	(1.8)	(2.0)	(1.1)
Operating profit before tax	(0.3)	(6.5)	21.4	8.4
Share of profit from associate	-	5.9	9.0	5.4
Profit before tax	(0.3)	(0.6)	30.4	13.8
Income tax expense			(4.9)	(1.9)
NPAT			25.5	11.9
Amortisation of acquired intangible assets			(1.0)	-
Adjusted NPAT			24.4	11.9
Statistics				
<i>Lending originations growth</i>		382.3%	+52.9%	+20.1%
<i>Lending AUM growth</i>		291.7%	+68.1%	+37.1%
<i>Net income growth</i>		+34.6%	+182.2%	+42.0%
<i>Operating profit before tax growth</i>		nmc	nmc	+210.2%
<i>Operating cost to income ratio</i>	94.3%	117.4%	69.3%	76.5%
<i>Operating profit before tax margin</i>	-1.4%	-24.1%	28.2%	20.8%
<i>Effective tax rate</i>			23.1%	22.9%
<i>Full time equivalent employees</i>	155	188	254	269

Source: Pepper and Grant Samuel analysis

²³ According to reports from the local credit bureau, Trans Union.



Pepper Asia's financial performance represents the performance of Pepper Savings Bank, with the 12% investment in PrimeCredit accounted for as an associate.

Pepper Savings Bank has generated strong growth in originations, AUM and net income over the period from CY14 to CY16, successfully targeting niche markets in residential and consumer lending. As a result of this growth, the bank became profitable during CY15 and reported its first year of positive contribution in CY16.

While originations continued to grow strongly in 1HY17, growth in net income was more subdued, reflecting a change in local regulatory requirements in March 2017 that limited growth in unsecured personal lending AUM to ~5% per year. As a result, Pepper Savings Bank shifted its origination focus, lowering its exposure to high APR personal loans and increasing originations of lower APR government guaranteed loans and SME loans. At the same time, operating expenses increased significantly (with the cost to income ratio increasing from 69% to 77%). 1HY17 profit was also impacted by a KRW40 billion whole loan sale that was expected to be KRW50 billion and that had to include a higher volume of non-performing loans (at a lower price). As a result, operating profit before tax for 1HY17 was only \$8.4 million (representing a margin of 21% compared to the 28% achieved in CY16).

Following its acquisition in October 2013, Pepper contributed an additional \$15 million of regulatory capital to support the balance sheet. A further \$66 million was contributed over the CY14-CY16 period. However, Pepper Savings Bank has been self funding since the end of CY16. As at 30 June 2017, Pepper Savings Bank had a BIS capital ratio of 8.83%, well above the minimum requirement of 7%, but below the regulator recommended minimum of 9% as a result of a one off increase in the loss provision (a deduction from capital) associated with the whole loan sale completed in 1HY17. Pepper Savings Bank has implemented a strategy to return the BIS capital ratio to at least 9%. On 22 September 2017, Pepper announced that the FSS has required that all South Korean mutual savings banks with total assets of more than KRW1 trillion (approximately \$1.1 billion) increase their BIS capital ratios to be at least 8% effective 1 January 2018. Pepper Savings Bank has entered into a memorandum of understanding with the FSS under which it has agreed to increase its BIS capital ratio to at least 9% by 31 December 2017, and to at least 10% by 30 June 2018, as a buffer above the 8% minimum requirement.

Pepper Asia includes in its financial performance a 12% share of PrimeCredit's NPAT. In CY16, this represented \$9.0 million, a 52.5% increase over the \$5.9 million reported in CY15 (on a pro forma basis as if Pepper had owned the interest for the full 12 months²⁴). In 1HY17, 12% of PrimeCredit's NPAT was \$5.9 million, an increase of only 3.8% over the \$5.2 million reported in 1HY16, although NPAT in 1HY16 included a reversal of amortising intangible expense of ~\$2 million. Adjusting for this one off expense, PrimeCredit's NPAT increased by 68.8%. Pepper's share of PrimeCredit's 1HY17 NPAT was also impacted by the strengthening of the A\$ against the HK\$ over the last 12 months.

4.2.4 Outlook

Pepper aims to expand its operations in South Korea principally through organic growth. Short term strategic initiatives include:

- a more conservative approach to unsecured loans in CY17 due to weaker than expected economic conditions;
- a shift in focus to the more "prime" lending segment, with an average percentage interest rate of less than 16%;
- an increase in loan loss provisioning; and
- a scale back of higher risk products (20%+ APR) that require additional provisioning from June 2017.

Longer term strategic initiatives include:

- building on the existing platform by exploring other consumer finance segments such as SME lending and an opportunistic corporate lending strategy;

²⁴ The actual contribution from PrimeCredit in CY15 was \$3.1 million.



- continued focus on the South Korean secured auto lending segment through wholesale car supermarkets; and
- broadening the bank’s mobile digital capability to support direct consumer loan origination.

The outlook for PrimeCredit is to broaden its customer base (new products, repeat business) in the relatively mature Hong Kong market and leverage its platform in China to expand beyond Guangdong and Chongqing, taking advantage of the resources of CTS and its newly acquired national online lending licence. While there is considerable growth potential in China, this comes with higher risk as it requires access to funding. The success of an asset back securitisation planned for later this year will as important influence on whether the Chinese business is able to achieve its growth forecasts.

4.3 Europe

4.3.1 Industry Overview

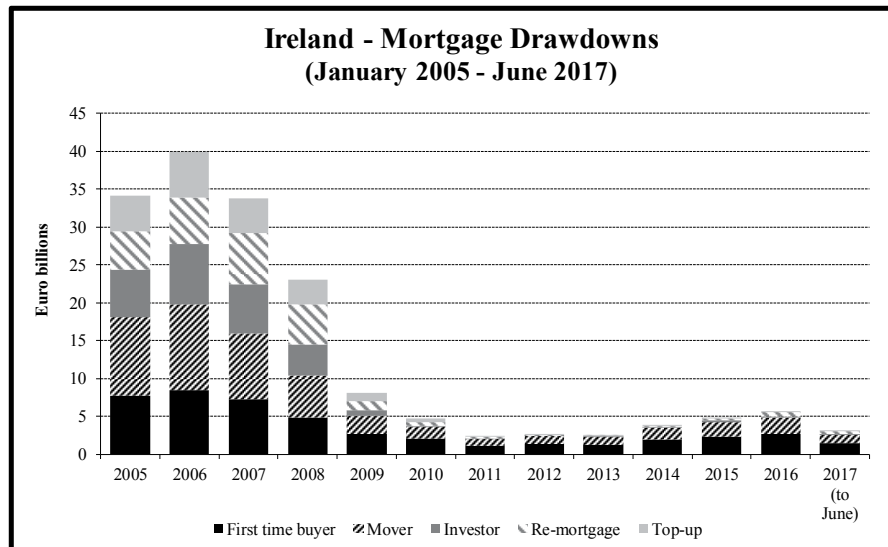
Ireland

Overview

In Ireland, Pepper is active in loan servicing and loan origination. Third party loan servicing is currently the primary activity, with ~\$25 billion in AUM across residential, commercial and consumer loans on behalf of a number of institutional investors. However, Pepper Ireland has also recently entered the residential and commercial real estate lending market (first quarter of CY16 and second quarter of C17 respectively).

The Irish economy was in recession throughout 2008 and 2009 before recovering slightly but then falling back into recession at the end of 2012. Ireland’s economy has experienced a return to growth following this latter recession, supported by strong trade links with the recovering economies of the United Kingdom and United States, depreciation of the euro and falling unemployment.

However, the level of residential mortgage activity has decreased significantly from pre-global financial crisis levels, with annual residential mortgage volumes decreasing from a peak of €40 billion in 2006 to less than €6 billion in 2016. Internal analysis by Pepper indicates that market “equilibrium” is around €10 billion per annum, which supports growth over the near term against a backdrop of limited non-bank competition:



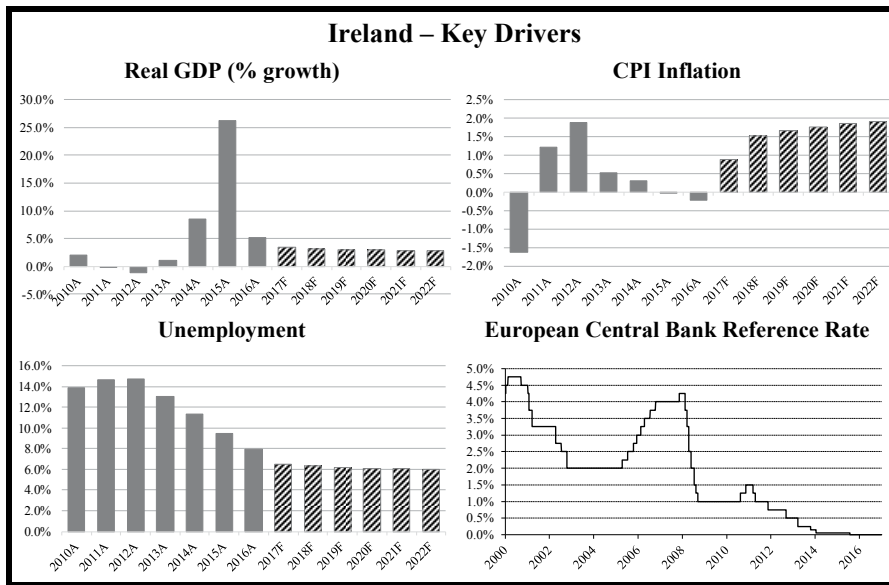
Source: Banking & Payments Federation Ireland



In 2016, home buyers remained the largest segment of the market (by value), representing 46% of total drawdowns. Mover purchasers represented a further 39% of drawdowns, meaning that 85% of mortgage credit was taken out by owner occupiers.

Developments in loans and deposits mean that Irish households continue to be net funders of the Irish banking system. Banks held €8 billion more household deposits than loans at the end of June 2017. In contrast, household loans exceeded deposits by €72.6 billion in May 2008.

The Irish economy has been through a period of recovery post the global financial crisis, with average annual growth in real GDP of 6.5% over the period from 2010 to 2016. However, this average rate of growth is largely due to a significant increase in GDP in 2015 of 26.3%, following a number of foreign companies switching their base to Ireland and being included in the value of its corporate sector. The Irish economy is forecast to grow by an average annual rate of 3.0% over the period from 2016 to 2022:



Source: International Monetary Fund

According to the Irish Central Statistics Office, Ireland’s population grew by 2.0% to approximately 4.7 million people in 2016, with a higher concentration of population growth around Dublin. 2016 was the first year since 2009 that Ireland experienced a net inflow from migration. Ireland’s population is expected to grow at an average annual rate of only 0.4% over the next 10 years.

Housing supply in Ireland remains low compared to pre-global financial crisis levels, with the government attempting to boost supply by introducing measures such as the “Rebuilding Ireland” and the “Help to Buy” schemes. These schemes are aimed at curbing house price inflation which has made purchasing a home and renting increasingly unaffordable.

Unemployment was 7.9% as at December 2016 and is expected to decrease to 6.1% by 2020. The European Central Bank rate had decreased its benchmark interest rate to 0.00% as of October 2016.

Competition

The Irish third party servicing industry underwent a transformation following the global financial crisis, as retail banks sold non-core assets and specialist credit investors entered the market. In the



early stages of the crisis, the market was dominated by large “book, bill and collect” primary servicing platforms, and a smaller informal group of ex-developers who were using their real estate skill sets to provide asset management capabilities. The market lacked a distinct, independent special servicing solution. As a result, servicing participants that were able to provide an independent, end-to-end servicing solution benefited from providing servicing to acquirers of loan portfolios and banks seeking an outsourced solution.

The main participants in the Irish servicing market are Pepper and Capita Asset Services (which is in the process of being acquired by ASX listed Link Administration Holdings Limited). Homeloan Management Limited (“HML”) (owned by ASX-listed Computershare Limited) exited the Irish market in 2015 when servicing activities became regulated by the Central Bank of Ireland. Capita Asset Services, unlike Pepper, is only regulated as a loan servicing business and cannot hold ownership title for the loans it services. Cabot Financial is another player in the loan servicing market but specialises mostly in non-performing loans and manages a much smaller asset base.

The Irish residential lending market is competitive, with pillar banks Allied Irish Bank and Bank of Ireland the largest in the residential mortgages space, followed by Permanent TSB Group, KBC Bank Ireland and Ulster Bank. Pepper caters to a segment of the market that remains underserved, but which also has a slightly higher risk profile and therefore provides more attractive margins.

The Irish small balance commercial real estate market is less competitive. While the pillar banks are active with key client and corporate relationships they are not as focused on the smaller balance activity. While there are a small number of non-bank participants active in the market, Pepper has developed a lending product that has positioned it at as one on the leading players in this space.

Regulation

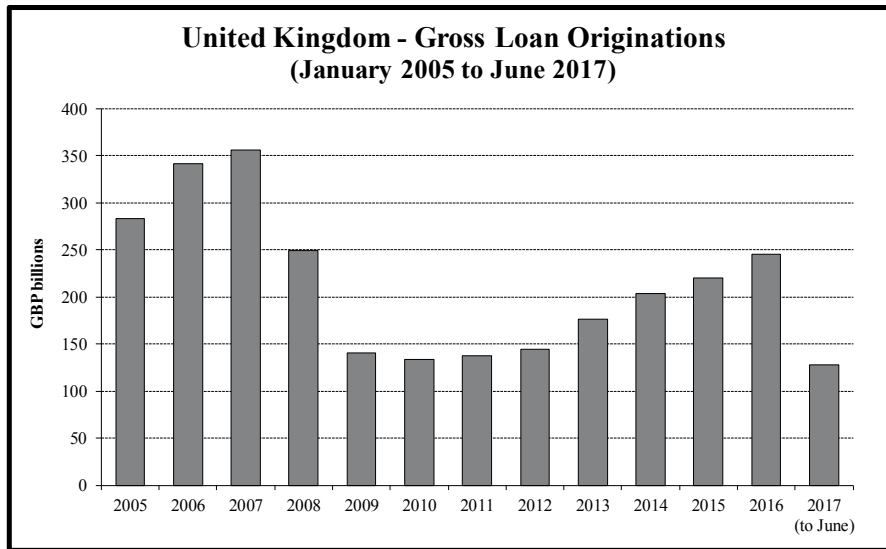
Pepper Ireland is authorised as a Retail Credit firm by the Central Bank of Ireland. As a result, it is able to originate loans as a credit institution as well as service loan portfolios. As an authorised Retail Credit firm, it can also hold the legal title for the loans it manages, providing a competitive advantage in the servicing market. Pepper Ireland is not authorised to hold customer deposits and, as such, relies on capital markets for funding.

United Kingdom

Overview

In the United Kingdom, Pepper is active primarily in loan servicing (for both residential and commercial real estate loans) and entered the non-conforming residential mortgage market in the second quarter of 2015.

The United Kingdom residential mortgage market is one of the largest in Europe with total gross lending reaching £245 billion in 2016. While lending activity remains below pre-global financial crisis peaks, lending volumes have increased in recent years:

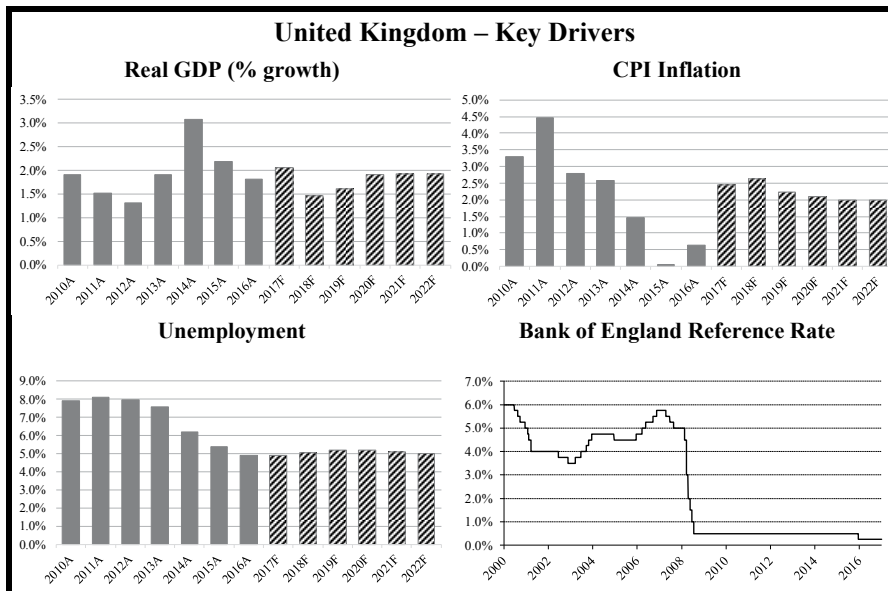


Source: Bank of England

Gross lending in 2016 was at its highest level since 2008, following several quarters of improved loan availability, increasing competition and strengthening demand from consumers, which has signalled the ongoing recovery in the United Kingdom mortgage market.

The European Assets Quality review completed in 2014 prompted large banks in the United Kingdom to sell their non-performing assets. Lloyds, Nationwide and RBS sold over €1 billion of assets in late 2014. These assets were acquired by investors that did not have servicing capabilities and presented business opportunities for loan servicing providers.

The United Kingdom economy has been growing moderately since the global financial crisis, with average annual growth in real GDP of 2.0% over the period from 2010 to 2016. Average annual growth is forecast to be 1.8% from 2016 to 2022:



Source: International Monetary Fund



According to the Office for National Statistics, the United Kingdom population grew by 0.8% to approximately 65.6 million people 2016 and is expected to grow at an average annual rate of 1.0% over the next 29 years. Over the last decade, the United Kingdom population has increased by around five million people, of which 2.7 million represented net migration into the country. This growth, combined with a slow increase in the supply of new homes, has helped house prices recover post the financial crisis. According to the Halifax House Price Index, prices in 2016 are ~10% above their 2007 peak levels.

While economists generally agree that Brexit will not push the United Kingdom into recession, it is likely to grow at a slower pace, leading to downward revisions to GDP growth and the capital markets pricing these risks into higher costs of capital. Growth in house prices has also slowed following the Brexit vote. Another potential risk from Brexit is a spike in unemployment, which would be likely to cause an increase in the level of arrears in loan portfolios.

Brexit has had a smaller than anticipated impact on the demand for near prime and non-conforming lending products. In addition, the impact on short-term house price inflation was limited by the resilience caused by insufficient supply of new housing coming to market after the global financial crisis.

Unemployment was 4.9% as at December 2016 and is expected to increase slightly to 5.2% by 2020. The Bank of England rate has decreased its benchmark interest rate to 0.25% as of August 2016. Uncertainty surrounding the start of Brexit negotiations, coupled with weaker than expected GDP and wages growth in the first six months of 2017 have led market analysts to believe that an interest rate increase is unlikely in 2017.

Competition

The third party loan servicing market in the United Kingdom is relatively concentrated, with the largest participants being Capita Asset Services, Computershare (formerly HML) and Pepper.

The United Kingdom home loan market comprises four types of participants, non-bank lenders, challenger Banks, banks/building societies and investment banks. Pepper competes in the non-bank lender segment of the market and operates in the niche, higher margin, non-conforming segments which are underserved by traditional banks.

The main competitors in the non-conforming lending segment include Kensington Mortgages, Precise Mortgages, Vida Homeloans and The Mortgage Lender, with a few smaller participants entering the market in the last 12 months. The majority of the monoline non-conforming lenders went out of business during the global financial crisis as they were unable to raise capital.

Regulation

Non-bank lenders are regulated by the FCA in the United Kingdom. Pepper has permission to carry out a range of regulated activities to service mortgages for retail and commercial customers. Pepper is also authorised by the FCA to originate residential mortgage loans, including non-conforming mortgages and regulated consumer buy to let (investor) mortgages.

Spain

Overview

In Spain, Pepper is active primarily in loan servicing (consumer credit cards, mortgage and auto loans) and from the fourth quarter of 2014, entered the consumer lending market with a focus on point of sale ("POS") and personal loan products.

Since 2008, there has been a reduction in the number of traditional lenders in Spain due to market consolidation which has resulted in major banks becoming significantly larger. The consolidation of traditional banks between 2013 and 2015 created an opportunity for specialist lenders in the

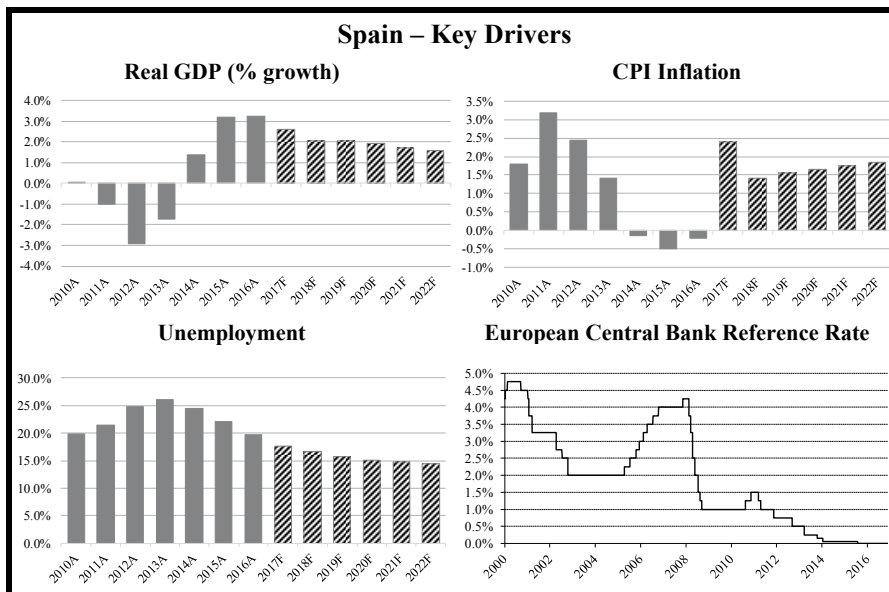


consumer lending market due to reduced tolerance among competitors for new lending. In any event, the top participants in the market remain active despite the consolidation process.

The most significant components of the consumer lending market in Spain are retail point-of-sale finance, personal loans, revolving credit cards and auto and other asset finance.

Spain is a particularly active market for loan servicing. It has the third largest stock of non-performing loans in Europe, with over €125 billion in non-performing assets held by banks in 2017²⁵. The five largest non-performing loan portfolios are held by Banco Santander S.A. (“Santander”) (~€50 billion, including assets from the acquisition of Banco Popular in June 2017), Banco Bilbao Vizcaya Argentaria S.A. (“BBVA”) (€23 billion), Caixabank S.A. (“Caixabank”) (€15 billion), Bankia S.A. (€11 billion) and Banco de Sabadell S.A. (€9 billion). Up to June 2017, there had been over €6 billion of debt and real estate owned sales, a similar trend to previous years.

The Spanish economy was particularly hard hit by the global financial crisis, experiencing a “double dip” recession with GDP contracting over the periods from 2008 to 2009 and 2011 to 2013. As a result, Spain experienced relatively flat GDP growth from 2010 to 2016, with an average annual growth of only 0.3%. In 2014, the Spanish economy returned to growth, and is expected to grow by an average annual rate of 2.0% over the period from 2016 to 2022:



Source: International Monetary Fund

According to the National Institute of Statistics, Spain’s population decreased by 0.01% to approximately 46.6 million people in 2016, the fourth consecutive year of population contraction following the global financial crisis. The Spanish population is expected to continue to decrease (by 2% by 2030 and a further 10% by 2065).

The unemployment rate in Spain remains one of the highest in Europe at 17.2% in June 2017, but the rate has decreased from a post financial crisis peak of 26.1% in 2013. Unemployment is expected to decrease further to 15.8% by 2020. Following the global financial crisis, Spanish

²⁵ Source: Deloitte, *Deleveraging Europe H1 2017 (Regulation driving change in European loan portfolio markets)*.



households have been deleveraging (household debt decreased from a peak of 85% of GDP in 2009 to around 65% in 2016), assisted by an improving economic climate.

The European Central Bank benchmark interest rate has decreased to 0.00% as of October 2016, and market analysts expect it will remain at this level in 2017.

Competition

The loan servicing market in Spain is highly competitive, with some players concentrating solely on non-performing loan portfolio management such as monoline debt collection agencies, real estate portfolio liquidations or the acquisition and completion of unfinished (work in progress) real estate projects. This results in demand for a number of activities such as early delinquency recovery management, maintaining portfolio performance using alternative tools such as terms amendments including interest rate changes, grace periods, waiving campaigns and ultimately, debt restructuring. These activities are in addition to the formal elements of primary servicing, which can include reporting to the Bank of Spain, interacting with the credit bureaus, running the accounting process and invoice payments. The portfolios under management range from secured (primarily mortgages) to unsecured (personal loans, credit cards, revolving credit and other consumer finance), both for individuals and SMEs and the delinquency stages range from performing to non-performing. The common point is the need for specialised servicing.

Pepper also operates in the Spanish consumer lending market which is highly competitive, well established and difficult to penetrate, with the large banks all providing both POS and personal loan products. The five largest participants in the personal loans market are Banco Cetelem S.A. (“Cetelem”), Crédit Cofidis (“Cofidis”), Santander, Caixabank and BBVA. The five largest participants in the POS market are Cetelem, Santander, Caixabank, BBVA and Evo Banco S.A.

Regulation

In Spain, the origination of unsecured loans to consumers and the servicing (primary servicing or special servicing) of secured or unsecured loan portfolios for third party portfolio owners are not subject to a licence or authorisation by any regulatory body.

The Ministry of Economy is generally able to request that any entity carrying out financial transactions disclose any information in connection with its activities and could directly or through the Bank of Spain conduct inspections to confirm whether the activity performed exceeds the granting or servicing of loans and should therefore be subject to supervision.

Where the activities consist of granting mortgage loans to consumers (by entities not supervised by the Bank of Spain), or the broking of secured or unsecured loans to consumers, the lender or the broker will be required to be registered at a special regional registry or on the Spanish Consumption Agency special registry. These activities are supervised by regional consumer protection authorities.

4.3.2 Operations

Ireland

Products

Pepper operates in Ireland as an independent end-to-end servicing and asset management partner and provides a range of loans (residential mortgages, commercial real estate mortgages for SME customers and consumer loans) to customers through the consumer finance brand, “Pepper Money”. Pepper also operates an advisory business in Ireland. These products are described in more detail in the table below:



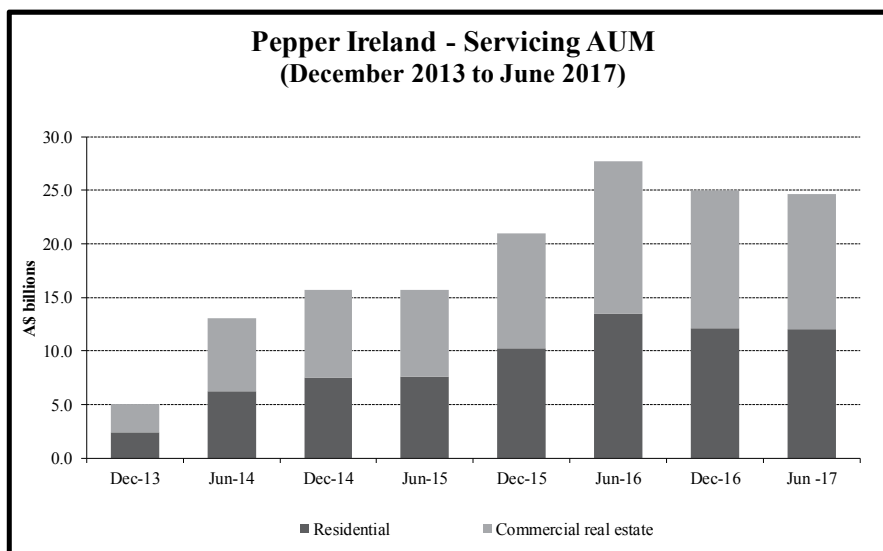
Pepper Ireland Product Offering	
Product	Description
Loan Servicing	<ul style="list-style-type: none"> independent end-to-end servicing and asset management provides a comprehensive servicing solution to purchasers of loan portfolios and existing lenders business model generates a recurring revenue base from those loans, with no direct credit exposure in most cases IT systems and servicing processes have been developed to specifically meet the requirements of the Irish regulatory environment, in particular in relation to residential mortgages Standard & Poor's rated servicer for both residential and commercial real estate loans AUM as at 30 June 2017 was \$24.5 billion (€16.5 billion)
Lending	<ul style="list-style-type: none"> commenced operations in the first quarter of 2016 under the "Pepper Money" brand, focusing on niche segments not serviced by the major Irish banks and leveraging its strong servicing platform offers three residential mortgage products, Essential, Essential Plus and Advantage as at 30 June 2017, entered the commercial real estate market, providing loans to SME clients AUM as at 30 June 2017 was \$88 million (€60 million)
Advisory	<ul style="list-style-type: none"> services include comprehensive due diligence and portfolio migration offers a capital raising service in the international capital markets and provides commercial real estate services

Source: Pepper

Since the acquisition of GE Capital's Irish servicing platform in 2012, Pepper has won a significant number of servicing contracts. Most notably, in October 2015, it signed a €5.5 billion servicing contract with Lloyds Banking Group to service the bank's residual Irish residential mortgage portfolio. Pepper, as an established loan servicer, is well positioned to take advantage of future portfolio sales that may require third party servicing and management.

As at 30 June 2017, Pepper Ireland serviced a portfolio of \$24.5 billion, of which 52% was commercial real estate loans and 48% was residential loans.

Pepper's servicing AUM has generally increased as acquisitions of new contracts exceeded the run off of existing portfolios. However, servicing AUM peaked in June 2016, and has subsequently declined as fewer acquisition opportunities have been available:



Source: Pepper



Pepper Ireland had a portfolio of \$88.4 million of loans in its lending business as at 30 June 2017. It currently offers three non-conforming residential loan products:

- Essential (54% of AUM), a prime product where Pepper competes with high street banks based on the level of service it provides (quick response to enquiries and fast turnaround to providing financing), leveraging its underwriting capabilities and IT systems. This is the lowest APR product, in the range 3.23-5.19%;
- Essential Plus (38% of AUM), a product that caters to borrowers who may not be able to secure a residential home loan through a traditional lender because of their non-standard employment or income source (e.g. self-employed). This product has APRs in the range 3.49-5.67%; and
- Advantage (8% of AUM), a “near-prime” product designed for borrowers that may have experienced an historical credit event but whose financial affairs are currently up to date. This niche product caters for the under-served segment of population that cannot obtain a loan from a traditional bank and has APRs in the range 4.01-6.74%.

Distribution

Pepper Ireland receives approximately 60% of applications from brokers and 40% directly from consumers. The broker proportion is expected to grow as the panel is increased.

Funding

Pepper Ireland’s lending activities currently rely on warehouse funding. While Pepper has the option to sell its own-originated loans in the market, it has not done so to date. However, whole loan sales are likely to be a viable alternative source of capital as the lending operations grow given the cash-rich traditional banking system (where customers are net funders for the banks).

United Kingdom

Products

In the United Kingdom, Pepper is a specialist loan servicing company providing services to investor and banking clients across residential mortgages, consumer loan assets and small-balance commercial real estate loans. Pepper commenced origination and lending into the non-conforming United Kingdom mortgage sector in the second quarter of 2015, following the business model of its Australian lending operations. These products are described in more detail in the table below:

Pepper United Kingdom Product Offering	
Product	Description
Loan Servicing	<ul style="list-style-type: none"> ■ services residential mortgage assets including prime, near prime and non-conforming mortgages (owner occupier and investor), consumer loans and commercial real estate loans for SME customers ■ also offers white-label loan servicing through <i>Engage Credit</i> (where legal title can be held on behalf of clients) ■ key customers include leading global investment and commercial banks, credit investment funds and a challenger bank ■ servicing contracts typically establish a minimum term and set out material penalties for early termination by a client ■ AUM as at 30 June 2017 of \$17.2 billion (£10.2 billion)
Lending	<ul style="list-style-type: none"> ■ provides residential and buy-to-let mortgages to the non-conforming sector under the <i>Pepper Homeloans</i> brand ■ AUM as at 30 June 2017 of \$247 million (£145 million)

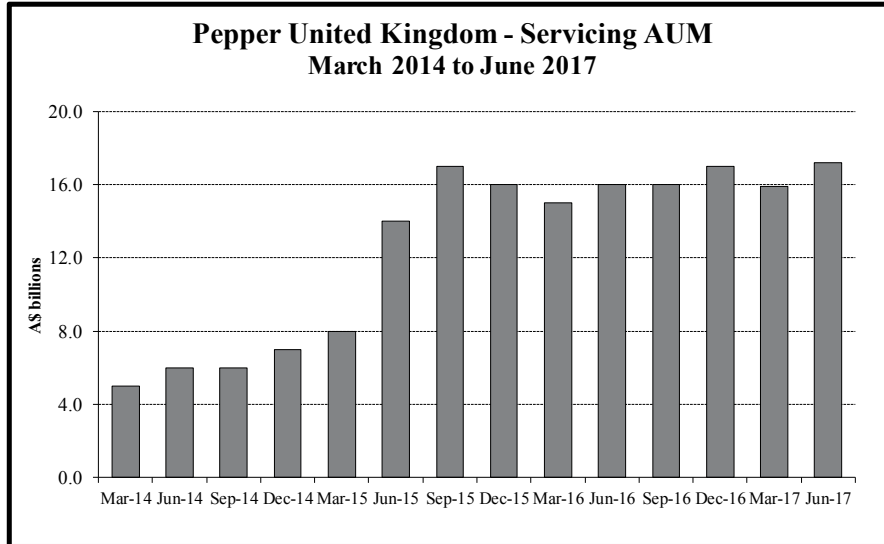
Source: Pepper

Pepper United Kingdom had servicing AUM of \$17.2 billion as at 30 June 2017. Approximately 88% of the portfolio is residential mortgages and 12% is commercial real estate mortgages.

Servicing volumes have grown strongly over mid to late 2015 (achieving average quarterly growth of 23% between January 2014 and September 2015) driven by the ongoing sale of loan portfolios



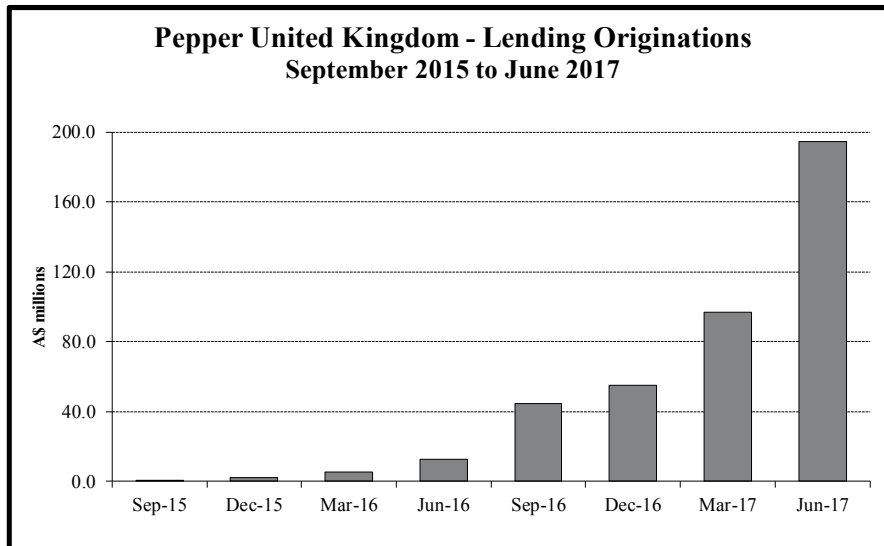
in the United Kingdom and the rise of challenger banks that utilise third party servicing providers to manage their loan portfolios. Servicing AUM has been maintained at around \$16.0 million over the past two and a half years as new contracts have been offset by the run-off of the existing portfolio:



Source: Pepper

Pepper’s lending strategy in the United Kingdom is to capitalise on the opportunities created by the exit of many non-prime lenders post the global financial crisis and the reduction in exposure of the traditional banks to non-conforming and specialist loan products.

Lending origination volumes have grown rapidly since Pepper commenced lending in the first half of 2015, achieving average quarterly growth of in excess of 100% up to June 2017:



Source: Pepper



The strong growth in lending originations has been driven by Pepper's strong distribution partners (refer below) as well as increasing consumer demand as the United Kingdom's economy continues to stabilise. However, Pepper still has a very low market share and it will take some time to build brand awareness among the large pool of mortgage brokers

Distribution

Pepper distributes mortgages in the United Kingdom using third party mortgage networks (brokers) and selected mortgage packagers. As at 30 June 2017, Pepper had 22 approved mortgage distribution partners on its panel, all of which have been subject to strict due diligence criteria, including appropriate licences, and are subject to Pepper's terms of business. Pepper's key distribution partners are Legal & General Group plc (the oldest and largest mortgage club in the United Kingdom with over £53 billion of mortgage completions at the end of 2016, facilitated through a network of 10,000 brokers), Residential Home Loans Ltd (a leading specialist packager whose model accepts cases from directly authorised brokers), Brightstar Financial Limited (a leading mortgage packager in the United Kingdom), Mortgage Advice Bureau Limited and Mortgage Intelligence.

Following its business model in Australia, Pepper United Kingdom emphasises ongoing training by working with the network's and mortgage packager's infrastructure.

Funding

Pepper has one established warehouse facility in the United Kingdom and is in the process of establishing a second facility, both with major Australian banks as senior lenders.

There is also a very active wholesale market for whole loans in the United Kingdom. Buyers fall into two main categories, capital markets aggregators such as investment banks and challenger banks that need to deploy the cash balances accumulated from their deposit taking facilities. Pepper has completed a number of whole loan sales to banks over the past 12 months.

Spain

In Spain, Pepper operates across third party servicing and consumer lending. The product offering is described in more detail in the table below:

Pepper Spain Product Offering	
Product	Description
Loan Servicing	<ul style="list-style-type: none"> ▪ services a portfolio of personal loans, credit card debt, residential mortgage products and auto loans, offering capabilities such as proprietary credit decision-making, loan application systems and a proprietary credit scoring system ▪ specialist customer service team with local experience enabling tailor-made servicing and collections decisions by product and location ▪ servicing contracts are typically established for a minimum term and set out penalties for early termination by a client or if a portfolio is sold to another investor ▪ AUM as at 30 June 2017 is \$1.8 billion (€1.1 billion)
Lending	<ul style="list-style-type: none"> ▪ key lending products are in the unsecured consumer lending segment, offering POS loans and personal loans ▪ AUM as at 30 June 2017 of \$236 million (€160 million)

Source: Pepper

Pepper's servicing strategy in Spain is to leverage its core credit underwriting and collections management capabilities to attract a larger portfolio of third party originated consumer loan books to service.

Pepper Spain differentiates its offering through its flexible technology that has the capacity to provide solutions for both its consumer lending and loan servicing clients. These systems assist



with taking on new loan books, managing loan books and providing data analytics. Pepper Spain’s collections processes are proactive with close client communication managed from end-to-end. Pepper Spain tailors its collections strategies to specific loan books and customer servicing needs.

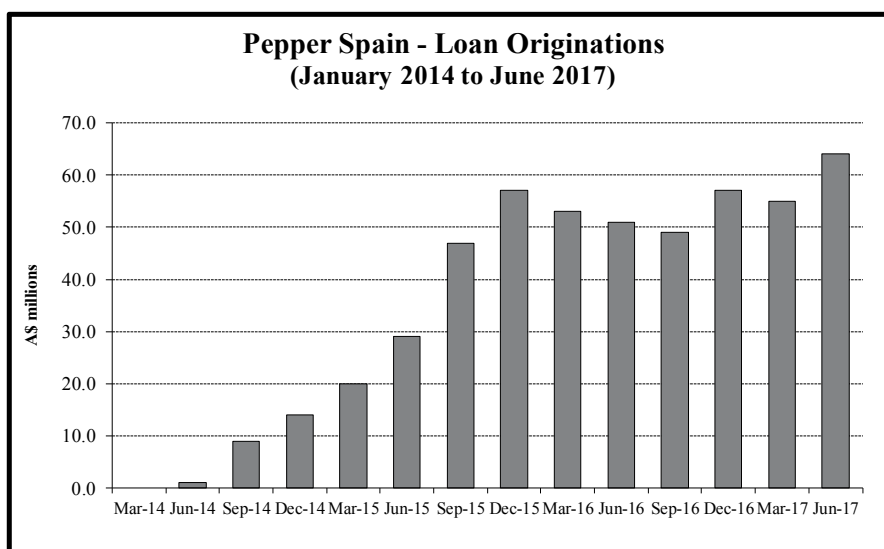
As at 30 June 2017, Pepper’s Spanish servicing AUM was 35% mortgage loans, 33% consumer loans, 30% credit cards and 2% auto loans.

The reluctance of retail banks in Spain to offer higher risk loan products, along with the continuing economic recovery, provides Pepper with the opportunity to substantially grow its lending portfolio.

Pepper Spain is focused on unsecured consumer lending originated through POS, small ticket loans with an average size of ~€1,150 (and APRs of ~8-9%) which are then selectively converted into personal loans with a higher ticket size of ~€4,000 (and an APR of ~20%). The conversion rate from POS to personal loans is currently around 9%. Pepper expects that the continuing recovery in the Spanish economy and declining unemployment will lead to higher origination volumes and conversion rates.

As at 30 June 2017, 69% of Pepper’s Spanish lending AUM was POS loans and 31% was personal loans.

Lending originations grew rapidly in 2014 and 2015 and since then have generally been in the range \$50-60 million each quarter (average quarterly growth of 41% from March 2014 to June 2017):



Source: Pepper

Since September 2015, origination volumes have generally been in the range \$50-60 million each quarter, with total lending AUM growing from \$202 million in December 2016 to \$236 million in June 2017, reflecting the growing trend of the portfolio despite the short term nature of most POS loans.

Distribution

POS loans are distributed through a chain of retailers (~4,000 as at June 2017) with which Pepper has agreements in place. The POS segment is very competitive as each retailer offers customers a choice of financing providers and retailers rarely work on exclusive basis. As such, the terms of



the loans are important. However, the retail agreements have targets attached to them and retailers generally aim to reach the agreed volumes. Operationally, developing a strong retailer network is difficult and constitutes a high barrier to entry for new financial providers.

Funding

The Spanish lending business is funded through a warehouse facility. The reliance on warehouse funding leads to a higher cost of funding for Pepper in Spain, which may be a potential risk as competition intensifies and spreads tighten in the personal lending space, which is dominated by deposit-taking institutions such as Santander, BBVA and Caixabank that have a lower cost of funding.

Credit Performance

Pepper Spain leverages Pepper's international credit expertise developed in its core Australian lending market. Credit performance is strong across both of its lending products:

- annualised losses for POS loans are in the range 1.5-2.0% and the average principal collected for <30 days past due loans is 85%, although this is partly offset by an 8%+ yield on the portfolio. As a standalone product, POS loans are not highly profitable, but act as an acquisition tool for more profitable personal loans; and
- annualised losses on the personal loan portfolio are slightly higher at 4-5% and the average principal collected for <30 days past due loans is around 90%. This is compensated for by the higher yield of 20%+.

4.3.3 Financial Performance

Pepper reports the performance of its Irish, United Kingdom and Spanish operations as a single business operation, Pepper Europe. The historical financial performance of Pepper Europe for the three years ended 31 December 2016 and the six months ended 30 June 2017 is summarised below:

	Pepper Europe – Historical Financial Performance (\$ millions)			
	Year ended 31 December			Six months ended 30 June 2017 actual
	2014 pro forma	2015 pro forma	2016 actual	
<i>Lending originations</i>	23.8	156.0	439.9	343.0
<i>Lending AUM</i>	19.5	151.0	434.1	571.0
<i>Servicing AUM</i>	23,507.8	38,921.9	43,712.7	43,509.7
<i>Total AUM</i>	23,527.3	39,072.9	44,146.8	44,080.7
Lending income	6.3	6.9 ²⁶	3.7	10.9
Loan origination fees	0.5	1.1	8.1	3.2
Servicing and loan administration income	78.4	134.7	137.0	55.8
Advisory and other income	3.7	2.3	2.4	1.0
Net income	88.9	145.0	151.2	70.9
Operating expenses	(74.5)	(107.7)	(127.2)	(60.4)
Depreciation and amortisation	(2.8)	(9.1)	(3.5)	(1.7)
Operating profit before tax	11.6	28.2	20.5	8.8
Income tax expense			(3.1)	(0.7)
NPAT			17.4	8.1
Amortisation of acquired intangible assets			0.4	0.2
Adjusted NPAT			17.8	8.3

²⁶ Lending income in CY15 includes ~\$4 million from gains on sale in Ireland and Spain.



Pepper Europe – Historical Financial Performance (\$ millions)				
	Year ended 31 December			Six months ended
	2014 pro forma	2015 pro forma	2016 actual	30 June 2017 actual
Statistics				
Lending originations growth		+555.3%	+182.1%	+169.8%
Lending AUM growth		+674.3%	+187.5%	+183.4%
Servicing AUM growth		+65.6%	+12.3%	-4.0%
Total AUM growth		+66.1%	+13.0%	-3.2%
Net income growth		+63.1%	+4.2%	-13.6%
Operating profit before tax growth		+143.0%	-27.0%	-35.1%
Operating cost to income ratio	83.9%	74.3%	84.1%	85.2%
Operating profit before tax margin	13.0%	19.4%	13.6%	12.5%
Effective tax rate			15.2%	8.0%
Full time equivalent employees	574	898	1,037	999

Source: Pepper and Grant Samuel analysis

Pepper Europe has experienced strong growth in lending originations and lending AUM, albeit off a low base given the start-up nature of most of Pepper's lending in Europe. The most significant growth has been in the United Kingdom, where Pepper commenced lending operations in the second quarter of CY15. As at 30 June 2017, the United Kingdom represented 51% of lending originations, followed by Spain at 35% and Ireland at 14%.

The significant growth in servicing AUM in CY16 was assisted by the awarding of the residual Irish residential mortgage portfolio of Lloyds Banking Group ("Lloyds") (£5.5 billion), partly offset by smaller servicing portfolios in the United Kingdom and Ireland running off or changing hands (and servicing providers). In 1HY17, servicing AUM declined slightly, mostly reflecting the impact of foreign exchange translation. Local currency AUM remained relatively constant as increases in the United Kingdom were offset by net decreases in Ireland.

Lending income increased in CY16 (after allowing for the \$4 million gains on sales recorded in CY15) in line with growth in originations. Servicing and loan administration income was relatively flat as Pepper did not commence servicing the Lloyds assets until the end of the second quarter of CY16, following a transition period. In addition, servicing and loan administration income in CY14, CY15 and CY16 includes performance fees of \$4 million, \$6 million and \$3 million respectively. These factors, combined with an increase in the cost base (the cost to income ratio increased from 74% to 85% largely due to an increase in employee expenses as there was an increase in headcount associated with the Lloyds contracted onboarded in 1HY16 and 20 contract wins in CY15), resulted in a decline in operating profit before tax in CY16, despite a benefit from lower amortisation of intangible assets.

The trend in operating costs has continued in 1HY17, although based on significantly higher lending income. The contribution from servicing declined in 1HY17, primarily due to large onboarding and exit fees recorded in 1HY16 not being repeated to the same extent in 1HY17. Performance in 1HY17 was also impacted by the strengthening of the A\$ against the GBP and Euro.

4.3.4 Outlook

Ireland

Pepper Ireland operates in a mature servicing market but is well positioned to capture a higher market share of the lending market.

The servicing portfolio is forecast to reduce significantly over time given ~50% of the portfolio is commercial real estate loans which have a shorter maturity of 2-3 years. The balance of the



portfolio is residential mortgages which have longer dated maturities. Pepper's strategy is to aim to maintain its position in the Irish market as a preferred loan servicer of auctioned non-core bank assets, although opportunities for new contracts are expected to be limited.

In its lending business, Pepper expects to continue to use its risk management capabilities to operate in the near-prime segment as well as competing with established banks in the prime segment. It is also proposed to introduce new products (for example, in July 2017, Pepper started originating commercial and SME loans).

United Kingdom

Pepper's strategy in the United Kingdom is to continue to capitalise on growth opportunities across the servicing platform and leverage Pepper's resources and capabilities to expand its lending operations.

The objectives of Pepper's United Kingdom lending business include building brand presence over time in the network of brokers that operates across the United Kingdom. This is expected to be achieved through ongoing education on what Pepper can offer and close co-operation with the broker network. Pepper is well positioned to capitalise on the increasing trend of borrowers looking for alternative sources of finance.

While servicing portfolio trading in the United Kingdom has reduced significantly, there are opportunities in providing loan servicing to challenger banks that have strong growth aspirations. Challenger banks tend to be cash rich due to strong deposit-taking capabilities and are active participants in the wholesale purchase of loans, for which they outsource the servicing. They also originate loans for their own balance sheets, the servicing for which they are more likely to outsource (relative to incumbent lenders).

Spain

Pepper Spain aims to grow its lending portfolio by increasing the origination of POS loans through expansion of the retailer distribution base. Expanding the retailer base is expected to be difficult from an operational perspective, but significant volumes can be achieved by signing large contracts with major retailers. In addition, Pepper aims to improve the rate of conversion of POS loans to personal loans, while maintaining its focus on risk underwriting requirements.

With sales of non-performing loans expected to continue in Spain, Pepper's servicing business will continue to pursue new third party servicing mandates as well as improve the performance of its current portfolio.

Pepper has also established a small servicing platform in Italy and has recently applied to the Bank of Italy for an operating licence to allow it to provide third party servicing in 2018.

4.3.5 Corporate Costs

Pepper incurs corporate costs which include:

- group executives' (central executive and the principal investments team) costs and group support functions not specifically aligned to business operations (such as finance, treasury, risk, human resources, legal and IT etc.);
- costs of being a listed company (board of directors, annual reports and shareholder communications, share registry, listing fees, investor relations);
- expenses incurred under Pepper's short and long term employee incentive plans;
- interest expense on Pepper's corporate debt facilities; and
- operating foreign exchange gains or losses.



Corporate costs have increased since listing in July 2015, reflecting an increased investment in the Pepper brand and growth in corporate support activities (risk, human resources, IT and treasury) in line with the growth in the Pepper group over this period:

Corporate Costs – Historical Financial Performance (\$ millions)				
	Year ended 31 December			Six months ended
	2014 pro forma	2015 pro forma	2016 actual	30 June 2017 actual
Net income	1.2	-	0.4	4.3
Operating expenses	(19.4)	(20.9)	(25.0)	(16.0)
Depreciation and amortisation	-	-	(1.3)	(0.3)
Interest on corporate borrowings	(1.9)	(1.9)	(5.5)	(5.4)
Operating profit before tax	(20.1)	(22.8)	(31.4)	(17.4)
Income tax expense			8.3	2.9
NPAT			(23.1)	(14.5)
<i>Statistics</i>				
<i>Operating profit before tax growth</i>		+13.6%	+37.5%	+5.7%
<i>Effective tax rate</i>			26.5%	16.8%
<i>Full time equivalent employees</i>		<i>included in Australia and New Zealand</i>		47

Source: Pepper and Grant Samuel analysis

Corporate costs in 1HY17 include a one off gain on sale. In CY17, corporate costs are expected to be approximately \$33 million (before the one off gain on sale, income tax expense, depreciation and amortisation and interest on corporate borrowings).



5 Valuation of Pepper

5.1 Summary

Grant Samuel has valued Pepper in the range \$661-756 million which corresponds to a value of \$3.52-4.02 per share. The valuation is summarised below:

Pepper - Valuation Summary (\$ millions)			
	Report Section Reference	Value Range	
		Low	High
Australia and New Zealand	5.3	440.0	480.0
Pepper Savings Bank	5.4	170.0	195.0
Europe	5.5	300.0	355.0
Corporate costs	5.6	(210.0)	(240.0)
Value of business operations		700.0	790.0
Investment in PrimeCredit	5.7	95.0	100.0
Other assets and liabilities	5.8	17.4	17.4
Enterprise value		812.4	907.4
Adjusted corporate net borrowings at 30 June 2017	5.9	(151.3)	(151.3)
Value of equity		661.1	756.1
Fully diluted shares on issue (millions) ²⁷	3.6.1	188.1	188.1
Value per share		\$3.52	\$4.02

The valuation represents the estimated full underlying value of Pepper assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Pepper shares to trade on the ASX in the absence of a takeover offer. Shares in a listed company normally trade at a discount of 15-25% to the underlying value of the company as a whole (but this discount does not always apply).

The value attributed to the business operations of \$700-790 million is an overall judgement having regard to a number of valuation methodologies and parameters, including discounted cash flow ("DCF") analysis and capitalisation of earnings (multiples of EBITDA²⁸ and NPAT).

The earnings multiples and net assets multiples implied by the valuation of the equity of Pepper are summarised below:

Pepper – Implied Valuation Parameters			
	Variable (\$ million)	Range of Parameters	
		Low	High
Multiple of adjusted NPAT (times)			
Year ended 31 December 2016 (actual)	61.0	10.8	12.4
Year ending 31 December 2017 (broker median)	69.7	9.5	10.8
Year ending 31 December 2018 (broker median)	81.5	8.1	9.3
Multiple of assets as at 30 June 2017 (times)²⁹			
NTA	401.9	1.6	1.9

²⁷ Fully diluted shares on issue is 184,342,671 ordinary shares (including unvested loan shares) plus 4,028,803 unvested performance rights less 311,378 unvested performance rights that are held by former employees and that will lapse for no consideration prior to implementation of the Scheme (see Section 6.6(a) of the Scheme Booklet), to give a total of 188,060,096 fully diluted issued shares.

²⁸ EBITDA is earnings before net interest, tax, depreciation and amortisation.

²⁹ Refer to Section 5.3.3 for a discussion of NTA multiples. A high NTA multiple can be justified for Pepper given the material contribution to value from the asset-light servicing business operations.



While Pepper has made guidance statements about profit after tax for the year ending 31 December 2017, the directors of Pepper have decided not to include the 2017 Budget or the forecasts or projections in the Scheme Booklet and therefore this information has not been disclosed in this report. Accordingly, the implied prospective price earnings multiples set out above are based on the median of brokers' forecasts for Pepper (see Appendix 3 for details). The median broker forecast adjusted NPAT is sufficiently close to Pepper's 2017 Budget and CY18 forecast to be useful for analytical purposes.

The valuation reflects the particular attributes of Pepper's business and takes into account factors such as:

- leading market positions in specialist lending in Australia and in third party servicing in Europe;
- integrated operating model across the complementary businesses of specialist lending and servicing, which is scalable within a market and replicable across markets;
- track record of performance (across risk management and funding) through the economic cycle;
- global diversification with a track record of successful, opportunistic acquisitions (targeting dysfunctional markets);
- a diversified and capital efficient funding model for the lending businesses, and the implications of this model, including:
 - the requirement for Pepper to contribute equity to funding vehicles on an ongoing basis to achieve forecast lending growth (except in the case of Pepper Savings Bank which is deposit funded). The equity contributions are substantial and must be funded from existing cash, additional debt or equity raisings (which may not always be available on suitable terms); and
 - the potential that further capital (in addition to that referred to above) may be required to be contributed to funding vehicles to support the credit position of senior investors or to support the regulatory requirements of Pepper Savings Bank.

At least \$150 million of incremental equity capital in excess of organic cash generation is expected to be required over the next two years to fund business as usual growth and the Banco Primus acquisition. Grant Samuel's DCF analysis indicates that approximately \$60 million of capital is required annually to fund growth in Pepper's lending business operations over the long term. This ongoing requirement for capital has a material impact on value;

- exposure to:
 - relatively higher risk non-conforming mortgages and consumer loans;
 - extensive regulation in each of the regions in which it operates and the impact of changes in regulation on its business operations;
 - competitive markets and the potential for competitive behaviour to put pressure on servicing fees or net interest margins;
 - multiple foreign currencies and fluctuations in exchange rates; and
 - economic conditions in countries in which it operates (in particular, inflation, unemployment, interest rates, house prices and general demand for credit) and the impact of these conditions on debt servicing ability; and
- positive short to medium term outlook for the lending businesses as a result of expanding the product base in Australia (asset finance and personal loans) and the ramp up of the European lending businesses, particularly in the United Kingdom and Spain (albeit this growth is not without risk in terms of timing and quantum of success). The implied multiples reflect the current status of these lending businesses (some of which are expected to be loss making in CY17, increasing the implied multiples).



The value includes a premium for control. The premia implied by the value range over share prices over the month prior to speculation in the media that Pepper might be the subject of a change of control transaction are in the range 20-40% (with higher premia over one week and one month volume weighted average share prices). Takeover premiums are typically in the range 20-35% depending on the individual circumstances. Synergies available to acquirers such as cost savings through merging operations are normally a significant factor in justifying their ability to pay a meaningful premium over market prices (although in more recent times private equity buyers of listed companies have also paid significant premiums despite the apparent absence of synergies). In this case, the premia implied by Grant Samuel's value are not inconsistent with those typically observed.

5.2 Methodology

5.2.1 Overview

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- discounting of projected cash flows;
- capitalisation of earnings or cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

5.2.2 Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, including resources, and for the valuation of start-up projects where earnings during the first few years can be negative but it is also widely used in the valuation of established industrial businesses. Discounted cash flow valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture depleting resources, development projects and fixed terms contracts (which are typical in the resources sector), the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate which reflects the risk associated with the cash flow stream.

Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgement. In addition, even where cash flow forecasts are available, the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, discounted cash flow valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions as to expected future performance need to be made.



Financial models for each of Pepper's business operations have been developed by Grant Samuel based on the forecasts and projections prepared by Pepper management. The financial models allow the key drivers of revenues, costs and funding to be modelled. In the case of Pepper Savings Bank (a regulated deposit taking institution), the DCF model calculates the value of income available to be distributed as dividends after the retention of earnings to service the capital adequacy requirements of the business. The models are based on a number of assumptions about future events and are subject to significant uncertainty and contingencies, many of which are outside the control of Pepper. Where relevant, a number of different scenarios have been developed and analysed to reflect the impact on value of various key assumptions relating to the level of loan originations/number and size of new servicing contracts, prepayments, losses and run-off, pricing, funding requirements and other factors. However, these scenarios do not, and do not purport to, represent the range of potential outcomes for Pepper's business operations. They are simply theoretical indicators of the sensitivity of the net present values derived from the discounted cash flow analysis.

The financial models are discussed in more detail in the following sections of this report. Appendix 1 sets out a detailed analysis of the selection of the discount rates assumed in the DCF analysis.

5.2.3 Capitalisation of Earnings or Cash Flows

Capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBIT³⁰ (or EBITA³⁰) or NPAT. These are referred to respectively as EBITDA multiples, EBIT multiples (or EBITA multiples) and price earnings ("PE") multiples. PE multiples are commonly used in valuing financial services businesses (where net interest income is integral to the underlying earnings of the business) and in the context of the sharemarket. EBITDA and EBIT (or EBITA) multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer but are also used extensively in sharemarket analysis.

Where an ongoing business with relatively stable and predictable cash flows is being valued, Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point.

Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

While EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:

- EBIT (or EBITA) multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative

³⁰ EBIT is earnings before net interest and tax. EBITA is earnings before net interest, tax and amortisation of acquired intangible assets.



capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable indicator of ongoing capital expenditure. In addition, there can be differences between companies in the basis of calculation of depreciation. Where this is an issue, another metric that can be useful is EBITDA-Capital Expenditure (sometimes referred to as Operating Cash Flow); and

- businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers it is necessary to infer the appropriate multiple from other evidence.

The primary approach used by valuers is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors, including:

- economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
- strategic attractions of the business - its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
- rationalisation or synergy benefits available to the acquirer;
- the structural and regulatory framework;
- investment and sharemarket conditions at the time; and
- the number of competing buyers for a business.

A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. While averages or medians can be determined it is not appropriate to simply apply such measures to the business being valued. The range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings. The most important part of valuation is to evaluate the attributes of the specific business being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it appropriately belongs.

An alternative approach in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the sharemarket. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor. To convert sharemarket data to meaningful information on the valuation of companies as a whole, it is market practice to add a “premium for control” to allow for the premium which is normally paid to obtain control through a takeover offer. This premium is typically in the range 20-35%.

The premium for control paid in takeovers is observable but caution must be exercised in assessing the value of a company or business based on the market rating of comparable companies or businesses. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. It is inappropriate to apply an average premium of 20-35% without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through an initial public offering.



Acquisitions of listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall sharemarket levels and ratings between countries, economic factors (economic growth, inflation, interest rates) and market structures (competition etc.) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or sharemarket levels.

The analysis of comparable transactions and sharemarket prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

In determining values for Pepper's business operations, Grant Samuel has had regard to the PE multiples implied by the valuation range for the individual lending business operations and to the PE multiples implied by the valuation range for the company as a whole, compared to the PE multiples derived from an analysis of comparable listed companies and transactions involving comparable businesses. EBITDA multiples have been considered in relation to Pepper's servicing businesses.

Grant Samuel also reviewed the NTA multiples implied by the valuation of Pepper as a whole as a further cross check of the valuation conclusions.

5.2.4 Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used as a "cross check" of the result determined by a capitalised earnings valuation or by discounting cash flows. While they are only used as a cross check in most cases, industry rules of thumb can be the primary basis on which buyers determine prices in some industries. However, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

5.2.5 Net Assets/Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading.

5.2.6 Approach for Pepper

Grant Samuel's valuation of Pepper has been estimated by aggregating the estimated market value of its business operations (on a "control" basis) together with the realisable value of non-trading assets and deducting external borrowings and non-trading liabilities. The value of the business operations has been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

In valuing Pepper's business operations, the primary focus was on DCF analysis with earnings multiples used as a cross check. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value the business operations of Pepper. A realisation of assets methodology is not appropriate for Pepper.

The value range selected for Pepper is a judgement derived through an iterative process. The objective is to determine a value that is both consistent with the market evidence as to multiples and fits with the output of DCF analysis in terms of the various scenarios and their likelihood.



Specific aspects of the methodology adopted by Grant Samuel include the following:

- Pepper’s business operations in each country, and the specialist lending and servicing businesses within each country, have been valued separately. There are a number of reasons for adopting this approach:
 - the business operations in each country are structured and operate as separate businesses;
 - the economic conditions in each country (Australia/New Zealand, the United Kingdom, Ireland, Spain and South Korea) are different;
 - the key drivers, lifecycle stage and growth outlook are different for specialist lending and servicing, particularly in Europe where Pepper’s lending businesses are in the start up phase (and in some cases, still loss making);
 - there is no evidence from transactions involving businesses engaged in the provision of both specialist lending and third party servicing activities across multiple geographical regions; and
 - there are no listed companies directly comparable to Pepper. The nearest “peers” in the Australian market are Homeloans Limited (“Homeloans”) and the listed consumer finance companies but their sharemarket trading does not provide meaningful valuation guidance for a number of reasons, including their focus on lending (and in some cases, specifically on consumer lending), their relative size and their geographical reach.

However, Pepper’s Australian and New Zealand business (specialist lending and servicing) has been valued as a single business operation as servicing is a relatively small proportion of the business (\$32.0 million or 17% of net income in CY16 and \$1.8 billion or 23% of AUM as at 30 June 2017). The third party servicing business is a legacy from the acquisition of GE Capital’s Home Lending business in 2011 and is in run off. In addition, servicing AUM as at 30 June 2017 of \$1.8 billion includes \$1.3 billion from whole loan sales related to the funding of Pepper’s Australian lending activities;

- each business operation has been valued in its local currency and converted to a \$ value at current exchange rates;
- the DCF analysis for the lending businesses (other than Pepper Savings Bank³¹) is based on NPAT (as a proxy for geared cash flow), discounted at a cost of equity. An adjustment has been made to NPAT to allow for the impact of broker commissions for cash flow purposes (which are paid up front) relative to accounting broker commissions (which are amortised over the expected life of the loan) in the United Kingdom where the lending business is in a start up/growth phase. No adjustment has been made for Pepper’s other lending businesses as they are either mature business operations (Australia) or the impact is immaterial (Ireland and Spain). No adjustment has been made for cash relative to accounting losses as Pepper recognises losses for accounting purposes when they are incurred (and therefore accounting losses are equivalent to cash losses). Allowance has been made for the capital required to be contributed to funding vehicles by Pepper to fund forecast growth.

The DCF analysis for the servicing businesses is based on ungeared after tax cash flow (i.e. before intercompany and corporate interest), discounted using a weighted average cost of capital (“WACC”). Based on discussions with management, it has been assumed that depreciation is equivalent to capital expenditure.

As with any long term projections, there are inherent uncertainties about future events and outcomes and small changes in certain assumptions can have disproportionate impacts on the calculated values. The DCF models are based on a number of assumptions which are subject to significant uncertainty, many of which are outside the control of Pepper. There are also a wide range of risk factors in the broader operating environment that can impact future

³¹ The DCF analysis for Pepper Savings Bank calculates the value of income available to be distributed as dividends after the retention of earnings to service the regulatory capital adequacy requirements of the business.



performance, particularly for Pepper's lending businesses. These factors include, but are not limited to:

- a deterioration in the macroeconomic environment of the relevant country and the impact of this on the level of residential mortgage and other consumer lending as well as the impact of associated higher unemployment and interest rates on a borrower's ability to service their debt and the implications of this for prepayment rates and losses;
- changes in the regulatory environment (e.g. APRA's proposed closer supervision of non-bank financial institutions in Australia, lower caps on interest rates for South Korean mutual savings banks etc); and
- a requirement for increased equity contributions to funding vehicles, either due to regulatory change or commercial negotiation with funding partners.

Although Pepper's complementary specialist lending and third party servicing businesses do provide an element of protection, particularly from severe cyclical swings, these uncertainties remain and there is a range of potential outcomes that could occur, both positive and negative (and an even greater number of possible combinations of those outcomes). Accordingly, the DCF analysis for each of Pepper's business operations considers a number of scenarios that analyse the impact of possible variations in some of the factors outlined above;

- the investment in PrimeCredit is a minority interest and has been valued having regard to comparable trading PE multiples and dividend yields, as well as DCF analysis of the expected dividend stream and the acquisition cost (the 12% interest in PrimeCredit was acquired in May 2015);
- Pepper's corporate costs have been separately valued (and have not been allocated to the business divisions). This approach corresponds to the statutory presentation of Pepper's business operations and will be more readily understood by shareholders; and
- Grant Samuel has considered (but not made explicit adjustment for) the synergies potentially achievable by acquirers of the business. In this regard, it needs to be recognised that:
 - normal valuation practice is to include (either implicitly or explicitly) a value for synergies that are available to multiple acquirers but to exclude synergy value that is unique to a particular acquirer; and
 - where earnings multiples from comparable transactions represent primary valuation evidence, adding synergies to earnings or making a further multiple adjustment for synergies would potentially result in "double counting" of value as the multiples from the comparable transactions are usually based on "standalone" earnings (either reported or forecast) and the value of synergies is therefore reflected in the multiple (i.e. the transaction multiple would be lower if based on earnings including synergy benefits).

5.3 Value of Australia and New Zealand

5.3.1 Summary

Grant Samuel estimates the value of Pepper Australia and New Zealand to be in the range \$440-480 million (before corporate overhead costs).

The primary approach to valuation was DCF analysis (applying a cost of equity to geared after tax cash flows) with multiple analysis (PE multiples) used as a cross check.

As set out in Section 5.2.6 above, Pepper's Australian and New Zealand business has been valued as a single business.



5.3.2 Discounted Cash Flow Analysis

The DCF model for Pepper Australia and New Zealand's lending and third party servicing business forecasts nominal geared after tax cash flows in \$ from 1 July 2017 to 31 December 2026, a period of 9½ years, with a terminal value calculated to represent the value of cash flows in perpetuity. A discount rate in the range 10.5-11.5% (cost of equity) has been used. The rationale for selection of the discount rate is set out in Appendix 1.

Scenario A is based on the forecasts and projections for Pepper's Australian and New Zealand lending and servicing business prepared by management (for the period 2HY17 to CY21), with Grant Samuel making longer term assumptions to extend the cash flows an additional five years to CY26. Scenario A assumes the following:

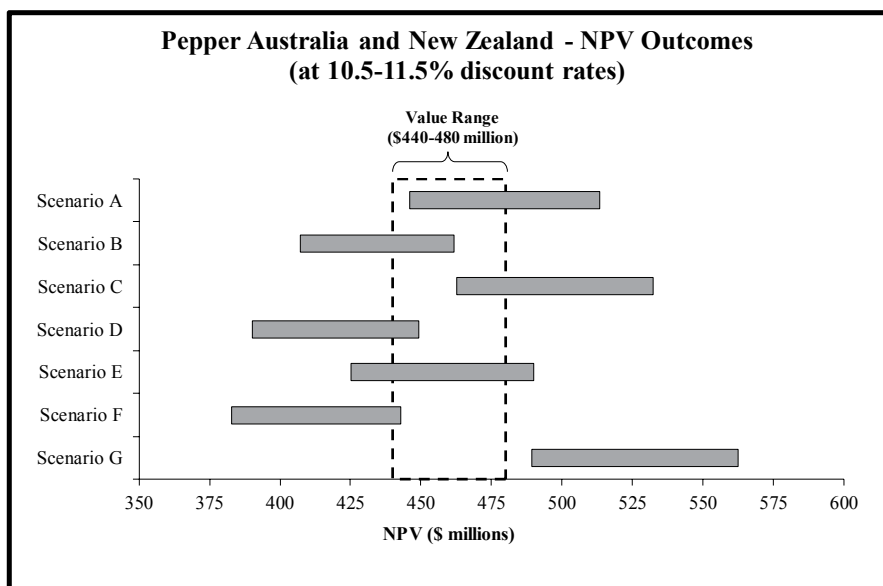
- loan originations (across residential mortgages, asset finance and personal loans) grow by an average of 8% each year over the period from CY17 to CY21 and grow by an average of 6% each year for the balance of the cash flow period. The higher growth in the initial years reflects the ramp up of the asset finance and personal loans businesses;
- whole loan sales of \$300 million are completed in 2HY17 with a further \$800 million completed in CY18 and CY19:
 - whole loan sales achieve a premium of 1.5% above book value; and
 - Pepper maintains the associated loan servicing rights;
 There are no whole loan sales in subsequent years;
- total lending AUM grows at an average annual rate of around 14% over the period from July 2017 to December 2026. This rate of growth is similar to that achieved in CY16. Higher rates of growth are achieved in the earlier years as the asset finance and personal loans businesses ramp up;
- there are no new servicing contracts (other than from whole loan sales) and, after a ramp up period from 2HY17 to CY19, run off at 28% each year;
- lending income as a percentage of average lending AUM is around 2% from 2HY17 to CY20 and then falls to 1.7% for the balance of the cash flow period reflecting the expected decline in net interest margin in the medium term;
- loan origination fees are calculated as 0.9% of originations;
- servicing fee income is calculated as a percentage of average servicing AUM and averages 2.5% over the period of the cash flows. There are no servicing performance fees;
- broker commissions are around 1.8% of originations for the period of the cash flows. It has been assumed that there is no difference in timing between the accounting and cash treatment of broker commissions. This is a reasonable assumption given the maturity of the Australian lending business;
- employee costs average 0.65% of average AUM over the period of the cash flows;
- other expenses are as forecast by management and increase by inflation from CY22 to CY26 (inflation is assumed to be 2.5% per year);
- equity is contributed to funding vehicles based on growth in lending AUM and consistent with existing funding requirements;
- depreciation and other amortisation is equivalent to capital expenditure and is tax deductible. There is a substantial step up in capital expenditure in CY17 reflecting additional investment in systems and software (particularly for the asset finance business) after which it increases by around 3.5% each year;
- net working capital is 3% of revenue; and
- a corporate tax rate of 30%. Tax is paid in the year it is incurred.



Each of the scenarios considered by Grant Samuel assumes as a starting point that the second six months of the 2017 Budget is achieved. Longer term assumptions have been made by Grant Samuel with reference to Pepper’s forecasts and projections following discussion with Pepper management. A description of each scenario is outlined in the table below:

Pepper Australia and New Zealand - DCF Scenarios	
Scenario	Description
Scenario A	As described above
Scenario B	Lending AUM grows as per Scenario A to CY21, then loan book growth slows to 2.5% per annum (lending AUM CAGR of 9.8% over the CY17-CY26 period)
Scenario C	Loan originations grow at a rate 1.0% per annum slower than Scenario A from CY18 to CY26
Scenario D	Scenario A except there is a reduction of 5 basis points in lending income as a percentage of average lending AUM from CY18 to CY26
Scenario E	Scenario A except there is an increase of 5 basis points in broker commissions as a percentage of originations from CY18 to CY26
Scenario F	Scenario A except Pepper’s equity contribution requirement (as a percentage of growth in AUM) increases from CY18 to CY26
Scenario G	Scenario A except Pepper executes ongoing whole loan sales of \$500 million per annum from CY18 to CY21, reducing to \$300 million per annum from CY22-CY26

Grant Samuel’s selected value range of \$440-480 million for Pepper Australia and New Zealand reflects a subjective balancing of the scenarios. The NPV outcomes are depicted diagrammatically below:



The range of net present values produced by the scenarios is wider than the value range Grant Samuel has placed on Pepper’s Australian and New Zealand business operations. Grant Samuel’s range incorporates the majority of Scenarios A and E, a substantial proportion of Scenarios B and C and the top end of Scenarios D and F. Only Scenario G is slightly outside the top end of the value range. Grant Samuel has considered the outcome of all of the scenarios in determining its value range for Pepper’s Australian and New Zealand business operations. However, it should be noted that:



- Scenario B assumes average annual growth in lending AUM of 9.8% (compared to around 14% in Scenario A). Both of these growth rates are above Australian long term annual residential lending system growth of around 7-8%. While:

- Pepper does aim to achieve growth in excess of system growth on an ongoing basis; and
- the higher level of growth is in part explained by the ramp up of Pepper's auto finance and personal loans businesses in the initial years of the model;

Scenario B is a plausible outcome relative to the market as a whole and it is appropriate to incorporate a substantial proportion of it in the value range;

- the NPV outcome of Scenario C is higher than Scenario A despite slower growth in originations. The result of lower originations is lower AUM and lower equity contributions to funding vehicles. As a result, cash flows are higher. However, in Grant Samuel's view, while this scenario may occur at certain times over economic cycles, it is not sustainable in the long term. The Australian residential mortgage market is expected to continue to grow over the long term and Pepper would be reluctant to sacrifice market share to its competitors in these circumstances;

- Scenarios D and F show the material impact on NPV outcomes of long term compression in Pepper's net interest margin (e.g. due to increased competition or an increased cost of funds) and an increase in the required equity contribution to funding vehicles. In these situations, Pepper would be likely to:

- maintain its net interest margin (to at least some extent) by passing on any increase in the cost of funds to its customers; and
- utilise its diversified funding options (including whole loan sales) to manage its equity requirements. Pepper's long term, well established relationships with both its senior bank lenders and institutional mezzanine investors and its experience in the securitisation markets would also assist in managing its equity requirements.

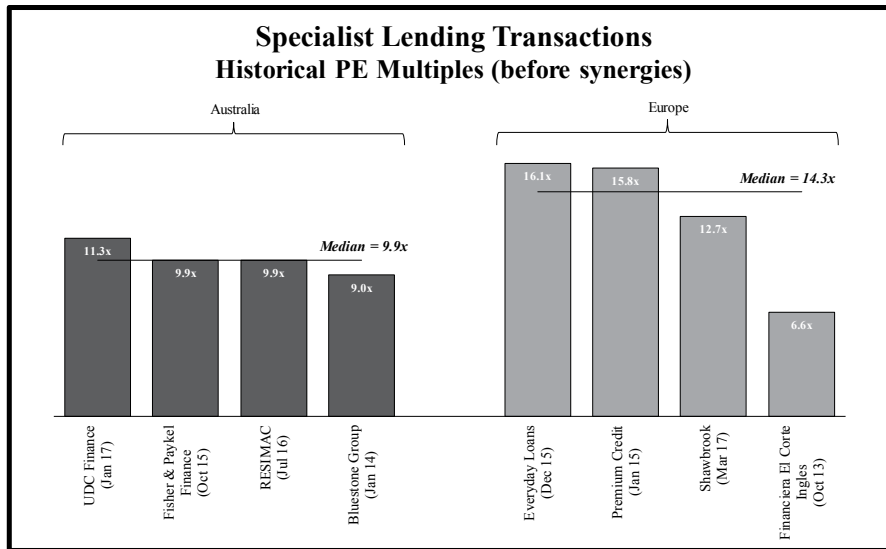
While it is possible that there may be periods of compressed net interest margins and greater equity contributions, it is unlikely that Pepper would continue to operate indefinitely in this environment without responding; and

- over the past 18 months, Pepper has been a regular issuer of whole loan portfolio sales in the Australian market. This has allowed Pepper to release capital and create funding headroom to support future lending growth. Scenario G shows the material impact on NPV of a sustained program of whole loan sales, benefiting from a premium on sale and retention of the servicing rights of these portfolios. However, this scenario is highly dependent on there being suitable acquirers of the loan portfolios in the future and the ability to sustain \$300-500 million a year in whole loan sales is extremely uncertain. The likelihood of this outcome is reflected in the value range selected by Grant Samuel.

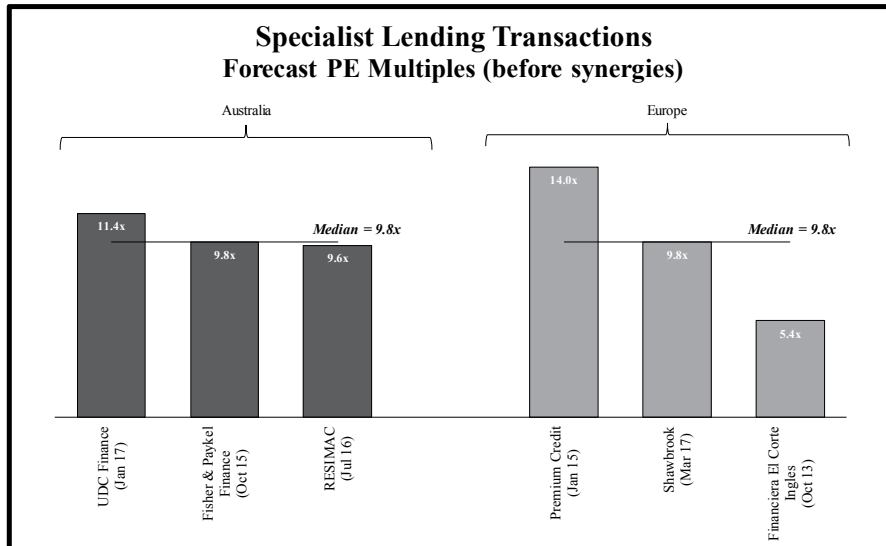
Taking these factors into account, Grant Samuel believes that the values produced by the DCF analysis support a range of values for Pepper's Australian and New Zealand business operations of \$440-480 million.

5.3.3 Earnings Multiple Analysis

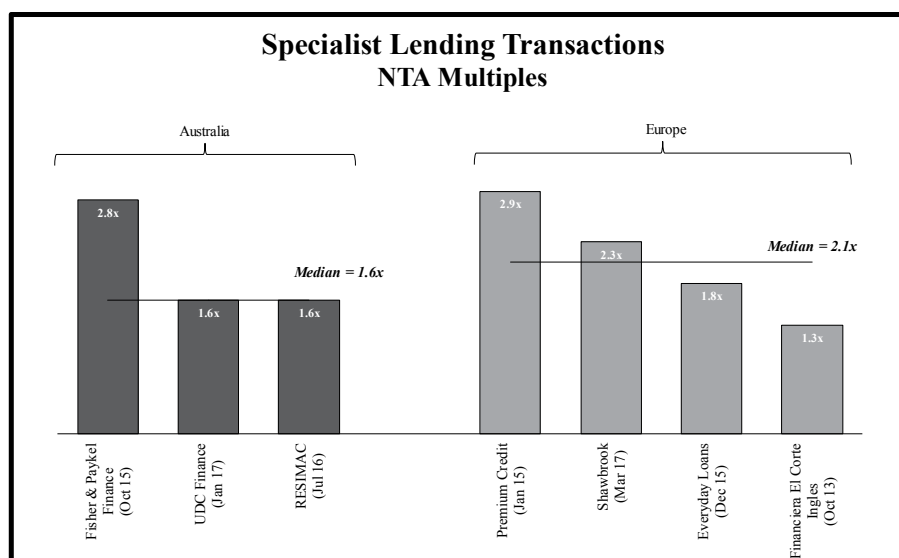
While there have been a number of transactions involving non-bank lenders or specialty or consumer finance businesses in Australia in recent years, there are only a limited number that have publicly released information that enables transaction multiples to be calculated. Appendix 2 sets out the multiples implied by selected acquisitions of non-bank lending, specialty and consumer finance businesses in Australia, New Zealand and Europe over the last five years. The following charts summarise the historical and forecast multiples:



Source: Grant Samuel analysis (Appendix 2)



Source: Grant Samuel analysis (Appendix 2)



Source: Grant Samuel analysis (Appendix 2)

None of the transactions is directly comparable to Pepper's Australian and New Zealand business operations in terms of breadth of product offering, and, in most cases, scale. However, the evidence is useful for considering appropriate valuation parameters for Pepper's underlying business activities. In considering this transaction evidence, relevant points to note include:

- the Australian transactions for which PE multiples are able to be calculated are in a reasonably tight range of 9.0-11.3 times historical and 9.6-11.4 times forecast earnings, with a median of just under 10 times on both bases. Although the evidence is limited, the NTA multiples are also consistent at 1.6 times (with the exception of Fisher & Paykel Finance):
 - the proposed acquisition of Australia and New Zealand Banking Group Limited's UDC Finance by China's HNA Group announced in January 2017 is at higher implied PE multiples. It is arguably less relevant as evidence for the valuation of a primarily specialist residential mortgage lender in Australia as it is an asset and equipment finance business with a principally commercial customer base operating solely in New Zealand. In addition, the transaction has not yet completed and is still awaiting approval from both New Zealand's Overseas Investment Office and Chinese regulators; and
 - similarly, Fisher & Paykel Finance has a consumer finance (cards) focus, and also operates principally in New Zealand. Flexigroup Limited ("Flexigroup") also expected to generate substantial synergies from the acquisition through rationalisation of costs, leveraging Flexigroup's collections processes and debt sales expertise and integrating parts of Fisher & Paykel with its existing commercial leasing businesses in New Zealand. The historical PE multiple falls from 9.9 times to 8.8 times after taking into account synergies. The existence of synergies would also account for the higher NTA multiple;
- the RESIMAC transaction was a merger with ASX listed Homeloans in July 2016. Relevant factors to note in relation to this transaction include:
 - Homeloans and RESIMAC were highly complementary businesses. Homeloans has a strong brand in the Australian mortgage industry and a national distribution network and RESIMAC has well established securitisation, product manufacturing and development capabilities. Both operate primarily in the prime residential mortgages space. The merger created a leading non-bank lending, multi-channel distribution business in Australia and New Zealand with a combined loan portfolio in excess of \$13 billion;



- the transaction was structured as a scrip merger:
 - on completion of the transaction, shareholders in RESIMAC collectively held 72.5% of the enlarged share capital and RESIMAC's largest shareholder held 57.3% of the merged group; and
 - as the consideration was 100% scrip, the implied historical PE multiples differ depending on the Homeloans share price used. The PE multiples range from 9.3 to 11.2 times (historical) and from 9.0 to 10.8 times (forecast) depending on the Homeloans share price used (i.e. day prior to announcement, day prior to the date of the scheme booklet or date of implementation); and
- the merged group was expected to deliver full-run rate cost synergies (pre-tax) of \$6 million within 12 to 18 months of the implementation of the merger, consisting of \$4 million from duplication of roles, \$1 million from reduced leasing and premises expenses and \$1 million from decreased operating expenditures, mainly lower marketing expenditure. The implied PE multiples post synergies are considerably lower at 7.6 times (historical) and 7.4 times (forecast), although again the range is wide depending on the Homeloans share price used (7.1-8.5 time historical PE multiple and 6.9-8.3 times forecast PE multiple);
- Bluestone Group is one of Pepper's main competitors in Australia and globally. In 2014, it had operations in Australia and the United Kingdom, where its focus was on specialist mortgage lending and loan servicing (in particular, in the United Kingdom, for underperforming or non-performing mortgages and loans) and had recently commenced providing specialist lending and servicing for the auto and equipment markets in Ireland. The acquisition by Lloyds Development Capital ("LDC") of a significant (approximately 50%) interest in Bluestone Group was completed at an historical PE multiple of 9.0 times, arguably with limited potential for synergies (LDC is a private equity investor) and not a full premium for control; and
- the European transactions have taken place at implied PE multiples and NTA multiples in a wider range and are generally higher than the multiples implied by the Australian and New Zealand transactions (other than the implied forecast PE multiples). Other than Shawbrook Group plc ("Shawbrook"), all of these companies are involved in providing consumer finance. The implied multiples reflect the specific circumstances of each transaction, including:
 - Shawbrook is a specialist lending and savings bank in the United Kingdom with a focus on poorly served customer segments across the SME and consumer markets. It develops deep relationships with its customers and business partners and uses its experience and judgement to make individual decisions that balance risk, return and customer needs. The offer for Shawbrook was rejected by the Board on the basis that it undervalued the company. The implied PE multiples of 12.7 times (historical) and 9.8 times (forecast) indicate the high growth outlook for the company. The bidder was a private equity fund manager focussed on investing in businesses in the financial services sector;
 - Everyday Loans is the largest branch-based consumer finance lender in the United Kingdom's non-standard finance sector with 41 branches. It offers a range of loan products tailored to customer's requirements. At the time of its acquisition by Non-Standard Finance plc, it had over 39,600 active customers with loans carrying APRs ranging from 24% to 299%, loan amounts ranging from £1,000 to £15,000 and length of loan ranging from one to five years. The regulatory constraints placed by the FCA on consumer finance providers (particularly pay day loan firms in relation to caps on fees and interest rates) provided an opportunity for growth, which is reflected in the high historical PE multiple;
 - Premium Credit is a United Kingdom based premium insurance company that also provides financing for the payment of annual fees. It was regarded as a well run business with an attractive and diversified customer base, broad distribution network and good reputation for customer service. It had an experienced management team,

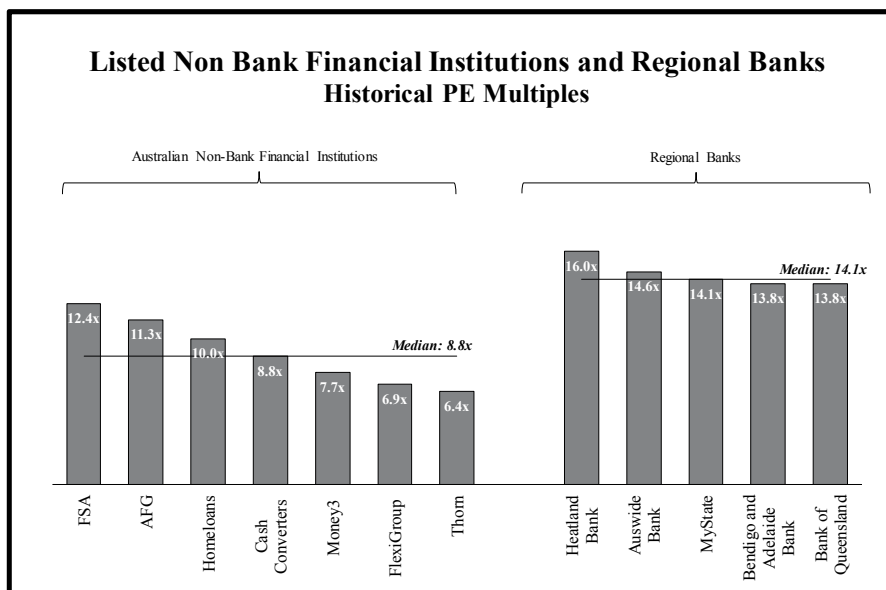


robust operational and risk management capabilities and had performed strongly throughout economic cycles. These factors, along with the different product focus and risk profile of the business are reflected in the relatively high transaction multiples; and

- Banco Santander’s acquisition of a 51% interest in Financiera El Corte Ingles, the largest consumer finance business in Spain with more than 10.5 million store card customers, allowed it to strengthen its leading position in the European consumer finance market and diversify its Spanish and Portuguese portfolio. The relatively low implied multiples possibly reflect the acquisition of only a 51% interest.

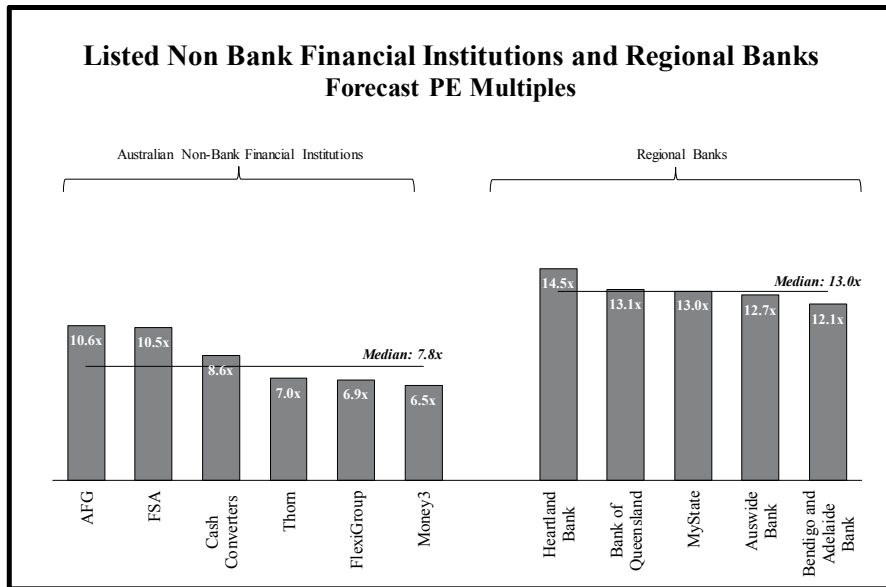
Evidence from Sharemarket Prices

The earnings multiples implied by share prices as at 29 August 2017 for a selection of Australian non-bank financial institutions and regional banks in Australia and New Zealand that are broadly comparable to Pepper’s Australian and New Zealand business are set out in Appendix 2. The following charts summarise the historical and forecast trading multiples for a select group of the most comparable companies:



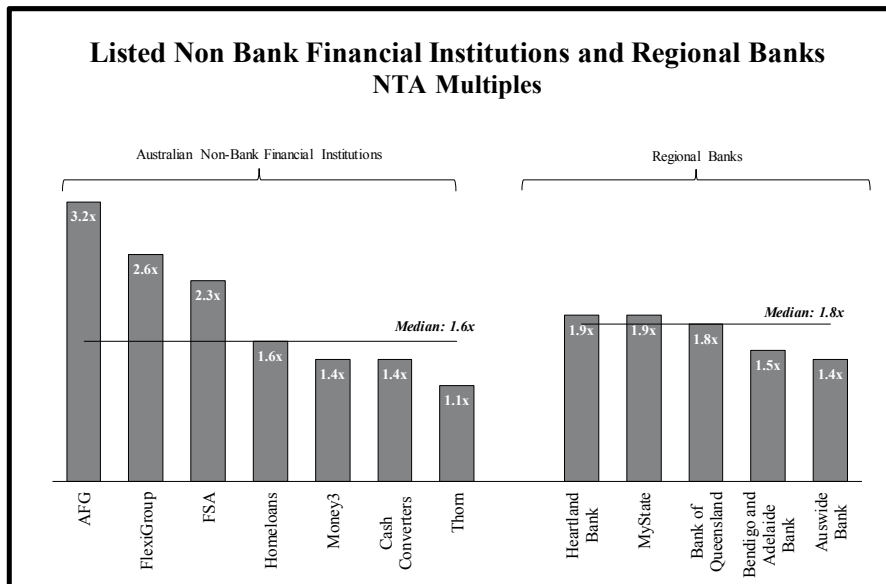
Source: Grant Samuel analysis (Appendix 2)

Note: Companies focused on commercial customers have been excluded from the peer group. Refer to Appendix 2



Source: Grant Samuel analysis (Appendix 2)

Note: No multiple is shown for Homeloans as no broker forecasts are available



Source: Grant Samuel analysis (Appendix 2)

The following factors are relevant to consideration of the comparable entity multiples:

- the multiples for the listed companies are based on share prices and do not include a premium for control;
- the forecast PE multiples for all companies are based on earnings for the year ending 30 June 2018 except for Thorn Group Limited (“Thorn”) and Bank of Queensland Limited (“Bank of Queensland”) where the multiples are based on earnings for the year ending 31 March 2018 and 31 August 2018 respectively. The financial data has not been aligned to correspond to



Pepper's 31 December year end. It would be expected that forecast multiples for the year ending 30 June 2018 would be lower than for the year ending 31 December 2017;

- none of the companies is directly comparable to Pepper's Australian and New Zealand business. However, a number of the selected peer group have elements of comparability to Pepper. The selected companies also face the same external factors as Pepper, including macroeconomic drivers (e.g. unemployment, inflation, interest rate movements), competition and regulatory requirements;
 - following its merger with RESIMAC (completed in October 2016), Homeloans operates as a direct competitor to Pepper in Australia, predominantly in the prime mortgage segment (approximately 74% of its \$3.6 billion of residential mortgage originations in FY17 were prime). Homeloans also has a similar funding platform, utilising both warehouse funding and securitisations. The historical PE multiple of 10.0 times reflects only a part year contribution from RESIMAC (8½ months) although it does incorporate some of the merger synergies. The trading PE multiple incorporating a full year contribution from RESIMAC would be lower;
 - FlexiGroup is a consumer-focused speciality finance provider with a diversified suite of products and a similar customer base and size as Pepper. It also utilises a similar funding platform. FlexiGroup's \$2.0 billion receivables book primarily consists of short-term, small-scale, retail POS loans and interest free cards used to purchase items such as household equipment, furniture, travel and electronics. Adjusted NPAT fell by 4.0% in FY17, impacted by a decline in its Australian cards and leasing segments and this is reflected in FlexiGroup's low historical and forecast PE multiples of 6.9 times. FlexiGroup can be discounted on this basis;
 - AFG Limited ("AFG") and FSA Group Limited ("FSA") offer residential mortgages and consumer financing respectively. However, in both cases, these products do not generate the majority of earnings. AFG is primarily a residential and commercial mortgage broking group but also offers white label mortgage products that are funded via warehouses and term securitisations. As at 30 June 2017, it had a residential mortgage book of \$5.5 billion and its home loans business contributed 36% of adjusted FY17 NPAT. FSA operates in two distinct segments, debt services and consumer lending. While its consumer lending activities include the provision of non-conforming home and personal loans to individuals that are unlikely to conform to the lending criteria of the traditional banks, this only represented 30% of FSA's total profit before tax in FY17. The diversification of their offering and the higher proportion of debt services/broking in their earnings is reflected in their higher multiples (forecast PE multiples of more than 10 times); and
 - Thorn, Money3 Corporation ("Money3") and Cash Converters Limited ("Cash Converters") focus their lending activities on non-conforming borrowers that are excluded from qualifying for more traditional bank funding channels, however, these businesses tend to offer small scale consumer leasing products and personal loans rather than residential mortgages; and
- despite the regional banks competing directly with Pepper for residential mortgages, especially in the prime segment, they are not considered to be particularly comparable. The regional banks are regulated ADIs and operate significantly different business models, utilising their customer deposit base to support future loan originations. In addition, as regulated entities, they are subject to tighter regulatory and capital maintenance requirements than non-banks such as Pepper. The trading PE and NTA multiples are higher than those of the non-bank financial institutions.

Prior to speculation in the media on 28 May 2017 that Pepper might be the subject of a change in control transaction, it was trading at a forecast PE multiple of 7.7 times and an NTA multiple of 1.4 times. In CY16, Pepper generated approximately 50% of its NPAT (before corporate costs) from its Australian and New Zealand business operations.



Implied Multiples for Pepper Australia and New Zealand

The valuation of \$440-480 million implies the following multiples:

Pepper Australia and New Zealand – Implied Valuation Parameters			
	Variable (\$ million)	Range of Parameters	
		Low	High
Multiple of adjusted NPAT (times)			
Year ended 31 December 2016 (actual)	41.9	10.5	11.5
Year ending 31 December 2017 (broker consensus)	46.4	9.5	10.3
Year ending 31 December 2018 (broker consensus)	49.3	8.9	9.7
Multiple of assets (as at 30 June 2017) (times)			
NTA	na ²⁶	nc ³³	nc

Pepper does not allocate its balance sheet by region so NTA multiples are not able to be calculated.

The multiples implied by the valuation of Pepper Australia and New Zealand are slightly higher than most of the transactions for which there is available evidence. However, it is important to recognise that these multiples are based on earnings that include losses for the asset finance and personal loans businesses. The asset finance business is expected to break even in CY18 before contributing strongly to earnings from CY19. Similarly, the personal loans business is not expected to make its first positive contribution to profit until CY19. While there is uncertainty around the success of these businesses and the time frame to achieve profitability, management of Pepper is confident that these businesses will contribute meaningfully to earnings in due course.

The implied PE multiples based on CY18 adjusted NPAT are arguably more relevant as forecast multiples given the extent of actual performance reflected in the CY17 multiples (i.e. Pepper is well over half way through the CY17 year). The implied CY18 forecast PE multiples are more in line with the multiples implied by relevant transactions (and this is prior to the asset finance and personal loans businesses making any meaningful contribution to profits). Furthermore, the broker consensus forecast NPAT attributable to Pepper Australia and New Zealand is slightly (~7%) below the company forecast. As a result, the CY18 forecast PE multiples based on the company forecast are lower.

There are no transactions that are directly comparable to Pepper Australia and New Zealand. However:

- the most relevant transaction is the merger of RESIMAC and Homeloans, which was completed at a historical PE multiple of 9.9 times and a forecast PE of 9.6 times (before synergies). The forecast multiples implied by the low end of the valuation of Pepper Australia and New Zealand are consistent with this transaction evidence. However, the multiples implied by the RESIMAC transaction are complicated by:
 - it being a scrip merger, with the implied PE multiples (before synergies) ranging from 9.3 to 11.2 times (historical) and 9.0-10.8 times (forecast) depending on the Homeloans share price used; and
 - the post synergies PE multiples being considerably lower at 7.6 times historical and 7.4 times forecast (and ranging from 7.1-8.5 times historical and 6.9-8.3 times forecast depending on the Homeloans share price used). These implied multiples are not dissimilar to Pepper's trading multiples prior to speculation in the media that Pepper may be the subject of a change of control transaction (forecast PE multiple of 7.7 times).

²⁶ na = not available.

³³ nc = not calculated.



While there are many similarities between RESIMAC and Pepper (including the relative sizes of their respective loan books, with RESIMAC's residential loan book over \$5.0 billion as at 30 June 2016 compared to Pepper Australia and New Zealand's lending AUM of around \$6.0 billion as at 30 June 2017), unlike Pepper, RESIMAC's residential loan book is predominantly prime residential mortgages (~75% as at 30 June 2016), a more competitive, lower margin segment of the residential mortgage market. Pepper Australia and New Zealand's focus on the non-prime segment of the residential mortgage would warrant a higher multiple (higher risk and higher return).

Furthermore, Homeloans is currently trading at a historical PE multiple of 10.0 times. While this multiple only includes 8½ months of contribution from RESIMAC, it incorporates some of the synergies and does not include a premium for control; and

- the historical PE multiple implied by the acquisition of a significant interest in the Bluestone Group is also relevant at 9.0 times, with limited synergies and arguably not incorporating a full premium for control.

Pepper Australia and New Zealand has a number of characteristics that would justify higher multiples:

- one of the leading providers of specialist loans in Australia, focusing on niche markets which are underserved by other lenders and which generate higher risk adjusted returns;
- proven risk management and credit underwriting expertise utilising its extensive industry knowledge and proficiency, further underpinned by maintaining a strong servicer rating from Standard & Poor's since 2012;
- well established distribution networks with a focus on the broker channel and a strategy to drive loan origination growth through increased penetration of this network;
- a track record of performance through the economic cycle;
- a diversified, scalable and capital efficient funding model, including the ability to utilise whole loan portfolio sales to release capital, subject to there being a suitable acquirer; and
- positive short to medium outlook for the business as the asset finance and personal loans businesses start to contribute to earnings.

On the other hand, there are a number of factors that would constrain the appropriate multiples for Pepper Australia and New Zealand:

- specialist lending is a competitive and relatively high risk market with a number of large competitors including RESIMAC, Bluestone Group and Liberty Financial as well as a number of smaller participants. There is the potential for competitive behaviour to put pressure on net interest margins;
- the industry is subject to extensive regulation and changes to regulation can have a significant impact on business operations;
- the implications of the funding model, in particular the requirement to contribute equity to funding vehicles on an ongoing basis to achieve lending origination growth and the impact of an inability to access funding or the provision of funding on less favourable terms. Grant Samuel's DCF analysis indicates that Pepper Australia and New Zealand has an average annual requirement for capital to fund lending origination growth over the long term in the region of \$40 million each year. This ongoing requirement for capital has a material impact on value; and
- the business is exposed to economic conditions in Australia (in particular, inflation, unemployment, interest rates, house prices and general demand for credit). Adverse changes in these conditions can impact debt servicing ability and Pepper's performance.

On balance, Grant Samuel believes that the multiples implied by the valuation of Pepper Australia and New Zealand of 9.5-10.3 times forecast CY17 adjusted NPAT and 8.9-9.7 times forecast CY18 adjusted NPAT are appropriate.



5.4 Value of Pepper Savings Bank

5.4.1 Summary

Grant Samuel estimates the value of Pepper Savings Bank to be in the range KRW152-172 billion, which equates to \$170-195 million at an exchange rate of A\$1 = KRW885-895 (before corporate overhead costs). The valuation is summarised below:

Pepper Savings Bank – Valuation Summary (KRW billions)		
	Value Range	
	Low	High
Pepper Savings Bank business operations	140.0	160.0
Investment properties	6.6	6.6
Tax losses	5.8	5.8
Value of Pepper Savings Bank	152.4	172.4

The primary approach to valuation was DCF analysis (applying a cost of equity to geared after tax cash flows) with multiple analysis (PE multiples) used as a cross check. As Pepper Savings Bank is a regulated deposit taking institution, the DCF model calculates the value of income available to be distributed to shareholders as dividends after the retention of earnings to service the regulatory capital adequacy requirements of the business.

In addition to its business operations, the valuation of Pepper Savings Bank also takes into account:

- the carrying value of investment properties (as at 31 December 2016). These properties have been acquired as a result of Pepper Savings Bank exercising its security rights in relation to loans and are not part of the bank's business operations; and
- the net present value of tax losses relating to Pepper Savings Bank of \$7.3 million (KRW6.3 billion) as at 31 December 2016. It is expected that these tax losses will be utilised by the end of CY18.

5.4.2 Discounted Cash Flow Analysis

The DCF model for Pepper Savings Bank calculates future distributable post tax profits adjusted for the bank's earnings retention requirements for capital adequacy purposes. The DCF model runs from 1 July 2017 to 31 December 2026, a period of 9½ years, with a terminal value calculated to represent the value of cash flows in perpetuity. A discount rate in the range 13.0-14.0% (cost of equity) has been used. The rationale for selection of the discount rate is set out in Appendix 1.

Scenario A is based on the forecasts and projections for Pepper Savings Bank prepared by management (for the period 2HY17 to CY21), with Grant Samuel making longer term assumptions to extend the cash flows an additional five years to CY26. Scenario A assumes the following:

- after a decline in loan originations in CY18, substantially from a fall in commercial loans and a lesser fall in personal loans, loan originations (across personal loans, residential mortgages, commercial loans and auto loans) increase by 5% each year for the period of the cash flows. The decline in originations in CY18 largely reflects the shift away from commercial loans and the impact of regulatory caps on personal loans;
- whole loan sales of KRW50 billion are completed in 2HY17, achieving a premium of 3% above book value. There are no whole loan sales in subsequent years;
- total lending AUM grows at an average annual rate of around 10% over the period from July 2017 to December 2026, with growth being considerably higher in the earlier years and declining to mid single digits in the later years;
- lending income as a percentage of average lending AUM falls from 6.4% in 2HY17 to 5.1% by CY21 and remains at that level for the balance of the cash flow period. The fall in lending



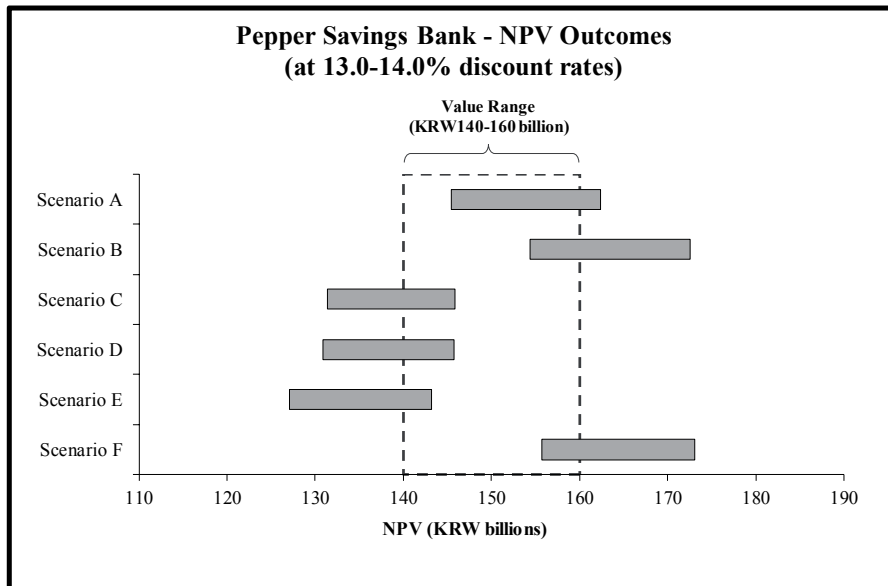
income as a percentage of average AUM reflects the change in product mix over the period as well as the impact of regulatory caps on interest rates;

- broker commissions average around 2.5% of originations for the period of the cash flows, reflecting the costs associated with the extensive network of DSRs;
- employee costs are calculated as 1.2% of average AUM;
- after some higher increases in earlier years as forecast by management, other expenses increase by inflation from CY22 to CY26 (inflation is assumed to be 2% per year);
- after a step up in depreciation and other amortisation in 2HY17, CY18 and CY19, depreciation and amortisation is assumed to increase in line with inflation;
- a corporate tax rate of 22%. Tax is paid in cash in the year it is incurred from 1 July 2017 and existing tax losses have been considered separately (refer to Section 5.4.1 above); and
- a BIS capital ratio of 9% (and no distribution of profit until the ratio reaches this level).

Each of the scenarios considered by Grant Samuel assumes as a starting point that the second six months of the 2017 Budget is achieved. Longer term assumptions have been made by Grant Samuel with reference to Pepper’s forecasts and projections following discussion with Pepper management. A description of each scenario is outlined in the table below:

Pepper Savings Bank - DCF Scenarios	
Scenario	Description
Scenario A	As described above
Scenario B	Lending AUM grows as per Scenario A to CY21, then loan book growth slows to 2.5% per annum (lending AUM CAGR of 9% over the CY17 to CY26 period)
Scenario C	Scenario A except prepayments and losses as a percentage of average AUM increase by 250 basis points
Scenario D	Scenario A except there is a reduction of 15 basis points in lending income as a percentage of average AUM from CY22 to CY26
Scenario E	Scenario A except that the BIS capital ratio is increased to 10%
Scenario F	Scenario A except that the BIS capital ratio is reduced to 8.5%

Grant Samuel’s selected value range of KRW140-160 billion million for Pepper Savings Bank reflects a subjective balancing of the scenarios. The NPV outcomes are depicted diagrammatically below:





The range of net present values produced by the scenarios is wider than the value range Grant Samuel has placed on Pepper Savings Bank's business operations. Grant Samuel's range incorporates the majority of Scenario A, just under half of Scenarios C and D, the top end of Scenario E and the bottom ends of Scenarios B and F. Grant Samuel has considered the outcome of all of the scenarios in determining its value range for Pepper Savings Bank's business operations. However, it should be noted that:

- the NPV outcome of Scenario B is higher than Scenario A, despite slower growth in originations. The result of lower originations is lower AUM, lower risk weighted assets and a lower level of capital retention to meet the required BIS capital ratio. As a result, cash distributions are higher. However, in Grant Samuel's view, while this scenario may occur over economic cycles, it is not sustainable in the long term;
- Scenarios C and D show the impact on NPV outcomes of a higher loss rate and compression of the net interest margin but they do not make any allowance for mitigating actions that Pepper would take if it became apparent that this type of scenario may eventuate. While it is possible that there may be periods of higher loss rates and/or tighter net interest margins, it is unlikely that Pepper would continue to operate indefinitely in this environment without responding; and
- Scenarios E and F show the material impact that a change in the required BIS capital ratio has on that cash available for distribution and therefore the NPV of the cash flows. While the regulatory minimum regulatory BIS capital ratio is currently 7%, the FSS expects mutual savings banks to maintain a 2% buffer (at 9%), and recommends a BIS capital ratio in excess of 9%. The FSS has also recently required that all South Korean mutual savings banks with total assets of more than KRW1 trillion increase their BIS capital ratios to at least 9% effective 1 January 2018. If the BIS capital ratio falls below 9%, the FSS would expect Pepper to put a plan in place to return the BIS capital ratio to at least 9%. As a result, Scenario G (a BIS capital ratio of 8.5%) is considered very unlikely and there is a greater likelihood that Scenario F (a BIS capital ratio of 10%) could be required in the future. On 22 September 2017, Pepper Savings Bank announced that it had agreed with the FSS that it will increase its BIS capital ratio to at least 10% by 30 June 2018. However, any increase in the required BIS capital ratio would not occur in isolation from other changes in the business to mitigate the impact of additional capital requirements (which is not reflected in the cash flows or the NPV of this scenario). In addition, the discount rate selected by Grant Samuel of 13.0-14.0% implicitly allows for risks associated with regulatory change (such as increases in the BIS capital ratio).

Taking these factors into account, Grant Samuel believes that the values produced by the DCF analysis support a range of values for Pepper Savings Bank's business operations of KRW140-160 billion.

5.4.3 Earnings Multiple Analysis

Transaction Evidence

The mutual savings bank sector was created by the South Korean government in the early 1970s to foster competition in the banking market by providing traditional retail banking services such as customer deposits, home loans, personal loans, auto loans and small business loans. At its peak, there were 300 mutual savings banks. However, as a result of poor management practices, the sector imploded during the global financial crisis due to defaults on real estate lending, particularly for project finance loans.

As a result, a series of restructuring measures were put in place including:

- the suspension of eight mutual savings banks (including Busan Savings Bank, the largest by assets) due to negative net assets or lack of liquidity;



- market consolidation through the sale of unviable mutual savings banks (e.g. Woori Financial Group, one of South Korea's largest financial groups acquired the suspended Samhwa Mutual Savings Bank); and
- tighter regulation (including the creation of a restructuring account funded by financial companies from 2011 to 2026 to restructure the mutual savings bank sector and limits on risky investments).

Consequently, there have been a large number of transactions involving mutual savings banks in South Korea in recent years, but they provide very little meaningful information on transaction multiples as they have either been distressed sales or acquisitions by large banks or private equity funds that have not publicly disclosed relevant financial data. The limited available information does indicate that South Korean mutual savings banks transact at relatively low multiples:

- in June 2014, J Trust announced it had entered into an agreement to acquire Standard Chartered Savings Bank and Standard Chartered Capital Korea for KRW151 billion:

Standard Chartered Savings Bank and Standard Chartered Capital Korea – Acquisition Parameters			
Parameter	Standard Chartered Savings Bank	Standard Chartered Capital	Combined
Year end	31 December 2013	30 June 2013	
Net assets	KRW55.9 billion	KRW108.74 billion	KRW1647.62 billion
Net income	KRW12,800 million	KRW520 million	KRW13,320 million
Acquisition price			KRW151 billion
Net assets multiple			0.92x
Historical PE multiple			11.3x

The acquisition price implied “blended” (i.e. for the mutual savings bank and the credit finance business) multiples of 0.9 times net assets and 11.3 times earnings (before synergies). J Trust would have expected to achieve some synergies as it already owned Chinae Savings Bank in South Korea and the acquisition enabled J Trust to provide savings bank products to around 70% of the South Korean market. On the other hand, Standard Chartered's South Korean business had been struggling for several years (which would be expected to result in lower transaction multiples);

- in August 2015, Yuanta Commercial Bank acquired Hanshin Savings Bank for KRW135.1 billion. Hanshin Savings Bank had two branches, total assets of KRW342 billion and a net worth KRW175 billion, implying a net assets multiple of 0.8 times; and
- more recently there have been acquisitions of South Korean mutual savings banks by large banks/investment companies, but financial information to enable the calculation of implied multiples has not been publicly available. For example, KT Capital Co. (owned by JC Flowers & Co. and Vogo Investment) acquired a 98.6% interest in HK Savings Bank for KRW222.4 billion in July 2016. HK Savings Bank is South Korea's second largest mutual savings bank with KRW2 trillion in assets.

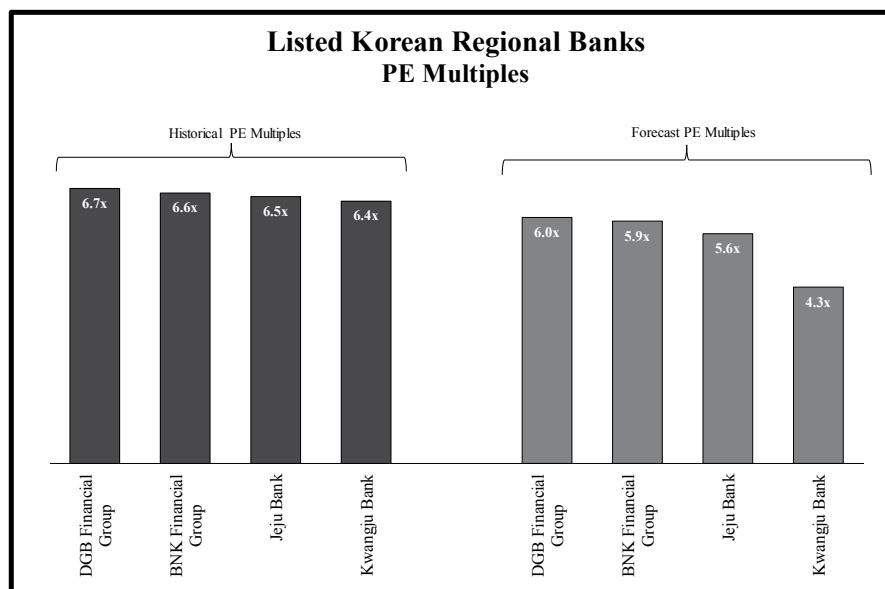
Pepper's acquisition of Evergreen Savings Bank in October 2013 is also a relevant benchmark although it is quite different to Pepper Savings Bank today. At the time of its acquisition, Evergreen Savings Bank had two branches, 29 employees, 30,000 customers and total assets of KRW187 billion. Today Pepper Savings Bank has five branches, two sales centres and over 540 DSRs, 269 employees, more than 100,000 active accounts and total assets of KRW1,306 billion (at 31 December 2016). Pepper purposely acquired a small mutual savings bank to avoid the legacy loan issues of many mutual savings banks and to use as a platform to launch a retail banking strategy focused on consumer and small business lending (which was a change from the bank's strategy at the time which was focused on a corporate loan portfolio). Based on information provided by Pepper management, Pepper's acquisition price implied a multiple of net assets of



around 2.8 times. At the time of acquisition, Evergreen Savings Bank was loss making (so meaningful earnings multiples are not able to be calculated).

Evidence from Sharemarket Prices

Appendix 2 sets out the earnings multiples implied by the share prices as at 29 August 2017 for a selection of smaller listed South Korean banks. The following chart summarises the historical and forecast trading multiples:



Source: Grant Samuel analysis (Appendix 2)

The following factors are relevant to consideration of the comparable company multiples:

- the multiples for the listed entities are based on share prices and therefore do not include a premium for control;
- each of the banks operate and are regulated as banks and focus on certain regions of South Korea:
 - DGB Financial Group Co., Limited (“DGB Financial Group”) owns Daegu Bank, one of the largest regional banks in South Korea and provides a range of banking and financial services to customers in the Daegu-Gyeongbuk region in the east of South Korea;
 - BNK Financial Group Inc., (“BNK Financial Group”) provides financial products and services to customers in the southeast region of South Korea;
 - Jeju Bank Co., Ltd. (“Jeju Bank”) provides commercial banking services primarily in Jeju Island, to the south of mainland South Korea. As at December 2016, it had 28 branches and five depository offices in Jeju Island as well as three branches outside of Jeju Island. Jeju Bank is 68.9% owned by the listed Shinhan Financial Group Co., Ltd, one of South Korea’s major banking groups; and
 - Kwangju Bank Co., Ltd. (“Kwangju Bank”) provides commercial banking services through 10 branches in the south of South Korea and 30 branches in the Seoul metropolitan area (in the north). Kwangju Bank is 57.0% owned by the listed JB Financial Group Co., Ltd., a South Korean retail bank servicing small business and middle class customers; and



- although DGB Financial Group and BNK Financial Group are very large (with market capitalisations of KRW12-13 trillion) in comparison to Kwangju Bank (KRW2.3 trillion) and Jeju Bank (KRW181 billion), these banks are trading in a relatively tight range of around 6.5 time historical earnings and 5.5-6.0 times forecast earnings.

Implied Multiples for Pepper Savings Bank

The valuation of KRW140-160 billion implies the following multiples:

Pepper Savings Bank – Implied Valuation Parameters			
	Variable (KRW billions)	Range of Parameters	
		Low	High
Multiple of adjusted NPAT (times)			
Year ended 31 December 2016 (actual)	13.3 ³⁴	10.5	12.0
Year ending 31 December 2017 (broker consensus)	19.8 ³⁵	7.1	8.1
Year ending 31 December 2018 (broker consensus)	22.9 ³⁶	6.1	7.0
Multiple of assets as at 30 June 2017 (times)			
NTA	na	nc	nc

Pepper does not allocate its balance sheet by region so NTA multiples are not able to be calculated.

While the implied historical PE multiples are relatively high, CY16 was the first full year of positive contribution from Pepper Savings Bank, after incurring losses in CY14 and CY15. A substantial increase in NPAT is forecast for CY17 (+49%) and CY18 (+16%) (based on allocated broker consensus forecast). Despite a more subdued start to CY16 (see Section 4.2.3), management expects to execute on its strategy to grow market share and achieve the CY17 forecast. The implied forecast CY17 PE multiples are more consistent with the trading multiples of the South Korean regional banks after taking into account a premium for control (in the absence of meaningful transaction evidence) and the specific attributes of Pepper Savings Bank, which include:

- track record of strong growth in lending. Pepper Savings Bank has been one of the fastest growing mutual savings banks in South Korea under Pepper ownership, moving from a ranking of 72 (out of 79 mutual savings banks) at the time of acquisition, to a ranking of 10 in 2016;
- operating in a niche part of lending market not targeted by the banks i.e. medium-risk grade customers and high margin loan products (including residential mortgages with high LVRs). There is strong appetite for competitive consumer deposit and lending products in this part of the lending market where Pepper Savings Bank is able to generate high lending margins;
- South Korea is one of the leading countries for comprehensive credit reporting and the use of sophisticated credit scorecard models and risk-based consumer loan pricing provide a point of differentiation and a competitive advantage for Pepper Savings Bank; and
- funding provided by a cost effective and reliable retail deposit base which is highly responsive to market based pricing.

Offsetting these positive attributes are a number of factors that would warrant lower multiples for Pepper Savings Bank:

³⁴ Calculated as actual adjusted NPAT for CY16 of \$15.4 million (\$24.4 million less \$9.0 million attributable to PrimeCredit) (see Section 4.2.3) converted to KRW at an exchange rate of A\$1 = KRW863.

³⁵ Calculated as broker consensus forecast NPAT for CY17 of \$22.2 million (see Section 3.3) converted to KRW at an exchange rate of A\$1 = KRW890.

³⁶ Calculated as broker consensus forecast NPAT for CY18 of \$25.7 million (see Section 3.3) converted to KRW at an exchange rate of A\$1 = KRW890.



- with high growth comes the issue of maintaining asset quality. There is a risk that underwriting standards are not always met and loss rates increase, impacting profitability;
- regulatory risk and its impact on Pepper Savings Bank's ability to originate loans. The regulator has already put a cap on household (personal) loans, reduced the maximum interest rates able to be charged (with a further decline in CY18 from 27.99% to 24%) and required larger mutual savings banks to hold higher amounts of regulatory capital, in response to increasingly higher levels of household debt in South Korea. These types of regulatory changes were in part responsible for Pepper Savings Bank's more subdued 1HY17 performance and, unless responded to quickly and effectively, can have a material impact on Pepper Savings Bank's ability to originate loans and generate income; and
- geopolitical and economic risks associated with North Korea's military threats in the region, worsening trade relations with China and the United States and increasing global interest rates will inevitably lead to caution in relation to the South Korean economy (and have an impact on consumer sentiment).

The implied forecast CY18 PE multiples (based on allocated broker consensus forecast) are slightly lower and also consistent with the trading multiples of the South Korean regional banks after taking into account a premium for control. Furthermore, the broker consensus forecast NPAT attributable to Pepper Savings Bank is slightly (~7%) below the company forecast. As a result, the CY18 forecast PE multiples based on the company forecast are lower again.

Grant Samuel believes that the multiples implied by the valuation of Pepper Savings Bank of 10.5-12.0 historical CY16 adjusted NPAT, 7.1-8.1 times forecast CY17 adjusted NPAT and 6.1-7.0 times forecast CY18 adjusted NPAT are appropriate, reflecting a balance between the expectation of high growth and the risks associated with achieving that growth.

5.5 Value of Pepper Europe

5.5.1 Summary

Grant Samuel estimates the value of Pepper Europe to be in the range €204-235 million (before corporate overhead costs) which equates to \$300-355 million at an exchange rate of A\$1 = €0.66-0.68. Pepper Europe comprises Pepper's business operations in the United Kingdom, Ireland and Spain.

The primary approach to valuation was:

- DCF analysis for the servicing business in each country (applying a WACC to ungeared after tax cash flows) with multiple analysis (EBITDA multiples) used as a cross check; and
- DCF analysis for the lending business in each country (applying a cost of equity to geared after tax cash flows) with multiple analysis (PE multiples) used as a cross check.

Less weight has been placed on the earnings multiples given the run off nature of the servicing businesses and the start up nature of the lending businesses.

In addition, allowance has been made for European head office costs that are not reflected in the valuations of the servicing and lending businesses in each country. For valuation purposes, Grant Samuel has assumed European head office costs (before depreciation and amortisation and interest expense) of approximately €3 million which have been capitalised at an EBITDA multiple of approximately 9-10 times.

Pepper's European business operations are primarily servicing businesses, however the lending businesses have been valued separately to better reflect the start up nature of these operations (i.e. high growth from a low base) compared to the servicing businesses (significantly larger and mature businesses that are generally in decline).

While the servicing and lending businesses in each country have been valued separately, only the total valuation has been disclosed in this report at the request of Pepper. This approach is



consistent with the level of disclosure Pepper provides in its statutory accounts and will be more familiar to shareholders. Grant Samuel has, however, shown the EBITDA and PE multiples (as appropriate) implied by the valuation of the lending and servicing businesses in each country but without disclosing individual values and earnings to provide context for the overall valuation of Pepper Europe.

5.5.2 Discounted Cash Flow Analysis

The DCF models for Pepper Europe's lending and servicing businesses forecast nominal after tax cash flows in local currency (pounds sterling in the United Kingdom and Euro in Ireland and Spain) from 1 July 2017 to 31 December 2026, a period of 9½ years, with a terminal value calculated to represent the value of cash flows in perpetuity. Grant Samuel has used discount rates in the range:

- 7.5-8.5% for the servicing businesses in the United Kingdom and Ireland and 8.5-9.5% for the servicing business in Spain (WACC); and
- 11.5-12.5% for the lending businesses in the United Kingdom and Ireland and 12.0-13.0% for the lending business in Spain (cost of equity).

The rationale for selection of the discount rates is set out in Appendix 1.

Scenario A is based on the forecasts and projections for Pepper's European businesses prepared by management (for the period 2HY17 to CY21), with Grant Samuel making longer term assumptions to extend the cash flows an additional five years to CY26. Scenario A assumes the following:

Servicing

- a number of new contracts are onboarded over the period from 2H17 to CY19, mainly in the United Kingdom. No new servicing contracts are assumed in subsequent years;
- total servicing AUM declines at an average annual rate of around 7% over the period from July 2017 to December 2026, driven by higher rates of decline in Ireland, offset in part by gains in the United Kingdom (which peaks in CY20);
- servicing fee income averages 0.2% of average servicing AUM over the period of the cash flows. Servicing fee income includes performance fees related to contracts in Ireland;
- employee expenses are calculated as 0.1% of average AUM for the period of the cash flows; and
- the servicing EBIT margin ranges from 25% to 28% over the period of the cash flows, based on guidance from management that the United Kingdom targets a servicing EBIT margin of 30-35% and Ireland and Spain target a servicing EBIT margin of 20-25%.

Lending

- loan originations (across Ireland, the United Kingdom and Spain) grow by an average of 34% each year over the period from CY17 to CY21 and grow by an average of 8% each year for the balance of the cash flow period. The higher growth in the initial years reflects the ramp up of the lending business in Ireland and the United Kingdom from a very low base;
- whole loan sales of approximately €350 million are completed in 2HY17 with a further €280 million completed in CY18 and €140 million in CY19, mainly driven by demand from challenger banks in the United Kingdom:
 - whole loans sales achieve a premium of approximately 2% above book value; and
 - Pepper maintains the associated loan servicing rights.

There are no whole loan sales in subsequent years;

- total lending AUM grows at an average annual rate of around 35% over the period of the cash flows reflecting the start up nature of the lending businesses, particularly in the United Kingdom and Ireland;



- lending income as a percentage of average lending AUM normalises at around 1.5% over the period of the cash flows although it is higher in the earlier years as Spain, which operates in the higher APR personal loan space, contributes to a greater proportion of total lending income;
- loan origination fees average approximately 0.2% of originations in the United Kingdom and Ireland (there are no loan origination fees in Spain);
- broker commissions are around 0.2% of originations for the period of the cash flows, mainly driven by the United Kingdom where Pepper originates exclusively through brokers. An adjustment has been made to NPAT to allow for the impact of broker commissions for cash flow purposes (which are paid up front) relative to accounting broker commissions (which are amortised over the expected life of the loan) in the United Kingdom where the lending business is in a start up/growth phase. This trend is assumed to normalise as the lending business approaches maturity;
- employee expenses normalise in the second half of the cash flow period at an average of 0.6% of average AUM although they are higher (as a percentage of AUM) over the first half of the cash flow period (to CY21), reflecting the ramp up of lending in the United Kingdom and Ireland;
- the lending profit before tax margin grows from low single digits in the initial years up to an average of 35% once the lending businesses achieve scale. The lending business operations in the three countries target a “blended” profit before tax margin of 35-40%; and
- equity is contributed to funding vehicles based on growth in lending AUM and consistent with existing funding requirements, which differ by country according to the funding mix (warehouse funding vs securitisation).

Other Assumptions

- other expenses for both lending and servicing are generally assumed to grow by inflation;
- depreciation and amortisation is equivalent to capital expenditure and is tax deductible. Capital expenditure is relatively minor and increases steadily over the period of the cash flows;
- net working capital is 3% of revenue; and
- a corporate tax rate of 19% for the United Kingdom, 12.5% for Ireland and 25% for Spain (except for the lending business in the United Kingdom, which is originated through an Irish company and therefore pays tax at the Irish corporate tax rate of 12.5%). Tax is paid in the year it is incurred. The existing tax losses in Spain have been taken into account in the DCF analysis.

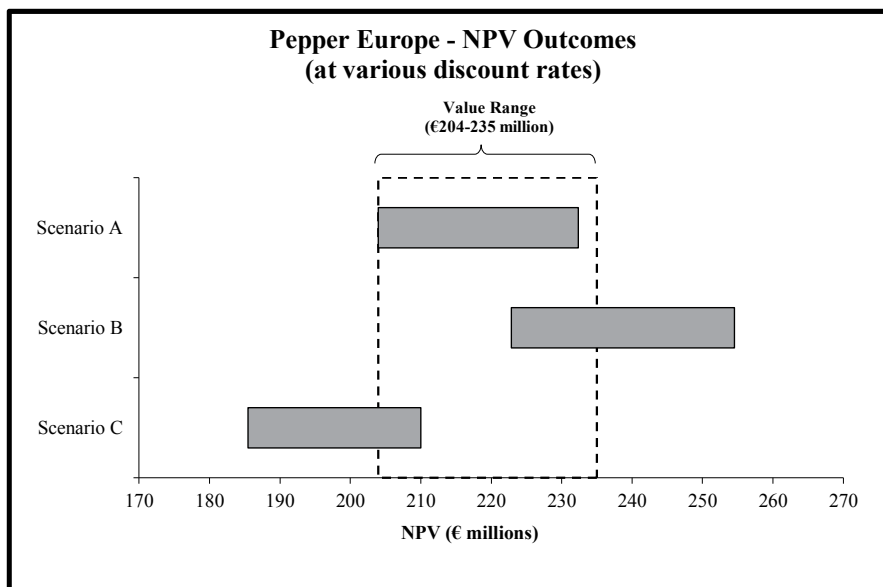
Each of the scenarios considered by Grant Samuel assumes as a starting point that second six months of the 2017 Budget is achieved. Longer term assumptions have been made by Grant Samuel with reference to Pepper’s forecasts and projections following discussion with Pepper management. A description of each scenario is outlined in the table below:

Pepper Europe - DCF Scenarios	
Scenario	Description
Scenario A	As described above
Scenario B	Upside case. Higher lending originations due to increased brand presence. Small increase in margin in Ireland reflecting change in product mix. Spain benefits from higher POS to personal loan conversion rates. Slower AUM decline in servicing as whole loan sales continue in the United Kingdom at around £120 million per year and Pepper is able to replace a greater proportion of run off
Scenario C	Downside case. Slower origination and slight erosion of margin in Ireland and the United Kingdom due to increased competition. An inability to convert POS loans to personal loans at the desired rate leads to a decrease in AUM and lending margins in Spain. Faster run off in servicing as Pepper is unable to replace servicing contracts that are lost or run off



These scenarios have been developed applying a “bottom up” approach, with upside case and downside case scenarios developed for the servicing and lending businesses in each country. The NPV outcomes for each of these scenarios have been combined to arrive at the upside case and the downside case for Europe.

Grant Samuel’s selected value range of €204-235 million for Pepper Europe reflects a subjective balancing of the scenarios. The NPV outcomes are depicted diagrammatically below:



The range of net present values produced by the scenarios is wider than the value range Grant Samuel has placed on Pepper’s European business operations. Grant Samuel’s range incorporates all of Scenario A (base), a substantial proportion of Scenario B (upside) and the top end of Scenario C (downside). Grant Samuel has considered the outcome of all scenarios in determining its value range for Pepper’s European business operations. However, it should be noted that:

- Scenario B assumes higher lending originations, continuing whole loan sales and a slower run-off in servicing. Lending AUM in CY26 is 7% higher than under Scenario A. In Grant Samuel’s view, this is a plausible outcome given:
 - Pepper’s ability to leverage its Australian lending expertise (in particular, use of the broker distribution channel) in Europe, an ongoing demand for whole loan sales in the United Kingdom from deposit-rich challenger banks and the expectation that Spain will continue its economic recovery (resulting in more consumers being eligible for personal loans from a credit perspective as they build an improved credit track record post the global financial crisis); and
 - there are also still a number of third party servicing opportunities in Europe and Pepper should be successful in being awarded at least some of these contracts, given its leading market position, particularly in the United Kingdom and Ireland.

As a result, it is not unrealistic to incorporate a substantial proportion of Scenario B in the value range; and

- Scenario C assumes an increasingly competitive lending environment. Lending AUM at the end of CY26 is 22% lower than under Scenario A and servicing AUM at the end of CY26 is 13% lower than under Scenario A. In Grant Samuel’s view, this is a less likely scenario given:



- Pepper operates in a niche market with significant barriers to entry. It does not have a direct competitor in Ireland and has only a limited number of competitors in the United Kingdom as most non-conforming lenders ceased operations or stopped writing new business during the global financial crisis; and
- in Spain, the rate of conversion of POS loans to personal loans assumed in Scenario A is conservative (at less than 10%) and the macroeconomic fundamentals in Spain support an increase of this rate going forward rather than a decline.

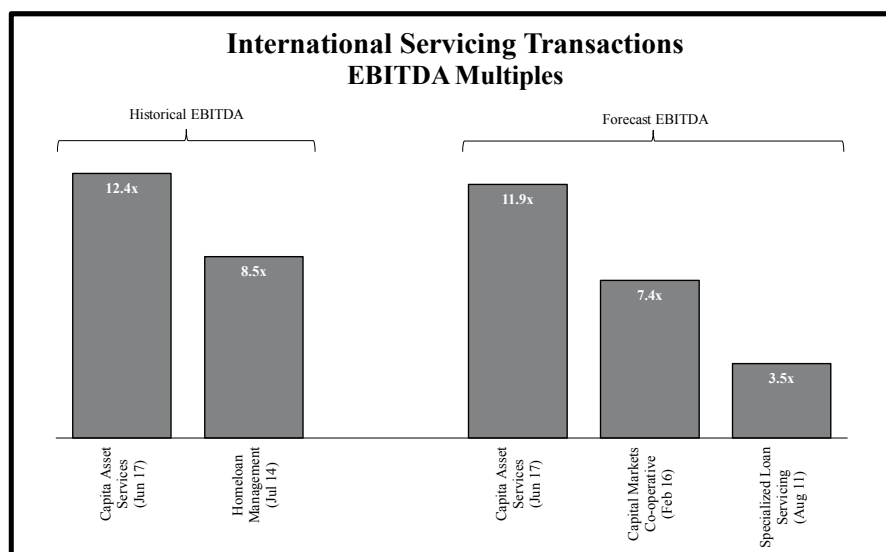
The lower likelihood of this outcome is reflected in the value range selected by Grant Samuel.

Taking these factors into account, Grant Samuel believes that the values produced by the DCF analysis support a range of values for Pepper’s European business operations of €204-235 million.

5.5.3 Earnings Multiple Analysis

Transaction Evidence

There have been a limited number of transactions in Europe involving servicing businesses and an even smaller number for which information is publicly available that enables transaction multiples to be calculated (for example, there is very little information available on the acquisitions of Acenden Mortgage Servicing Solutions and Kensington Group by Blackstone and TPG in January 2015 and September 2014 respectively). Appendix 2 sets out the earnings multiples implied by acquisitions of a select number of servicing businesses in Europe and the United States over the last six years for which multiples can be calculated. The following charts summarise the historical and forecast multiples:



Source: Grant Samuel analysis (Appendix 2)

The limited transaction evidence indicates a reasonably wide range of implied multiples of 8.5-12.4 times historical EBITDA and 3.5-11.9 times forecast EBITDA. In considering this transaction evidence, relevant points to note include:

- Capital Asset Services (“CAS”) competes directly with Pepper for servicing roles in the United Kingdom and Ireland. It is a current transaction, with ASX listed Link Administration Holdings Limited (“Link”) announcing the proposed acquisition in June



2017. The multiples implied by the acquisition are high at 12.4 times historical and 11.9 times forecast EBITDA, however:

- the acquisition is highly strategic for Link as it provides a market leading foothold in the United Kingdom and a strong platform for expansion in Europe. Link expects to generate considerable synergies from the acquisition, with the multiples falling to 10.3 times historical EBITDA and 10.0 times forecast EBITDA post synergies;
- CAS is a large, diversified business and third party servicing represented only 26% of its CY16 revenue; and
- CAS had around £100 billion in servicing AUM as at 31 December 2016 which would provide it with economies of scale;
- HML also competes directly with Pepper in the United Kingdom. It was acquired by ASX-listed Computershare Limited (“Computershare”) in November 2014. However:
 - the acquisition was strategic for Computershare as it enabled it to expand its mortgage servicing business into the United Kingdom;
 - at the time of the acquisition, HML was the largest third party loan servicer in the United Kingdom, with approximately £37 billion in servicing AUM (62% of the United Kingdom third party mortgage administration market); and
 - while Computershare would have been likely to extract synergies from the acquisition, HML’s revenue and its servicing AUM had reportedly been declining prior to its acquisition by Computershare, reflecting the industry dynamics at the time; and
- the lower EBITDA multiples implied by Computershare’s acquisitions of Specialized Loan Servicing and Capital Markets Co-operative reflect the different structure for servicing businesses in the United States compared to Europe. In the United States, third party mortgage administrators are required to acquire “mortgage servicing rights” and advance principal, interest, tax and insurance payments on behalf of borrowers and therefore have significant capital requirements.

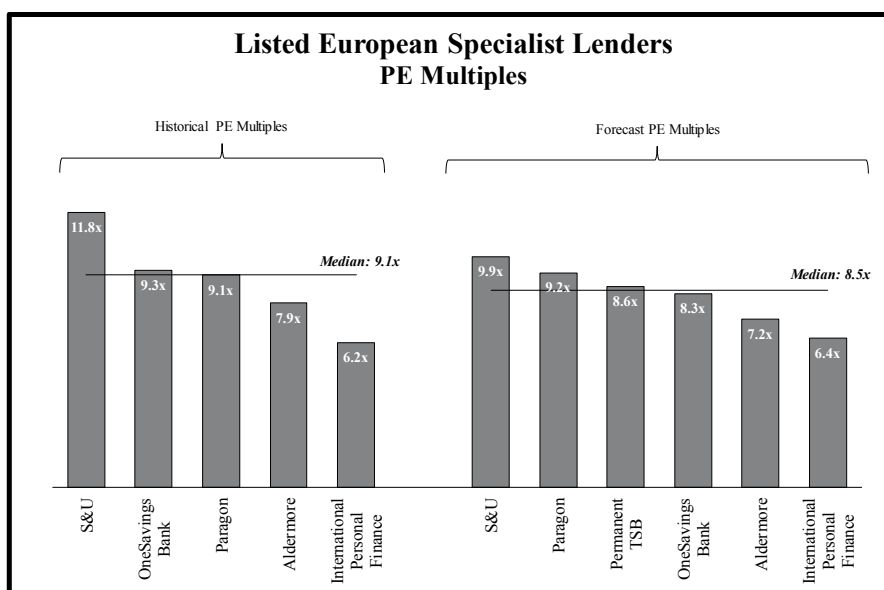
Pepper’s acquisition of the Oakwood servicing business in September 2013 is also a relevant benchmark. Based on information provided by Pepper management, Pepper’s acquisition price implied a multiple of net assets of around 2.3 times. Although it was profitable at the time of its acquisition, the business was not growing. Earnings multiples are not able to be calculated as no information was provided on the earnings of Oakwood at the time of acquisition.

Grant Samuel has also had regard to the multiples implied by selected acquisitions of specialty and consumer finance businesses in Europe over the last five years (see Section 5.3.3). These multiples are in a wide range of 6.6-16.1 times historical NPAT and 5.4-14.0 times forecast NPAT, reflecting the specific circumstances of each transaction.

Evidence from Sharemarket Prices

There are no listed entities that engage solely in third party servicing activities. Pepper’s competitors in the United Kingdom and Ireland are CAS and HML, which are owned (or in the process of being acquired) by ASX-listed companies Computershare and Link. The activities of these companies are much broader than third party servicing. Grant Samuel has considered the trading multiples of Australian business process outsourcing and broking companies and the rationale for not considering these companies comparable to Pepper’s servicing businesses is set out in Appendix 2.

Grant Samuel has also considered the trading multiples of specialised lenders in the United Kingdom and Ireland. Appendix 2 sets out the earnings multiples implied by share prices as at 29 August 2017 for a selection of European specialised lenders. The following chart summarises the historical and forecast trading multiples:



Source: Grant Samuel analysis (Appendix 2)

The following factors are relevant to consideration of the comparable company multiples:

- the multiples for the listed entities are based on share prices and therefore do not include a premium for control;
- none of the companies is directly comparable to Pepper’s lending businesses in the United Kingdom, Ireland and Spain in terms of size target market, lifecycle stage or source of funding. In particular, each of the companies is significantly larger than Pepper’s lending businesses (which would warrant higher trading multiples given the benefits of scale). However, a number of the selected peers have elements of comparability to Pepper:
 - each of the companies face the same external factors as Pepper including macroeconomic drivers (e.g. unemployment, inflation, interest rate movements), competition and regulatory requirements (other than International Personal Finance plc (“International Personal Finance”) which operates in a number of international markets);
 - The Paragon Group of Companies plc (“Paragon”) offers mortgage and consumer finance in the United Kingdom. While it has a deposit-taking business (Paragon Bank) with £1.7 billion of AUM, most of its activities are in buy-to-let mortgages and consumer loans (£8.9 billion of AUM), which are funded through warehouse facilities and securitisation. Paragon is trading at a PE multiple of around 9 times;
 - OneSavings Bank plc (“OneSavings Bank”) and Aldermore Group plc (“Aldermore”) are United Kingdom banks and Permanent TSB Group Holdings plc (“Permanent TSB”) is an Irish bank. While each of them offers residential mortgages and personal loan products, they are primarily funded through deposits. OneSavings Bank (mostly SME loans) and Permanent TSB (mostly prime residential mortgages) trade at multiples of around 9 times historical earnings and around 7.5 times forecast earnings. Aldermore specifically targets prime residential mortgage customers that are underserved by traditional banks but still creditworthy and is trading at PE multiples of around 8 times (historical) and 7 times (forecast); and
 - S&U plc (“S&U”) and International Personal Finance are consumer finance companies. S&U provides primarily auto finance to the non-prime sector and has reported very strong growth over the past few years. In contrast, International Personal Finance has reported flat or declining profits. This differing financial performance is reflected in the disparity between the trading multiples of these two companies.



Implied Multiples for Pepper Europe

The valuation of €204-235 million implies the following overall multiples:

Pepper Europe – Implied Valuation Parameters			
	Variable (€ million)	Range of Parameters	
		Low	High
Multiple of EBITDA (times)			
Year ended 31 December 2016 (actual)	16.3 ³⁷	12.5	14.4
Year ending 31 December 2017 (broker consensus)	23.8 ³⁸	8.6	9.9
Year ending 31 December 2018 (broker consensus)	26.6 ³⁹	7.7	8.8
Multiple of adjusted NPAT (times)			
Year ended 31 December 2016 (actual)	12.1 ⁴⁰	16.9	19.5
Year ending 31 December 2017 (broker consensus)	18.0 ⁴¹	11.3	13.0
Year ending 31 December 2018 (broker consensus)	20.4 ⁴²	10.0	11.5
Multiple of assets as at 30 June 2017 (times)			
NTA	na	nc	nc

Pepper does not allocate its balance sheet by region so NTA multiples are not able to be calculated.

The multiples implied by the valuation of Pepper Europe are blended multiples that reflect a combination of the mature, cash generating servicing businesses, the start up lending businesses in the United Kingdom and Ireland (which in the case of Ireland, are forecast to be loss making in CY17, pushing up the implied multiples), and a more established, albeit small lending business in Spain.

The historical EBITDA and adjusted NPAT multiples are high relative to both the transaction and the trading evidence presented above. However, there is a significant drop in the CY17 forecast multiples and a more moderate drop in the CY18 forecast multiples. More emphasis has been placed on the CY18 forecast multiples as the lending businesses start to make a more meaningful contribution to earnings (and the Irish lending business makes its first positive contribution to earnings). The CY18 forecast multiples of 7.7-8.8 times EBITDA and 10.0-11.5 times NPAT are reasonable in the context of the overall valuation of Pepper. While they are higher than the multiples implied by the overall valuation of Pepper (8.1-9.3 times CY18 adjusted NPAT) and the multiples implied by valuation of Pepper Australia and New Zealand (8.9-9.7 times CY18 adjusted NPAT):

- the broker forecast NPAT attributable to Pepper Europe is slightly below the company forecast. As a result, the CY18 forecast PE multiples based on the company forecast are lower; and
- the CY19 forecast multiples (based on the company forecast) are moderately lower again, and well below the CY18 forecast multiples implied by the valuation of Pepper Australia and New Zealand and the overall valuation of Pepper.

³⁷ Calculated as actual EBITDA for CY16 of \$24.0 million (see Section 4.3.3) converted to Euro at an exchange rate of AS1 = €0.6777.

³⁸ Calculated as broker consensus forecast EBITDA for CY17 of \$35.5 million (see Appendix 3) converted to Euro at an exchange rate of AS1 = €0.6700.

³⁹ Calculated as broker consensus forecast EBITDA for CY18 of \$39.7 million (see Appendix 3) converted to Euro at an exchange rate of AS1 = €0.6700.

⁴⁰ Calculated as actual adjusted NPAT for CY16 of \$17.8 million (see Section 4.3.3) converted to Euro at an exchange rate of AS1 = €0.6777.

⁴¹ Calculated as broker consensus forecast NPAT for CY17 of \$26.9 million (see Section 3.3) converted to Euro at an exchange rate of AS1 = €0.6700

⁴² Calculated as broker consensus forecast NPAT for CY18 of \$30.4 million (see Section 3.3) converted to Euro at an exchange rate of AS1 = €0.6700



To provide greater context, the implied multiples for the servicing and lending businesses in each country are summarised below:

Pepper Europe – Implied Valuation Parameters by Country				
	Overall	United Kingdom	Ireland	Spain
Servicing				
Multiple of EBITDA (times)				
Year ended 31 December 2016 (actual)	na	nc	nc	nc
Year ending 31 December 2017 (2017 Budget)	5.3-6.2	7.7-8.8	4.1-5.0	2.7-3.2
Year ending 31 December 2018 (company forecast)	5.4-6.3	6.2-7.1	4.9-6.0	4.5-5.4
Lending				
Multiple of adjusted NPAT (times)				
Year ended 31 December 2016 (actual)	na	nc	nc	nc
Year ending 31 December 2017 (2017 Budget)	42.9-48.8	14.8-16.3	nmc	42.2-46.8
Year ending 31 December 2018 (company forecast)	14.2-16.1	18.2-20.1	16.8-21.0	10.6-11.7
Year ending 31 December 2019 (company forecast)	6.0-6.9	8.4-9.3	3.0-3.8	8.1-9.0
Multiple of assets as at 30 June 2017 (times)				
NTA	na	nc	nc	nc

Pepper has not historically separated its European business operations between servicing and lending, so historical multiples are not able to be calculated. In addition, it does not separate its balance sheet by country or into lending and servicing, so NTA multiples are also not able to be calculated.

The forecast EBITDA multiples implied by the valuation of Pepper Europe’s servicing business operations are relatively low, although the overall multiples are not inconsistent with the multiple implied by the most relevant transaction, Computershare’s acquisition of HML (at 8.5 times historical EBITDA) taking into account the specific circumstances of that transaction. The relatively low multiples reflect the run off of these businesses, other than in the United Kingdom where arrangements with the challenger banks are expected to continue to provide a source of servicing AUM, albeit new contracts are not expected to be sufficient to offset the run off on existing contracts over the longer term. The relativities between the implied multiples for the servicing businesses in each country are also logical:

- the highest implied multiples apply to the servicing business in the United Kingdom (7.7-8.8 times forecast CY17 adjusted NPAT, with a decline in the forecast CY18 multiples reflecting growth in earnings;
- moderate implied multiples (of 4.1-5.0 times forecast CY17 adjusted NPAT) but increasing (to 4.9-6.0 times forecast CY18 adjusted NPAT) in Ireland, reflecting the run off of this business and its declining earnings; and
- very low implied multiples (of 2.7-3.2 times forecast CY17 adjusted NPAT) and increasing (to 4.5-5.4 time forecast CY18 adjusted NPAT) in Spain, reflecting the very small size and relatively fast run off of servicing contracts in this country.

It is difficult to draw any meaningful conclusions from the PE multiples implied by Pepper’s nascent lending business operations in Europe. As would be expected, the implied multiples are extremely high based on forecast CY17 adjusted NPAT but decline steeply based on forecast CY18 and forecast CY19 adjusted NPAT as the lending businesses ramp up (particularly in the United Kingdom and Spain). Again, the relativities between the implied multiples for the lending businesses in each country appear logical, with the more established business in the United Kingdom having the highest implied multiples by CY19 (and the highest growth outlook), Spain at similar but slightly lower multiples and Ireland with the lowest multiples reflecting the lower growth outlook due to its relatively small population.



The relatively low multiples, particularly based on CY19 earnings, also reflect the funding requirements of the growing lending businesses. Grant Samuel's DCF analysis indicates that Pepper Europe has an average annual requirement for capital to fund origination growth over the long term in the region of €14 million each year (equivalent to \$20 million), which is a substantial drain on value.

The CY19 implied PE multiples for each of the countries are lower than the implied CY18 PE multiples implied by the valuation of Pepper Australia and New Zealand. This is appropriate given risk and uncertainty associated with achieving the growth in earnings for Pepper's lending business operations in Europe.

5.6 Corporate Costs

In CY17, Pepper expects to incur corporate costs of approximately \$33 million (before depreciation and amortisation and interest on corporate borrowings) (refer to Section 4.3.5).

The valuations of Pepper's business operations do not reflect these corporate costs. Therefore, separate allowance has been made for the impact of corporate costs on the valuation of Pepper.

Any acquirer of 100% of Pepper would be able to save the costs associated with being a publicly listed company. The ability to save other corporate costs (particularly in relation to group support functions) is less clear, particularly as the most likely acquirers of Pepper are large international financial services groups based overseas that would not be in a position to eliminate duplicate head office functions. In any event, allowing for such savings would potentially double count them given the earnings multiples from comparable transactions reflect (to some extent) synergies available to the acquirer.

For valuation purposes, Grant Samuel has assumed net corporate costs (before depreciation and amortisation and interest on corporate borrowings) of approximately \$32 million (i.e. costs remaining after saving \$1.2 million of listed company costs) which have been capitalised at an EBITDA multiple of 6.5-7.5 times (say \$210-240 million).

5.7 Investment in PrimeCredit

Grant Samuel estimates the value of Pepper's 12% investment in PrimeCredit to be in the range HK\$590-610 million, which equates to \$95-100 million at an exchange rate of A\$1 = HK\$6.10-6.20.

Pepper holds a 12% interest in PrimeCredit:

- there are only two other shareholders in PrimeCredit and both have larger holdings than Pepper (CTS with 55% and York Capital Management with 33%);
- Pepper has no control over or access to PrimeCredit's cash flows. The only return generated is in the form of dividends;
- Pepper does not have the ability to control decision making; and
- while it has a management services contract with PrimeCredit, this contract is for a period of three years from acquisition and expires in May 2018.

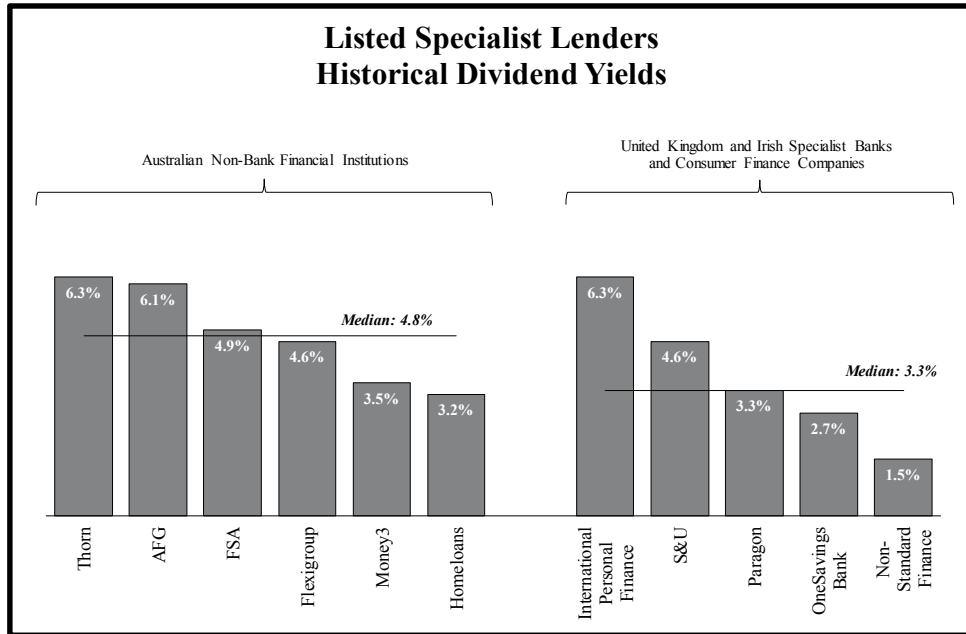
Consequently, in Grant Samuel's view, the most appropriate basis on which to value Pepper's 12% interest in PrimeCredit is as a minority interest, with a focus on comparable trading PE multiples and dividend yields. There are no relevant comparable listed companies in Hong Kong. Deposit taking companies such as PrimeCredit are generally owned by, or associated with, banks. Grant Samuel has therefore considered the trading PE multiples and dividend yields of other Australian and international listed specialist lending and consumer finance companies.

The historical and forecast trading PE multiples for Australian and international listed specialist lending and consumer finance businesses are set out in Section 5.3.3 and Section 5.5.3. They



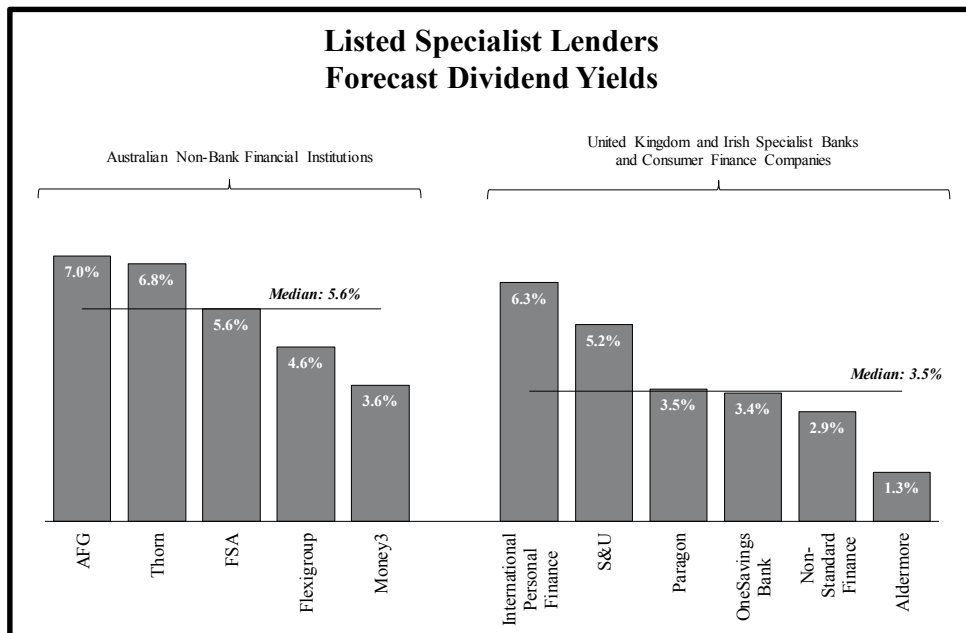
show multiples in a wide range but with a median of around 9 times historical NPAT and around 8-8.5 times forecast NPAT.

Appendix 2 sets out the dividend yields implied by share prices as at 29 August 2017 for a selection of specialist lending and consumer finance companies. The following charts summarise the historical and forecast dividend yields:



Source: Grant Samuel analysis (see Appendix 2)

Note: No historical dividend yield is shown for Aldermore as it did not pay a dividend



Source: Grant Samuel analysis (see Appendix 2)

Note: No forecast dividend yield is shown for Homeloans as no broker forecasts are available



Dividend yields for comparable listed specialist lenders are also in a wide range of 1.5-6.3% (historical) and 1.3-7.0% (forecast), although the outliers will reflect the individual circumstances of particular companies. The overall median dividend yield is 4.6% (historical and forecast).

The value of HK\$590-610 million for Pepper's 12% interest in PrimeCredit represents the following valuation parameters:

PrimeCredit – Implied Valuation Parameters			
	Variable (HK\$ millions)	Range of Parameters	
		Low	High
PE Multiple (times)			
Year ended 31 December 2016 (actual)	44.4	13.3	13.7
Year ending 31 December 2017 (broker consensus)	52.2 ⁴³	11.3	11.7
Dividend Yield⁴³			
Year ended 31 December 2016 (actual)	22.2	3.8%	3.6%
Year ending 31 December 2017 (broker consensus)	26.1 ⁴³	4.4%	4.3%

The implied dividend yields are generally consistent with the market evidence although the implied PE multiples are higher. However:

- the valuation reflects upside from expansion into China, with NPAT over the next five years expected to grow at an average annual rate of 17%. This growth is not reflected in CY16 and CY17 earnings (and results in a considerable reduction in the implied PE multiples), albeit achieving this growth is not without risk (particularly in relation to access to funding);
- Pepper's interest in PrimeCredit would warrant higher multiples given:
 - the shareholder structure (Pepper is one of only three shareholders) and the size of Pepper's shareholding in PrimeCredit (despite this being a minority position); and
 - the governance structure and Pepper's involvement in PrimeCredit's strategic development through the management services contract. Pepper has a representative on the PrimeCredit Board and a number of its committees and has access to information.

Allowing for these factors, Grant Samuel considers these dividend yields and trading multiples to be appropriate by comparison to listed specialist lending companies.

Grant Samuel has also had regard to:

- Pepper's acquisition price for its 12% interest of US\$65.9 million (approximately HK\$514 million at an exchange rate of US\$1 = HK\$7.80) in May 2015;
- the current carrying value of the investment in PrimeCredit of \$96.1 million as at 30 June 2017 (which represents historical acquisition cost plus share of NPAT) (approximately HK\$596 million at an exchange rate of A\$1 = HK\$6.20); and
- a DCF of the expected dividend stream from PrimeCredit assuming the following:
 - NPAT for 2HY17 to CY21 based on the forecasts and projections for PrimeCredit prepared by Pepper management;
 - a dividend payout ratio of 50%;
 - no additional tax payable by Pepper on the dividends received;

⁴³ Based on PrimeCredit's dividend policy of paying annual dividends equivalent to 50% of NPAT. 12% of PrimeCredit's NPAT in CY16 was \$9 million, although this included one off adjustments for net premium recognition of the legacy mortgage book sale and reversal of acquisition amortised intangibles. 12% of underlying net profit in CY16 was \$7.6 million. 12% of NPAT in CY17 is forecast to be \$9.0 million (based on broker consensus forecasts – see Section 3.3). A\$ amounts converted to HK\$ at a rate of A\$1 = HK\$5.819 in CY16 and A\$1 = HK\$5.800 in CY17.



- an in perpetuity growth rate of 6% (based on GDP growth for China and Hong Kong of ~7% and ~4% respectively); and
- a discount rate of 12-13% (lower than Pepper Savings Bank, consistent with Pepper Spain).

The NPV outcome is in the range HK\$573-670 million.

Taking into account all of the above, Grant Samuel believes that the value of HK\$590-610 million for Pepper's 12% interest in PrimeCredit is appropriate.

5.8 Other Assets and Liabilities

Pepper's other assets and liabilities have been valued at \$17.4 million and represent:

- the net present value of the outstanding balance of limited recourse loans to Pepper executives to enable them to acquire Pepper shares as part of Pepper's long term incentive plan (including loan shares issued in September 2017 in relation to the 2017 long term incentive plan); and
- investments in:
 - Auscred Pty Ltd ("Auscred"), an Australian mortgage broker and white label mortgage originator that operates multiple business models under the trading names Australian Credit and Finance, Click Loans and Lendi. Pepper's 2.8% investment in Auscred has been valued at its fair value (based on recent capital raisings);
 - 1776, a United States based global innovation network (initial investment April 2016, valued at cost); and
 - Sigma X Pte Ltd, trading as "Toast", a Singaporean peer to peer money transfer application (initial investment November 2016, valued at cost).

No value has been attributed to Pepper's tax losses as at 30 June 2017 in other assets and liabilities on the basis that:

- the tax losses relating to Pepper Savings Bank and Pepper Spain have been taken into account in their respective business valuations; and
- no value has been attributed to the substantial tax losses relating to Pepper's business operations in Ireland as there is no current ability to utilise them. The ability to utilise these losses is being contested with the Irish Revenue and they have not been recognised on Pepper's balance sheet.

No value has been attributed to Banco Primus on the basis that the acquisition, if it proceeds, has been entered into on an arm's length basis between a willing buyer and a willing seller with access to full information and the acquisition cost is therefore equivalent to its current value.

5.9 Corporate Net Borrowings

Pepper's adjusted corporate net borrowings for valuation purposes are \$151.3 million. This amount reflects Pepper's reported net borrowings as at 30 June 2017 adjusted for non-cash capitalised borrowings costs, payment of the 1HY17 dividend (on 5 October 2017) and cash consideration to be paid for the cancellation of options:



Pepper – Adjusted Corporate Net Borrowings (\$ millions)			
	Section Reference	Value Range	
		Low	High
Net corporate borrowings as at 30 June 2017	3.4	(143.9)	(143.9)
Capitalised borrowing costs	refer below	(1.6)	(1.6)
Payment of 1HY17 dividend	3.3	(5.5)	(5.5)
Cash consideration in return for cancellation of options	1	(0.3)	(0.3)
Adjusted corporate net borrowings		(151.3)	(151.3)

Capitalised borrowing costs have been added back to corporate net borrowings as it is a non-cash asset (that is amortised over the life of the relevant borrowings).

Pepper's adjusted corporate net borrowings does not include funding vehicle debt related to Pepper's warehouse facilities and term securitisation funding (net debt of \$6.3 billion as at 30 June 2017). Securitised term funding facilities are secured only on the assets of each of the individual securitisation trusts. Warehouse facilities are fully secured by the loans and other cash collateral residing in the warehouse trusts. These facilities are non-recourse to Pepper. This treatment is consistent with the basis on which Pepper's business operations have been valued.



6 Evaluation of the Scheme

6.1 Opinion

Grant Samuel has concluded that the Scheme is fair and reasonable. Accordingly, in Grant Samuel's opinion, the Scheme is in the best interests of Pepper shareholders, in the absence of a superior proposal.

6.2 Fairness

Grant Samuel has estimated the full underlying value of Pepper, including a premium for control, to be in the range \$661-756 million, which corresponds to \$3.52-4.02 per share. The value is the aggregate of the estimated value of Pepper's business operations together with other assets less external liabilities and any non-trading assets or liabilities. In particular, the value takes into account:

- the leading market positions that Pepper holds in specialist lending in Australia and in third party servicing in Europe;
- Pepper's integrated operating model across the complementary businesses of specialist lending and servicing which is scalable within a market and replicable across markets;
- Pepper's track record of performance (across risk management and funding) through the economic cycle;
- the global diversification of Pepper's business operations, achieved through a number of successful, opportunistic acquisitions (targeting dysfunctional markets);
- its diversified and capital efficient funding model for the lending businesses, and the implications of this model:
 - there is a requirement for Pepper to contribute equity to funding vehicles on an ongoing basis to achieve forecast lending growth (except in the case of Pepper Savings Bank which is deposit funded). The equity contributions are substantial and must be funded from existing cash, additional debt or equity raisings (which may not always be available on suitable terms); and
 - there is the potential that further capital (in addition to that referred to above) may be required to be contributed to funding vehicles to support the credit position of senior investors or to support the regulatory requirements of Pepper Savings Bank.

At least \$150 million of incremental equity capital in excess of organic cash generation is expected to be required over the next two years to fund business as usual growth and the Banco Primus acquisition. Grant Samuel's DCF analysis indicates that approximately \$60 million of capital is required annually to fund growth in Pepper's lending business operations over the long term. This ongoing requirement for capital has a material impact on value;

- Pepper's exposure to:
 - relatively higher risk non-conforming mortgages and consumer loans;
 - extensive regulation in each of the regions in which it operates and the impact of changes in regulation on its business operations;
 - competitive markets and the potential for competitive behaviour to put pressure on servicing fees or net interest margins;
 - multiple foreign currencies and fluctuations in exchange rates; and
 - economic conditions in countries in which it operates (in particular, inflation, unemployment, interest rates, house prices and general demand for credit) and the impact of these conditions on debt servicing ability; and
- the positive short to medium term outlook for the lending businesses as a result of expanding the product base in Australia (asset finance and personal loans) and the ramp up of the



European lending businesses, particularly in the United Kingdom and Spain (albeit this growth is not without risk in terms of timing and quantum of success).

The value range exceeds the price at which, based on current market conditions, Grant Samuel would expect Pepper to trade on the ASX in the absence of a takeover offer (or speculation as to an offer). The valuation is set out in Section 5 of this report.

The cash payments under the Scheme of \$3.70 per share fall within the value range of \$3.52-4.02. Accordingly, the Scheme is fair. The bottom of the value range represents the relevant threshold for fairness. Any price above the bottom of the range is, by definition, fair and it is irrelevant where in the range an offer falls.

In considering the fairness of the Scheme, shareholders should also take into account the process undertaken by Pepper that has culminated in the Scheme:

- following a number of unsolicited approaches and speculation in the media on 28 May 2017 that Pepper might be the subject of a change of control transaction, Pepper undertook an extensive process and evaluated a number of alternatives and proposals from a range of local and global potential bidders. These proposals were compared to the status quo (including Pepper's short term capital raising requirements);
- potential bidders were offered the opportunity to undertake limited due diligence to firm up their offers;
- Pepper established an IBC that engaged its own financial and legal advisers to assist with the review of the various proposals;
- KKR was selected to undertake a period of exclusive detailed due diligence on the basis that it delivered the highest cash payment and the greatest certainty for Pepper shareholders. Pepper announced receipt of the KKR indicative proposal on 5 July 2017;
- on 10 August 2017, Pepper announced that it has entered into a scheme implementation deed with Bidco to acquire all of the shares in Pepper by way of the Scheme; and
- on 25 September 2017, Pepper announced that it had received an improved proposal from Bidco, increasing the cash payable under the Scheme by a 10 cent fully franked special dividend.

While Pepper has agreed to no shop, no talk and no due diligence provisions, it can respond to unsolicited approaches from third parties. The meeting at which Pepper shareholders will vote on the Scheme is scheduled for 15 November 2017. This should be ample time (since 28 May 2017) for an alternative offeror to come forward. However, while it is conceivable that a third party could make a higher offer, the complexities of the business, in particular its future funding requirements, may deter other bidders.

6.3 Reasonableness

As the Scheme is fair, it is also reasonable. In any event, there are a number of other factors that either support the reasonableness of the Scheme or which Pepper shareholders should otherwise consider in determining whether to vote for or against the Scheme. These factors are set out in the following sections.

6.3.1 Premium for Control

The cash payments of \$3.70 per share represent a 25% premium to the price at which Pepper shares last traded prior to speculation in the media on 28 May 2017 that Pepper might be the subject of a change in control transaction. The premium is higher (circa 45%) when compared to prices in the six months prior to announcement but lower (circa 29-33%) compared to prices over the shorter term:



Pepper – Premium over Pre-announcement Prices		
Period	Pepper Price/VWAP	Premium
26 May 2017 closing price	\$2.950	25.4%
1 week prior to 26 May 2017 - VWAP ⁴⁴	\$2.871	28.9%
1 month prior to 26 May 2017 – VWAP	\$2.866	29.1%
3 months prior to 26 May 2017 – VWAP	\$2.788	32.7%
6 months prior to 26 May 2017 – VWAP	\$2.545	45.4%

While the level of premiums observed in takeovers varies depending on the circumstances of the target and other factors (such as the potential for competing offers), they tend to fall in the range 20-35%. The premiums relative to share prices on and prior to 26 May 2017 are broadly comparable this range other than when compared to the VWAP over the six months prior to 26 May 2017, where the premium is higher (around 45%). This is not unexpected given the elapsed time and the company specific events that were announced over this period (such as the release of the CY16 results on 24 February 2017) that would have had an impact on Pepper's share price.

While trading in Pepper shares is relatively illiquid and accordingly less reliance can be placed on the share price as a good indicator of fair value, trading in Pepper shares has generally been in line with the S&P/ASX 300 Index and the S&P/ASX 300 Banks Index (other than in response to company specific events).

6.3.2 Share Trading in the Absence of any Offer/Proposal

The Scheme enables shareholders to realise their investment in Pepper at a cash price which incorporates a premium for control. In the absence of the Scheme or a similar transaction, shareholders could only realise their investment by selling on market at a price which does not include any premium and would incur transaction costs (e.g. brokerage).

In these circumstances (assuming no speculation as to an alternative transaction) and based on the trading in Pepper shares prior to speculation in the media that Pepper might be the subject of a change of control transaction, it is likely that Pepper shares, under current market conditions and its current ownership structure, would trade at prices below the cash payments under the Scheme of \$3.70 per share.

6.3.3 Director and Management Shareholders

An acquisition proposal by a third party could not succeed without the agreement of Mr Dawes, who holds 29.7% of Pepper's shares. Mr Dawes has indicated that, subject to an independent expert determining that the Scheme is in the best interests of shareholders and in the absence of a superior proposal, he intends approve the Scheme by voting the shares in his control in favour of the resolutions and will elect the Scrip Offer.

Mr Culhane and Mr Small (and each of their respective affiliates) (who collectively hold 5.7% of Pepper shares) have also indicated that, subject to an independent expert determining that the Scheme is in the best interests of shareholders and in the absence of a superior proposal, they intend to approve the Scheme by voting in favour of the resolutions and will elect the Scrip Offer or the Retention Offer.

While voting intentions have not been provided by other Pepper executives, it is possible that up to around 45% of shares (representing those shares referred to above and shares held by other current Pepper executives) could rollover their investment in Pepper by electing the Equity Alternative. There is a cap of 48.5% on the Equity Alternative. Consequently, if holders of 3.5% or less of the remaining (non-Pepper executive) shares elect the Equity Alternative, the Scheme will effectively result in a buyout of Pepper by certain current directors and management that is funded by KKR.

⁴⁴ VWAP is volume weighted average price.



In these circumstances, there would be an incentive to minimise the cash payments under the Scheme. However:

- it is a condition of the Scheme that shareholders holding at least 35.11% of Pepper shares elect to take the Equity Alternative. Without the support of Mr Dawes, Mr Culhane and Mr Small, this condition may not be met and the Scheme would not proceed;
- the same terms are being offered to all Pepper shareholders and all shareholders have the option to elect the Equity Alternative⁴⁵. Consequently, there is a risk that if holders of a large proportion of shares validly elect the Equity Alternative, all shareholders (including Mr Dawes and key Pepper executives) would be scaled back on a pro rata basis and receive the cash payments of \$3.70 per Pepper share for any excess. This would result in Mr Dawes and key Pepper executives partly “cashing out” and any price below fair value would result in a loss of value to these parties (albeit the Equity Alternative will not be attractive to most shareholders who are not Pepper executives – refer to Section 6.3.4 below);
- an IBC was established and engaged its own legal and financial advisers to assist with negotiation of the transaction terms with KKR; and
- in Grant Samuel’s opinion, the cash payments being offered under the Scheme are fair.

6.3.4 Equity Alternative

For eligible shareholders, the decision to elect the Scrip Option and hold Holdco shares or elect the Retention Option and continue to hold Pepper shares under the Equity Alternative is independent of a decision to approve the Scheme.

Pepper shareholders that elect the Equity Alternative will retain an economic interest in Pepper’s business operations and assets (although the extent of this interest could be diluted in the event that any scale back applies). These shareholders:

- will, to the extent that they elect the Scrip Option and receive Holdco shares, be able to defer the capital gains consequences of the Scheme as capital gains tax rollover relief will be available (see Annexure A to the Scheme Booklet); and
- may be able to participate in any future exit by Bidco of its investment in Pepper (which may be at a higher value or a lower value than the cash payments under the Scheme). However, the timing of any potential exit and the exit mechanism have not yet been determined.

On the other hand, they:

- will no longer have the protections offered under the ASX Listing Rules and Australian corporate law for listed public companies in relation to takeovers, acquisition of substantial shareholdings and certain minority protection rights;
- will be subject to the provisions of the Shareholders’ Deed. A summary of the Shareholders’ Deed and a summary of the rights attaching to Holdco shares (and retained Pepper shares) is set out in Sections 4.6 and 4.7 of the Scheme Booklet. The risks associated with holding these securities is set out in Section 5.3 of the Scheme Booklet; and
- most importantly, no longer have a liquid market in which to realise their investment.

Prima facie, the underlying value of a share in Holdco (or a retained Pepper share) on implementation of the Scheme will be the same as the underlying value of a share in Pepper before implementation of the Scheme⁴⁶. However, the realisable value of a share in Holdco (or a retained Pepper share) on implementation of the Scheme will be quite different. Shareholders that elect the Equity Alternative will hold a share in an unlisted, highly illiquid vehicle where:

⁴⁵ Subject to those shareholders electing the Retention Option making a valid election.

⁴⁶ Except to the extent of the transaction costs and other expenses related to the Scheme of approximately \$15 million (for both Bidco and Pepper) that will either be funded by Pepper or, if the required shareholder approvals are not obtained post implementation of the Scheme, will be equity funded by KKR (by way of an equity injection into Holdco).



- there are substantial restrictions on the ability to transfer shares (see Section 4.6 of the Scheme Booklet); and
- there is no guarantee as to whether or when shareholders might be able to extract value, and what price, if any, shareholders might be able to realise for their shares.

In the short term (at least for the initial 12 months given the standstill period that will apply in most cases⁴⁷), shareholders are unlikely to be able to realise any value for their shares. The price that shareholders might realise for their shares thereafter will be influenced by a variety of factors, including the future performance of the business, the terms of the Shareholders' Deed and whether there is a future realisation event for the business. Given these factors and the associated uncertainties, it is not possible to reliably estimate the value that might ultimately be realised for the shares. However, absent a subsequent sale of the business or other liquidity event, the realisable value per share would be expected to incorporate a substantial discount reflecting the illiquidity of the market for the shares. In these circumstances, shareholders could realise significantly less than the cash payments under the Scheme of \$3.70 per share.

In addition, under the Shareholders' Deed, Bidco will be able to compulsorily acquire the retained Pepper shares at any time in the three year period following implementation of the Scheme for a cash amount per Pepper share equal to the then fair market value of a Holdco share. The Shareholders' Deed does not set out how fair market value is determined in this circumstance, other than providing that it is to be determined by a Holdco Board special majority (i.e. approval by at least one Holdco director appointed by KKR and one Holdco director appointed by the original Pepper shareholders) acting reasonably.

6.3.5 Other Matters

Special Dividend

The cash payments include a fully franked special dividend of 10 cents per share. In Grant Samuel's opinion, it is not appropriate for the assessment of the Scheme to either:

- factor into the value of Pepper shares the value of accumulated franking credits; or
- include in the value of the consideration the value of the credits attached to the special dividend.

The reasons are manifold but include:

- while acquirers are attracted by franking credits there is no clear evidence that they will actually pay extra for a company with them (at any rate the sharemarket evidence used by Grant Samuel in valuing the Pepper businesses will already reflect the value impact of the existence of franking credits); and
- franking credits are not an asset of the company in the sense that they can be readily realised for a cash sum that is capable of being received by all shareholders. The value of franking credits can only be realised by shareholders themselves when they receive distributions. Importantly, the value of franking credits is dependent on the tax position of each individual shareholder. To some shareholders (e.g. overseas shareholders) they will have very little or no value. Similarly, if they are attached to a distribution which would otherwise take the form of a capital gain taxed at concessional rates there may be minimal net benefit.

Nevertheless, it needs to be recognised that, where part of the consideration under a takeover offer or a scheme comprises a franked dividend, some shareholders may realise additional value from the franking credits (i.e. they are better off in after tax terms than they would have been had the

⁴⁷ Except for a sale to another Pepper shareholder or KKR under the right of first refusal provisions of the Shareholders' Deed, a sale consented to by KKR or a sale approved by a Board special majority of at least one KKR director and one original Pepper director.



same amount been paid as part of the acquisition price and been received as a capital gain). The following table sets out illustrative calculations for a variety of shareholder types:

Franking Credit Benefit Analysis (cents)						
	Foreign Shareholder ⁴⁸	Australian Resident Individual ⁴⁹			Australian Super-annuation Fund	Australian Corporation ⁵⁰
		45% Marginal Rate	30% Marginal Rate	0% Tax Rate		
10 cents received as a fully franked dividend						
Dividend	10.0	10.0	10.0	10.0	10.0	10.0
Franking credit	-	4.3	4.3	4.3	4.3	4.3
Gross taxable income	10.0	14.3	14.3	14.3	14.3	14.3
Tax payable	-	(6.7)	(4.6)	-	(2.1)	(4.3)
Tax credit	-	4.3	4.3	4.3	4.3	4.3
Net tax (payable)/refund	-	(2.4)	(0.3)	4.3	2.1	-
Net after tax cash income	10.0	7.6	9.7	14.3	12.1	10.0
10 cents received as a capital gain						
Capital gain	10.0	10.0	10.0	10.0	10.0	10.0
Tax payable	-	(2.4)	(1.6)	-	(1.0)	(3.0)
Net after tax cash income	10.0	7.7	8.4	10.0	9.0	7.0
Net benefit of dividend	-	(0.1)	1.3	4.3	3.1	3.0

Primarily, the benefits flow to Australian resident shareholders on lower tax rates (e.g. superannuation funds). There is nil benefit to foreign shareholders, while Australian resident shareholders on the top marginal tax rate would have been marginally better off receiving the amount as a capital gain.

It should also be noted that the Commissioner of Taxation may use certain powers under the tax law to deny shareholders the benefits of the franking credits attached to the special dividend. Pepper has sought a class ruling on behalf of shareholders in relation to the tax consequences of payment of the special dividend. However, the final class ruling will not be issued prior to implementation of the Scheme. As a result, there is a risk that shareholders may not be able to obtain the benefit of the franking credits attached to the special dividend.

Taxation Consequences

If the Scheme is implemented, shareholders (other than those that validly elect the Retention Option and to the extent that there is no scale back) will be treated as having disposed of their Pepper shares for tax purposes. A capital gain or loss may arise on disposal depending on the cost base for the Pepper shares, the length of time held, whether the shares are held on capital or revenue account and whether the shareholder is an Australian resident for tax purposes. There will also be tax consequences associated with payment of the special dividend.

Details of the Australian taxation consequences for Pepper shareholders who are Australian resident individuals and hold their shares on capital account are set out in Annexure A of the Scheme Booklet. In particular, shareholders should note that if they elect the Scrip Option, to the extent that they receive Holdco shares, they may be eligible for capital gains tax rollover relief if a gain would otherwise have been made. Shareholders should consult their own professional adviser in relation to the taxation consequences of the Scheme and payment of the special dividend.

⁴⁸ Assumes the same tax rate applies to dividend income and a capital gain for a foreign shareholder.

⁴⁹ Assumes the shares have been held for more than 12 months and that the Medicare levy is 2%.

⁵⁰ Assumes the Australian corporation pays tax at a rate of 30%.



Transaction Costs

If the Scheme is not approved by shareholders or is otherwise not implemented, it is estimated that Pepper will meet costs (including legal and other adviser's fees as well as printing and mailing costs) of approximately \$3 million (1.6 cents per share). In certain circumstances, Pepper will also be liable to pay Bidco a \$6.6 million break fee.

If the Scheme is implemented, total transaction costs of approximately \$15 million (including \$7 million of Bidco costs) will effectively be borne by Pepper under the terms of the Shareholders' Deed.

Ineligible Foreign Shareholders

Under the Scheme, ineligible foreign shareholders:

- cannot elect to receive the Scrip Option or the Retention Option and, if they do elect the Scrip Option or the Retention Option, their election will be invalid and they will receive the cash payments; and
- will not be able to defer the capital gains consequences of voting in favour of the Scheme. However, the net cash proceeds will be available to meet any capital gains tax liability.

Ineligible foreign shareholders are those shareholders with, on the Scheme record date, a registered address outside of Australia or New Zealand, unless Pepper and Bidco agree in writing that it is lawful and not unduly onerous or impracticable to issue Holdco shares to that shareholder if the shareholder elects the Scrip Option or the Retention Option.

These provisions prima facie impact shareholders representing approximately 19% of Pepper's issued shares⁵¹. However, Grant Samuel has been advised that it is likely that Pepper and Bidco will agree that shareholders with registered addresses in the United States, the United Kingdom, Ireland, Spain, South Korea (those holding through brokers only), China and Hong Kong (institutional shareholders only) will be eligible shareholders. On this basis, holders of less than 1% of Pepper shares will be impacted by these provisions.

6.4 Shareholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Scheme is in the best interests of shareholders and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Scheme, the responsibility for which lies with the directors of Pepper.

In any event, the decision whether to vote for or against the Scheme is a matter for individual shareholders based on each shareholder's 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. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Scheme, shareholders should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to elect the Scrip Option and hold shares in Holdco or elect the Retention Option. These are investment decisions upon which Grant Samuel does not offer an opinion and independent of a decision on whether to vote for or against the Scheme. Shareholders should consult their own professional adviser in this regard.

⁵¹ Based on an analysis of holders of 96.2% of Pepper shares prepared by Orient Capital Pty Ltd dated 4 September 2017.



7 Qualifications, Declarations and Consents

7.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally) and provides marketing and distribution services to fund managers. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 530 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Jaye Gardner BCom LLB (Hons) CA SF Fin GAICD and Stephen Cooper BCom (Hons) ACA (SA) ACMA. Both have a significant number of years of experience in relevant corporate advisory matters. Nick Zur BCom (Dean's Scholar) and Teo Covalciuc BSc assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

7.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Scheme is in the best interests of shareholders. Grant Samuel expressly disclaims any liability to any Pepper shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel has had no involvement in the preparation of the Scheme Booklet issued by Pepper and has not verified or approved any of the contents of the Scheme Booklet. Grant Samuel does not accept any responsibility for the contents of the Scheme Booklet (except for this report).

7.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Pepper or KKR, Holdco or Bidco or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Scheme. Grant Samuel advises that Grant Samuel Debt Structuring & Advisory Pty Limited, a company related to Grant Samuel, did, over the period from 2012 to 2014 undertake a number of debt advisory roles for Pepper. The Grant Samuel group also sold its property advisory business to Pepper in 2012. Grant Samuel does not consider these assignments capable of affecting its ability to provide an unbiased opinion in relation to the Scheme.

Grant Samuel had no part in the formulation of the Scheme. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$600,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Scheme. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

7.4 Declarations

Pepper has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report.



This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Pepper has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by Pepper are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to Pepper and its advisers. Advance drafts of this report were also provided to Bidco and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. In particular, following the provision of a full draft report on 8 September 2017, Grant Samuel was advised by Pepper of:

- an increase in the number of shares that would be on issue as at the date of the Scheme Booklet (as a result of the forfeiture of certain 2015 and 2016 loan shares and the issue of new 2017 loan shares). This change resulted in an increase of \$0.3 million in the value of other assets and liabilities, an increase of 0.3 million in the number of fully diluted issued shares and a \$0.01 decline in the value per share at the high end of the value range; and
- new information in relation to the BIS capital ratio for Pepper Savings Bank that resulted in Grant Samuel considering a revised scenario as part of its DCF analysis but which did not result in any change to the estimated value range for Pepper Savings Bank. Pepper announced the revised BIS capital ratio requirements for Pepper Savings Bank on 22 September 2017 (subsequent to lodgement of the full draft report with ASIC on 15 September 2017).

Furthermore, subsequent to lodgement of the full draft report with ASIC on 15 September 2017, Pepper announced that it had received an improved proposal from Bidco under which Pepper shareholders receiving cash payments will receive \$3.70 per share, comprising \$3.60 in cash per share under the Scheme and a fully franked special dividend of 10 cents per share.

There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Scheme Booklet to be sent to shareholders of Pepper. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

7.6 Other

The accompanying letter dated 12 October 2017 and the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
12 October 2017





Appendix 1

Selection of Discount Rates

1 Overview

Grant Samuel has selected the following discount rates to apply to cash flows for the business operations of Pepper Group Limited (“Pepper”):

Discount Rates		
Business	Type of discount rate	Discount Rate
Lending		
Cost of equity		
Australia and New Zealand		10.5-11.5%
Pepper Savings Bank (South Korea)		13.0-14.0%
Ireland		11.5-12.5%
United Kingdom		11.5-12.5%
Spain		12.0-13.0%
Servicing		
WACC		
Ireland		7.5-8.5%
United Kingdom		7.5-8.5%
Spain		8.5-9.5%

While Pepper operates in the broader financial services industry, its individual business operations have different risk profiles:

- lending requires a greater capital contribution to achieve growth (as Pepper is required to contribute equity to warehouse facilities and securitisations) and is more exposed to macro economic factors such as interest rates, unemployment and changes to regulation; and
- servicing, while utilising the same risk management and collections platforms as lending, does not require capital to grow (as the platforms are scalable) and is more in the nature of an annuity for the term of the servicing contract (subject to attrition of the portfolio over time) or run-off of the portfolio.

In addition, Pepper operates in different countries that have different interest rate environments, tax regimes and macro economic conditions.

The valuation of an asset or business involves estimating the discount rates that may be utilised by potential acquirers of that asset in assessing the net present value of expected future cash flows. There is a body of theory from which models that generate a cost capital have been developed but the selection of a discount rate is still fundamentally a matter of judgement. Despite the widespread acceptance and application of various theoretical models, it is Grant Samuel’s experience that many companies rely on less sophisticated approaches. Many businesses and investors use relatively arbitrary “hurdle rates” which do not vary significantly from investment to investment or change significantly over time despite movements in interest rates. Valuation is an estimate of what real world buyers and sellers of assets would pay and must therefore reflect parameters that will be applied in practice even if they are not theoretically correct. In other words, the objective is to estimate a discount rate that generates a value for the asset that is, as far as practically possible, consistent with market prices, whether that rate fits a particular theory or not. Grant Samuel considers the rates selected to be discount rates that acquirers would use in practice.

The discount rates selected represent estimates of the cost of equity or the weighted average cost of capital (“WACC”) appropriate for these businesses:

- cost of equity is the relevant rate to apply to geared cash flows (relevant for the lending businesses); and



- WACC is based on a weighted average of the cost of the two primary funding sources, equity and debt. This is the relevant rate to apply to ungeared cash flows (relevant for the servicing businesses). There are three main elements to the determination of an appropriate WACC:
 - cost of equity;
 - cost of debt; and
 - debt/equity mix.

The cost of equity has initially been derived from application of the capital asset pricing model (“CAPM”) methodology. The CAPM is probably the most widely accepted and used methodology for determining the cost of equity capital. There are more sophisticated multivariate models which utilise additional risk factors but these models have not achieved any significant degree of usage or acceptance in practice. However, the cost of equity is not an observable number that can ever be “discovered” or “proved” (no matter how many studies are conducted). Estimates are derived from models or theories but these do no more than infer a rate from other data using one particular theory about the way in which security prices behave. The usefulness of any estimate therefore depends on the efficacy of the theory and the robustness of the data. While the theory underlying the CAPM is rigorous the practical application is subject to shortcomings and limitations and the results of applying the CAPM model should only be regarded as providing a general guide. There is a tendency to regard the rates calculated using CAPM as inviolate. To do so is to misunderstand the limitations of the model. The CAPM involves:

- a model that has questionable empirical validity;
- simplifying assumptions and approximations;
- the use of historical data as a proxy for estimates of forward looking parameters;
- data of dubious statistical reliability; and
- unresolved issues (such as the impact of dividend imputation).

The cost of debt represents an estimate of the expected future returns required by debt providers to each business over the period of the cash flows but, even for something as relatively straightforward as interest rates, there are measurement issues and judgements to be made.

The debt/equity mix represents an appropriate level of gearing, stated in market value terms, for the business over the forecast period. However, it should be recognised that selection of the ratio involves a significant degree of simplification and a substantial level of judgement.

In summary, it is important not to over-engineer the process or to credit the output of models with a precision it does not warrant. It is easy to be captured by the accumulation of data and its apparent sophistication. A mechanistic application of formulae derived from theory can obscure the reality that any output from cost of capital models should be treated as a broad guide rather than an absolute truth.

The following sections set out the basis for Grant Samuel’s determination of the discount rates for Pepper’s various business operations together with a discussion of the factors that limit the accuracy and reliability of the estimates. Grant Samuel’s approach involves:

- derivation of a “calculated cost of equity” or a “calculated WACC” by applying the CAPM/WACC methodology using existing market data points;
- consideration of other methodologies, data and factors (e.g. the Gordon Growth Model); and
- forming a judgement as to a commercially sensible discount rate.

2 Definition and Limitations of the CAPM and WACC

The CAPM provides a theoretical basis for determining a discount rate that reflects the returns required by diversified investors in the equity of the company (which is one component of the total capital funding structure). CAPM is based on the assumption that investors require a premium for investing in equities rather than in risk free investments (such as Australian government bonds). The premium is commonly



known as the market risk premium and notionally represents the premium required to compensate for investment in the equity market in general.

The risks relating to a company or business may be divided into specific risks and systematic risks. Specific risks are risks that are specific to a particular company or business and are unrelated to movements in equity markets generally. While specific risks will result in actual returns varying from expected returns, it is assumed that diversified investors require no additional returns to compensate for specific risk, because the net effect of specific risks across a diversified portfolio will, on average, be zero. Portfolio investors can diversify away all specific risk.

However, investors cannot diversify away the systematic risk of a particular investment or business operation. Systematic risk is the risk that the return from an investment or business operation will vary with the market return in general. If the return on an investment was expected to be completely correlated with the return from the market, then the return required on the investment would be equal to the return required from the market (i.e. the risk free rate plus the market risk premium).

Systematic risk is affected by the following factors:

- financial leverage: additional debt will increase the impact of changes in returns on underlying assets and therefore increase systematic risk;
- cyclicity of revenue: projects and companies with cyclical revenues will generally be subject to greater systematic risk than those with non-cyclical revenues; and
- operating leverage: projects and companies with greater proportions of fixed costs in their cost structure will generally be subject to more systematic risk than those with lesser proportions of fixed costs.

CAPM postulates that the return required on an investment or asset can be estimated by applying to the market risk premium a measure of systematic risk described as the beta factor. The beta for an investment reflects the covariance of the return from that investment with the return from the market as a whole. Covariance is a measure of relative volatility and correlation. The beta of an investment represents its systematic risk only. It is not a measure of the total risk of a particular investment. An investment with a beta of more than one is riskier than the market as a whole and an investment with a beta of less than one is less risky. The discount rate appropriate for an investment which involves zero systematic risk would be equal to the risk free rate.

The formula for deriving the cost of equity using CAPM is as follows:

$$Re = Rf + Beta (Rm - Rf)$$

Where:

- Re* = the cost of equity capital;
- Rf* = the risk free rate;
- Beta* = the beta factor;
- Rm* = the expected market return; and
- Rm - Rf* = the market risk premium.

The beta for a company or business operation is normally estimated by observing the historical relationship between returns from the company or comparable companies and returns from the market in general. The market risk premium is estimated by reference to the actual long run premium earned on equity investments by comparison with the return on risk free investments.

The formula conventionally used to calculate a WACC under a “classical tax system”¹ is as follows:

¹ A tax system not featuring dividend imputation or other variants such as advance corporation tax (i.e. dividends are paid out of after tax income and are subject to full tax in the hands of investors).



$$WACC = (Re \times E/V) + (Rd \times (1-t) \times D/V)$$

Where:

E/V	=	the proportion of equity to total value (where $V = D + E$);
D/V	=	the proportion of debt to total value;
Re	=	the cost of equity capital;
Rd	=	the cost of debt capital; and
t	=	the corporate tax rate

The models, while simple, are based on a sophisticated and rigorous theoretical analysis. Nevertheless, application of the theory is not straightforward and the discount rate calculated should be treated as no more than a general guide. The reliability of any estimate derived from the model is limited. Some of the issues are discussed below:

■ Overall Validity of the Model

The CAPM has been subject to intense criticism over many years with numerous empirical studies demonstrating that it does not accurately portray movements in individual share prices and has limited explanatory power. There are also competing formulations (such as the Sharpe-Lintner, Black, Brennan-Lally, Officer or Monkhouse) which can give different results.

In addition:

- the CAPM is a single period model rather than one developed specifically for valuing long term cash flows. It has been adapted to a multi-period model (usually annually) to calculate the value of long term cash flows. Theoretically, the analysis should use a forecast of the parameters for each period in question (annual is no more correct than any other period) but, typically, a long term average rate is assumed for the sake of practicality;
- the CAPM assumes investors are diversified and therefore are not (and should not be) concerned with the specific risk of a particular investment. Behavioural economics suggests while this may be theoretically sensible, it doesn't actually reflect how investors behave or how they price risk; and
- it ignores all investor taxes, which may or may not have an impact in the real world. Even where models do attempt to reflect taxation effects, adjustments are usually based on assumed averages which may not be accurate or appropriate given the diversity of individual tax positions.

■ Risk Free Rate

Theoretically, the risk free rate used should be an estimate of the risk free rate in each future period (i.e. the one year spot rate in that year if annual cash flows are used). There is no official "risk free" rate but, in developed economies such as Australia, rates on government securities are typically used as an acceptable substitute. In practice, the long term government bond rate is used as the most practical estimate (even though rates for individual years could be interpolated). However, it should be recognised that the yield to maturity of a long term bond is only an average rate and where the yield curve is strongly positive (i.e. longer term rates are significantly above short term rates) the adoption of a single long term bond rate has the effect of reducing the net present value where the major positive cash flows are in the initial years. The long term bond rate is therefore only an approximation.

The 10 year bond rate is a widely used and accepted benchmark for the risk free rate. Where the forecast period exceeds 10 years, an issue arises as to the appropriate bond to use. While longer term bond rates are available, the 10 year bond market is the deepest long term bond market in most developed economies and is a widely used and recognised benchmark. The South Korean bond market is one of the largest markets in Asia. The South Korean government issues treasury bonds on a regular basis with maturities of three, five, and 10 years, although the three year bond is the most liquid.



There is a limited market for bonds of more than 10 years although, for example, the Australian government has recently issued 30 year bonds in volume. In the United States, there are deeper markets for longer term bonds. The 30 year bond rate would be a better benchmark for long term cash flows. However, long term rates accentuate the distortions of the yield curve on cash flows in early years. In any event, a single long term bond rate matching the term of the cash flows is no more theoretically correct than using a 10 year rate. More importantly, the 10 year rate is the standard benchmark used in practice.

■ Market Risk Premium

The market risk premium ($R_m - R_f$) represents the “extra” return that investors require to invest in equity securities as a whole over risk free investments. This is an “ex-ante” concept. It is the expected premium and, as such, it is not an observable phenomenon. There is no generally accepted approach to estimating a forward looking market risk premium and attempts to develop one (e.g. through surveys) have yielded unreliable and highly variable results. Accordingly, the historical premium is used as the best available proxy measure. The premium earned historically by equity investments is usually calculated over a time period of many years, typically at least 30 years. This long time frame is used on the basis that short term rates of return are highly volatile and that a long term average return would be a fair indication of what most rational investors would expect to earn in the future from an investment in equities with a five to 10 year time frame.

In the absence of controls over capital flows, differences in taxation and other regulatory and institutional differences, it is reasonable to assume that the market risk premium should be approximately equal across markets which exhibit similar risk characteristics after adjusting for the effects of expected inflation differentials. Accordingly, it is reasonable to assume similar market risk premiums for first world countries enjoying political economic stability, such as Australia, New Zealand, the United States, Japan, the United Kingdom, Ireland and various western European countries.

In the United States, it is generally postulated that the historical premium is in the range of 4-6% but there are widely varying assessments (from 3% to 9%). Australian studies have been more limited and mainly derive from the Officer Study² which was based on data for the period 1883 to 1987 (prior to the introduction of dividend imputation in Australia) and indicated that the long run average premium was in the order of 8% using an arithmetic average but subject to significant statistical error. More recently, the Officer Study data has been updated to 2011³ with the long term average declining to around 6%. Due to concerns about the earlier market data, emphasis is now placed on the average risk premium since 1958, which is estimated to be 5.8% ignoring the impact of imputation (where imputation credits are valued at 100% the market risk premium over the same period is 6.6%).

However, even the measurement or use of long term historical returns is subject to considerable debate:

- there are multiple different outcomes for the historical market risk premium depending on time period, basis (over long term bonds or shorter term bills), method (arithmetic or geometric averages) and estimation approach⁴;
- the measures of historical returns typically have extremely high statistical error measures. For a, say, 6% average measured premium the “true” figure will typically lie in a range of 2-10% at a 95% confidence level;

² R.R. Officer in Ball, R., Brown, P., Finn, F. J. & Officer, R. R., “Share Market and Portfolio Theory: Readings and Australian Evidence” (second edition), University of Queensland Press, 1989 (“Officer Study”).

³ J.C. Handley, “An Estimate of the Historical Risk Premium for the period 1883 to 2011”, April 2012 (prepared for the Australian Energy Regulator). This paper is based on earlier work by T. Brailsford, J.C. Handley and K. Maheswaran in 2008 and 2012.

⁴ Market risk premiums estimated by the “Ibbotson” and “Wright” approaches are considered to lie at opposite ends of the spectrum. The Ibbotson approach assumes that the market risk premium is constant while the Wright approach assumes the real expected return on the market to be constant and therefore the market risk premium varies inversely to changes in the risk free rate.



- the methodology is inflexible and tends to fail when market conditions change materially. Market volatility is the reality of financial markets. Clearly, in the immediate aftermath of the global financial crisis (which commenced in late 2007), investors' perceptions of risk and the pricing of that risk rose significantly and rapidly. This can be demonstrated by the observable data from the pricing of lowly rated corporate bonds (which sit on the risk spectrum between risk free assets and equities) over this period. Yields to maturity rose dramatically in 2008 and 2009. However, long term average historical data will not flex to reflect these changes – an average of, say, 50 years of data will not move much even with 2-3 years of “new” data;
- the longer the period of measurement (and therefore the greater the “robustness” of the average) the more likely it is to reflect economic and market circumstances that have little resemblance to the present (is it really likely that investor returns prior to World War II are relevant to the kinds of returns investors expect today?); and
- the historical data also contains a logical contradiction – when the equity return required by investors is lower than the returns implied by market prices, investors respond by bidding the price of equities higher. A rising market translates to a higher measured historical risk premium, contrary to the lower return expectations driving the upwards movement in prices.

■ **Beta Factor**

The beta factor is a measure of the expected covariance (i.e. volatility and correlation of returns) between the return on an investment and the return from the market as a whole. The expected beta factor cannot be observed. The conventional practice is to calculate an historical beta from past share price data and use it as a proxy for the future but it must be recognised that:

- the expected beta is not necessarily the same as the historical beta. A company's relative risk does change over time and measured historical betas can often reflect structural changes in an industry over the time period rather than its inherent correlation to the market;
- the starting point is normally to measure the historical correlation of a company's share price against its local market index. However:
 - the composition of indices varies substantially between markets. For example, the Australian index is dominated by resources and banks; and
 - where a company is extensively traded by global investors it can be argued that the regression against an index such as the Morgan Stanley Capital International Developed World Index (“MSCI”), an international equities market index that is widely used as a proxy for the global stockmarket as a whole, is more relevant but it:
 - depends on who the “price setting” investors are;
 - can give materially different results to measures based on the local index; and
 - raises a related issue as to whether a global risk premium is also appropriate and, if so, what that global premium is;
- the appropriate beta is the beta of the company being valued rather than the beta of the acquirer (which may be in a different business with different risks). Betas for the particular subject company may be utilised but these are seldom regarded as reliable enough (and may not be available if the company is not listed). Accordingly, it is common practice to utilise betas for comparable companies and sector averages (particularly as those may be more reliable). However, none of these other companies is likely to be exactly comparable to the subject entity (e.g. it may operate in other jurisdictions with different economic drivers, regulatory regimes and benchmark index composition). In any event, the comparable company data seldom yields a tight and consistent range from which a precise estimate can be derived; and
- there are very significant measurement issues with betas which mean that only limited reliance should be placed on such statistics. There is no “correct” beta. For example, Pepper (which has only been listed since July 2015 and therefore only has two years of data), has a beta as measured by the Securities Industry Research Centre of Asia-Pacific (“SIRCA”) of 1.30 (based



on 23 monthly observations) which compares to around 1.07 measured by Bloomberg (based on 24 monthly observations) and 0.59 (based on 104 weekly observations).

■ **Debt/Equity Mix**

The relevant measure of the debt/equity mix is based on market values (not book values). As beta is normally considered in the context of comparable companies as well as the subject company, the debt/equity mix should involve similar analysis. Accordingly, the relevant proportions of debt and equity are usually determined having regard to the financial gearing of the subject company, comparable companies and the industry in general as well as assessments of the appropriate level of gearing taking into account the nature and quality of the cash flow stream. However:

- a simple debt/equity mix is usually used for practicality but it represents a simplification of what are usually much more complex financial structures (e.g. hybrids, convertibles);
- a constant degree of leverage is typically assumed but this is seldom the case;
- the debt/equity mix (measured over the same period as the historical beta is measured) can be volatile over time at an individual company level. Averages across time may give a more meaningful guide but in some circumstances this may not be appropriate;
- there is often a wide diversity of debt/equity ratios across companies in an industry. Moreover, there is often inconsistency between gearing and beta ratios (e.g. those with higher gearing may exhibit lower betas than their peers); and
- the measured beta factors for listed companies are “equity” betas and reflect the financial leverage of the individual companies. It is possible to unleverage beta factors to derive asset betas and releverage betas to reflect a more appropriate or comparable financial structure. In Grant Samuel’s view, this technique is subject to considerable estimation error. Deleveraging and releveraging betas exacerbates the estimation errors in the original beta calculation and gives a misleading impression as to the precision of the methodology. Indeed, there are competing deleveraging formulae which give different results. Deleveraging and releveraging is also commonly calculated based on debt levels at a single point in time. This is incorrect as it is leverage over the same period in which the beta was measured that is relevant (although this can be difficult to estimate accurately given that data points may be at best quarterly).

■ **Corporate Tax**

The WACC calculation generally assumes a constant rate of corporate tax, typically the standard corporate rate. However, the tax position of many corporates, particularly multinationals, is usually much more complex and can change significantly over time.

■ **Dividend Imputation**

The conventional WACC formula set out above was formulated under a “classical” tax system. The CAPM model is constructed to derive returns to investors after corporate taxes but before personal taxes. Under a classical tax system, interest expense is deductible to a company but dividends are not. Investors are also taxed on dividends received.

Under Australia’s dividend imputation system, domestic equity investors receive a taxation credit (franking credit) for any tax paid by a company. The franking credit attaches to any dividends paid out by a company and the franking credit offsets personal tax. To the extent the investor can utilise the franking credit to offset personal tax, then the corporate tax is not a real impost. It is best considered as a withholding tax for personal taxes. It can therefore be argued that the benefit of dividend imputation should be incorporated into any analysis of value.

There is no generally accepted method of allowing for dividend imputation. In fact, there is considerable debate within the academic and financial communities as to the appropriate adjustment or even whether any adjustment is required at all. Some suggest that it is appropriate to discount pre-tax cash flows, with an increase in the discount rate to “gross up” the market risk premium for the benefit of imputation credits that are on average received by shareholders. On this basis, the



discount rate might increase by approximately 2% but it would be applied to pre-tax cash flows. However, not all of the necessary conditions for this approach exist in practice:

- not all shareholders can use franking credits. In particular, foreign investors gain no benefit from franking credits (except in relation to withholding taxes in some cases⁵). If foreign investors are the marginal price setters in the Australian market there should be no adjustment for dividend imputation;
- not all franking credits are distributed to shareholders; and
- capital gains tax operates on a different basis to income tax. Investors with high marginal personal tax rates will prefer cash to be retained and returns to be generated by way of a capital gain.

Others have proposed a different approach involving an adjustment to the cost of equity by a factor reflecting the effective use or value of franking credits (i.e. allowing for the proportion of taxed income paid out as dividends and the utilisation by investors). The proponents of this approach have in the past suggested a factor in the range 40-65% as representing the appropriate adjustment (gamma)⁶ although more recent commentary suggest a lower level (circa 25%). The gamma can be applied to the cost of capital or, alternatively, the tax charge in the forecast cash flows can be decreased to incorporate the expected value of franking credits distributed (the usual approach by regulators).

In Grant Samuel's opinion, it is not appropriate to allow for dividend imputation for business valuation purposes:

- the underlying concept of gamma is flawed. The gamma is meant to represent some kind of complex market weighted average but the value of franking credits is essentially binary. They have 100% value to some (or many) domestic investors and 0% to foreign investors. There is nobody to whom franking credits have a value equal to, say, 50% of their face value (i.e. there is no spectrum of outcomes to determine a meaningful "weighted average");
- there is no direct evidence that imputation credits are factored into market prices of listed companies or the prices paid in acquisitions. The primary "proof" appears to be based on dividend drop off studies but these face serious questions as to reliability of data and the interpretation of the outcome never mind that it does not address risk and other issues associated with the ability to use them over the longer term; and
- it is not consistent with what is happening in real world markets. The adoption of a gamma factor (of, say, 0.5) must, by definition, mean that companies in the Australian market are valued such that:
 - domestic investors (who can use 100% of imputation credits) earn a higher return than their cost of capital; and
 - offshore investors earn less than their required return.

As such there should be no offshore investors in Australian (unless they have a lower cost of capital than domestic investors through some other means). It would also suggest that overseas acquirers of businesses in Australia would not be able to compete effectively with local acquirers. Rather, the evidence demonstrates that:

- marginal sharemarket prices are not set using any value for gamma; but that
- domestic investors enjoy a higher after tax return than comparably taxed offshore investors.

In summary, it is clear that dividend imputation affects returns to investors. However, the evidence gathered to date does not demonstrate or prove that franking credits are factored into the market

⁵ Withholding tax on unfranked distributions will typically apply to portfolio investors in listed Australian entities but foreign companies (depending on their jurisdiction) are generally not subject to withholding tax on unfranked dividends of wholly owned Australian subsidiaries.

⁶ Under this construct the cost of equity is scaled by gamma ("δ") (i.e. $Adjusted\ Re = Re \times 1-t/(1-t(1-\delta))$). Assuming the standard Australian corporate tax rate of 30% and $\delta = 0.5$, Re is multiplied by 0.82 (i.e. 0.70 divided by 0.85).



price of listed companies or the prices paid in acquisitions. While acquirers are undoubtedly attracted by franking credits there is no clear evidence that they will actually pay extra for them or build it into values based on long term cash flows.

- **Specific Risk**

The WACC is designed to be applied to “expected cash flows” which are effectively a weighted average of the likely scenarios. To the extent that a business is perceived as being particularly risky, this specific risk should be dealt with by adjusting the cash flow scenarios. This avoids the need to make arbitrary adjustments to the discount rate which can dramatically affect estimated values, particularly when the cash flows are of extended duration or much of the business value reflects future growth in cash flows. In addition, risk adjusting the cash flows requires a more disciplined analysis of the risks that the valuer is trying to reflect in the valuation. However, it is also common in practice to allow for certain classes of specific risk (particularly sovereign and other country specific risks) in a different way by adjusting the discount rate applied to forecast cash flows.

3 Calculated WACC

3.1 Cost of Equity Capital

- **Risk Free Rate**

Grant Samuel has adopted the following risk free rates:

Risk Free Rates	
Business	Risk Free Rate
Australia and New Zealand	2.7%
South Korea	2.3%
Ireland	0.7%
United Kingdom	1.1%
Spain	1.6%

These risk free rates approximate the yield to maturity on 10 year government bonds in each country.

- **Market Risk Premium**

Grant Samuel has consistently adopted a market risk premium of 6% and believes that this continues to be a reasonable estimate. It:

- is not statistically significantly different to the premium suggested by long term historical data;
- is similar to that used by a wide variety of analysts and practitioners as well as regulators (typically in the range 5-7%); and
- makes no explicit allowance for the impact of Australia’s dividend imputation system.

- **Beta Factor**

For the purpose of valuing Pepper’s business operations, Grant Samuel has adopted the following beta factors:



Equity Beta Factors	
Business Operation	Beta
Lending	1.1-1.2
Servicing	0.8-0.9

The beta factors for a range of mortgage and consumer lending and loan servicing companies have been considered in determining an appropriate beta for Pepper's business operations. They have been calculated on two bases – relative to each company's home exchange index and relative to the MSCI. A summary of betas for selected comparable listed companies is set out in the table below:

Equity Beta Factors for Selected Listed Mortgage and Consumer Lending and Loan Servicing Companies							
Company	Market Capitalisation ⁷ (millions)	Monthly Observations over 5 years LBS ⁸	Monthly Observations over 4 years			Weekly Observations over 2 years	
			SIRCA ⁹	Bloomberg ¹⁰		Bloomberg	
				Local Index	MSCI ¹¹	Local Index	MSCI
Pepper	A\$538					0.59	0.63
Australian Non-Bank Specialist Lenders							
SG Fleet	A\$1,057					1.22	1.14
AFG	A\$344					0.53	0.60
Money3	A\$232		(0.09)	0.19	0.40	0.67	0.86
Thorn	A\$205		0.55	0.65	0.88	0.76	1.04
FSA	A\$183		0.77	0.66	0.68	0.77	0.83
Homeloans	A\$187		0.69	0.86	0.56	0.66	0.65
Cash Converters	A\$181		0.79	0.78	0.92	0.92	0.93
<i>Minimum</i>			<i>(0.09)</i>	<i>0.19</i>	<i>0.40</i>	<i>0.53</i>	<i>0.60</i>
<i>Maximum</i>			<i>0.77</i>	<i>0.86</i>	<i>0.88</i>	<i>1.22</i>	<i>1.14</i>
<i>Median</i>			<i>0.69</i>	<i>0.66</i>	<i>0.56</i>	<i>0.76</i>	<i>0.86</i>
Australian Regional Banks							
Bendigo and Adelaide	A\$5,818		1.23	1.03	1.12	1.22	1.10
Bank of Queensland	A\$4,963		1.51	1.23	1.42	1.34	1.26
Heartland	NZ\$987			1.04	0.96	0.83	0.69
MyState	A\$431		0.64	0.73	0.74	0.47	0.46
Auswide	A\$223		0.28	0.57	0.55	0.30	0.32
<i>Minimum</i>			<i>0.28</i>	<i>0.57</i>	<i>0.55</i>	<i>0.30</i>	<i>0.32</i>
<i>Maximum</i>			<i>1.51</i>	<i>1.23</i>	<i>1.42</i>	<i>1.34</i>	<i>1.26</i>
<i>Median</i>			<i>0.94</i>	<i>1.03</i>	<i>0.96</i>	<i>0.83</i>	<i>0.69</i>

⁷ Based on share prices as at 29 August 2017, except for Pepper which is based on share prices as at 26 May 2017 (being the last trading day prior to speculation in the media that Pepper may be the subject of a change in control transaction).

⁸ Beta factors calculated by London Business School as at 30 June 2017 over a period of 60 months using ordinary least squares regression.

⁹ The Australian beta factors calculated by SIRCA as at 30 June 2017 over a period of 48 months using ordinary least squares regression or the Scholes-Williams technique where the stock is thinly traded.

¹⁰ Bloomberg betas have been calculated up to 25 August 2017. Grant Samuel understands that betas estimated by Bloomberg are not calculated strictly in conformity with accepted theoretical approaches to the estimation of betas (i.e. they are based on regressing total returns rather than the excess return over the risk free rate). However, in Grant Samuel's view the Bloomberg beta estimates can still provide a useful insight into the systematic risks associated with companies and industries. The figures used are the Bloomberg "adjusted" betas.

¹¹ MSCI is calculated using local currency so that there is no impact of currency changes in the performance of the index.



Equity Beta Factors for Selected Listed Mortgage and Consumer Lending and Loan Servicing Companies							
Company	Market Capitalisation ⁷ (millions)	Monthly Observations over 5 years LBS ⁸	Monthly Observations over 4 years			Weekly Observations over 2 years	
			SIRCA ⁹	Bloomberg ¹⁰		Bloomberg	
				Local Index	MSCI ¹¹	Local Index	MSCI
Australian Financial Business Process Outsourcing and Broking							
Computershare	A\$7,517		1.24	1.09	1.19	0.87	0.89
Credit Corp	A\$850		0.68	0.75	0.49	0.90	0.90
Mortgage Choice	A\$296		1.17	1.04	1.09	0.72	0.63
Collection House	A\$181		0.77	0.71	0.79	0.58	0.47
<i>Minimum</i>			0.68	0.71	0.49	0.53	0.47
<i>Maximum</i>			1.17	1.09	1.19	0.90	0.90
<i>Median</i>			0.97	0.90	0.94	0.80	0.68
United States Mortgage Servicers							
Nationstar Mortgage	US\$1,647			1.19	1.07	1.50	1.49
PHH	US\$728			1.75	1.99	1.31	1.26
PennyMac Financial	US\$402			0.80	0.87	0.80	0.73
Ocwen Financial	US\$380			1.20	1.39	1.09	1.26
Walter Investment	US\$18			0.63	0.71	1.31	1.52
<i>Minimum</i>				0.63	0.87	0.80	0.73
<i>Maximum</i>				1.75	1.99	1.50	1.52
<i>Median</i>				1.19	1.07	1.31	1.26
United Kingdom and Ireland Specialist Lenders							
Paragon	£1,099	1.05		0.83	1.28	0.67	0.93
Provident	£1,330	0.89		0.64	0.87	0.67	0.77
OneSavings	£966	0.83				0.49	0.74
Aldermore	£775	0.87				0.64	1.15
Permanent TSB	€839	0.97		-3.01	2.59	1.10	1.33
<i>Minimum</i>		0.87		-3.01	0.85	0.49	0.74
<i>Maximum</i>		1.05		0.83	2.59	1.10	1.33
<i>Median</i>		0.87		0.64	0.87	0.67	0.93
Korean Banks (billions)							
BNK Financial	₩3,292			1.34	0.80	1.18	0.83
DGB Financial	₩1,903			1.08	0.90	1.07	0.92
Kwangui Bank	₩654					0.73	0.62
Jeju Bank	₩164			1.15	0.79	0.82	0.83
<i>Minimum</i>				1.08	0.79	0.73	0.62
<i>Maximum</i>				1.34	0.90	1.18	0.83
<i>Median</i>				1.15	0.80	0.94	0.83

Source: SIRCA, London Business School, Bloomberg
 Note: SIRCA betas are only available for companies listed on the Australian Securities Exchange. London Business School betas are only available for companies listed on the London Stock Exchange. Shading is also used where there are insufficient data points for a reliable estimate of beta (i.e. betas calculated using monthly observations over four years where a company has been listed for less than four years)

The table shows outcomes that suggest it is extremely difficult to determine a reliable beta for either lending or loan servicing businesses:

- betas vary significantly depending on the measurement source (London Business School, SIRCA, Bloomberg etc.);



- individual company betas (for the same source/period) fall in a very wide range. For example, Bloomberg Four Year MSCI betas range from 0.40 (Money3) to 2.59 (Permanent TSB) although both of these betas should be treated as outliers; and
- some individual company betas vary significantly depending on which market index is utilised (local or MSCI). This is particularly the case for the United Kingdom and Ireland Mortgage Lenders/Services and the Korean Banks.

It should also be noted that a number of these companies (AFG, OneSavings, Aldermore and Kwangui Bank) were listed during the last four years. This may impact the observed betas and gearing levels for these companies.

Lending

The median beta for Australian non-bank specialist lenders is 0.69 as measured by SIRCA over four years, 0.66 as measured against their respective local share markets by Bloomberg over four years and 0.56 as measured against the MSCI by Bloomberg over four years. These betas are considerably lower than the comparable betas for Australian regional banks (at 0.94, 1.03 and 0.96 respectively). The median betas for United Kingdom and Ireland specialist lenders are generally consistent with those of Australian regional banks at 0.87 as measured by London Business School over five years and as measured against the MSCI by Bloomberg over four years (although the median beta measured against the local share market by Bloomberg is lower at 0.64).

Intuitively, it would be expected that the beta for the lending businesses would be greater than one given their reliance on access to funding, requirement to contribute capital to fund growth and exposure to macro economic conditions (such as interest rates, unemployment and changes to regulation) and their impact on loan default rates and house prices.

Taking all of these factors into account as well as the nature of the business and its exposure to macroeconomic factors, Grant Samuel believes that a beta in the range 1.1-1.2 is a reasonable estimate of the appropriate beta for Pepper's lending businesses.

Servicing

The median beta for Australian financial business process outsourcing and broking companies is 0.97 as measured by SIRCA over four years, 0.90 as measured against their respective local share markets by Bloomberg over four years and 0.94 as measured against the MSCI by Bloomberg over four years.

Consistent with the evidence above, it would be expected that the beta for the servicing businesses would be lower than that for the lending businesses given:

- reasonably stable cash flows (excluding performance fees), subject to attrition of the portfolio over time; and
- low ongoing capital requirements (as platforms are scaleable).

Grant Samuel has discounted the betas of United States mortgage servicing companies as they are structured differently to Pepper's servicing businesses (e.g. they are required to have a financial interest in the portfolios that they service) and as a result, have a different risk profile.

Grant Samuel's judgement is that a beta factor in the range 0.8-0.9 is appropriate for an established servicing business.



■ **Calculations**

Using the estimates set out above, the cost of equity capital for each of Pepper’s business operations can be calculated as follows:

Cost of Equity Capital		
Business	Low	High
Formula	$Re = Rf + Beta (Rm - Rf)$	
Lending		
Australia and New Zealand	= 2.7% + (1.1 x 6%) = 9.3%	= 2.7% + (1.2 x 6%) = 9.9%
South Korea	= 2.3% + (1.1 x 6%) = 8.9%	= 2.3% + (1.2 x 6%) = 9.5%
Ireland	= 0.7% + (1.1 x 6%) = 7.3%	= 0.7% + (1.2 x 6%) = 7.9%
United Kingdom	= 1.1% + (1.1 x 6%) = 7.7%	= 1.1% + (1.2 x 6%) = 8.3%
Spain	= 1.6% + (1.1 x 6%) = 8.2%	= 1.6% + (1.2 x 6%) = 8.8%
Servicing		
Ireland	= 0.7% + (0.8 x 6%) = 5.5%	= 0.7% + (0.9 x 6%) = 6.1%
United Kingdom	= 1.1% + (0.8 x 6%) = 5.9%	= 1.1% + (0.9 x 6%) = 6.5%
Spain	= 1.6% + (0.8 x 6%) = 6.4%	= 1.6% + (0.9 x 6%) = 7.0%

3.2 Cost of Debt

A cost of debt of 5% has been adopted. This figure represents the expected future cost of borrowing over the duration of the cash flow model. Grant Samuel believes that this would be a reasonable estimate of an average interest rate, including a margin, that would match the duration of the cash flows assuming that the operations were funded with a mixture of short term and long term debt. This margin:

- reflects margins currently paid by Pepper on its existing corporate debt facilities (albeit that these have a maturity of less than ten years);
- reflects Grant Samuel’s understanding of current market margins for companies of a comparable credit standing to Pepper; and
- allows for margin between government bonds (i.e. the risk free rate and lending benchmarks (i.e. interbank lending/swap rates).

3.3 Debt/Equity Mix

In determining an appropriate debt/equity mix, regard was had to gearing levels of the companies used in the beta analysis. Gearing levels for these companies for the past five years are set out below:



Gearing Levels for Selected Listed Mortgage and Consumer Lending and Loan Servicing Companies							
Net Debt/(Net Debt + Market Capitalisation)							
	Financial Year					4 Year Average	5 Year Average
	Historical 5	Historical 4	Historical 3	Historical 2	Historical 1		
Australian Non-Bank Specialist Lenders							
SG Fleet		-3%	-8%	7%	12%	2%	
AFG			82%	82%	79%	81%	
Money3	2%	-3%	5%	12%	10%	7%	6%
Thorn	7%	11%	24%	39%	56%	33%	28%
FSA	72%	59%	61%	67%	65%	63%	65%
Homeloans							
Cash Converters	10%	17%	18%	22%	15%	18%	16%
<i>Minimum</i>	2%	-3%	-8%	7%	10%	2%	6%
<i>Maximum</i>	72%	59%	82%	82%	79%	81%	65%
<i>Median</i>	9%	11%	21%	31%	35%	25%	28%
Australian Financial Business Process Outsourcing and Broking							
Computershare	18%	15%	16%	21%	12%	16%	16%
Credit Corp	8%	9%	20%	20%	20%	14%	12%
Mortgage Choice	-4%	-4%	-3%	-4%	-3%	-3%	-4%
Collection House	18%	17%	16%	25%	32%	22%	21%
<i>Minimum</i>	-4%	-4%	-3%	-4%	-3%	-3%	-4%
<i>Maximum</i>	18%	17%	20%	25%	32%	22%	21%
<i>Median</i>	9%	11%	13%	20%	16%	15%	14%
United States Mortgage Servicers							
Nationstar Mortgage	66%	77%	76%	90%	90%	83%	80%
PHH	82%	41%	29%	35%	31%	34%	44%
PennyMac Financial	100%	67%	77%	86%	90%	80%	84%
Ocwen Financial	42%	41%	77%	86%	90%	74%	67%
Walter Investment	85%	92%	96%	97%	99%	96%	94%
<i>Minimum</i>	42%	41%	29%	35%	31%	34%	44%
<i>Maximum</i>	100%	92%	96%	97%	99%	96%	94%
<i>Median</i>	82%	67%	77%	86%	90%	80%	80%
United Kingdom and Ireland Specialist Lenders							
Paragon	93%	90%	90%	89%	91%	90%	91%
Provident	38%	35%	28%	23%	28%	28%	30%
OneSavings							
Aldermore				39%	51%		
Permanent TSB							
<i>Minimum</i>	38%	35%	6%	23%	28%	28%	30%
<i>Maximum</i>	93%	90%	90%	89%	91%	90%	91%
<i>Median</i>	66%	63%	28%	39%	51%	59%	61%

Source: Company Reports, IRESS, S&P Capital IQ, Bloomberg, Grant Samuel analysis

Note: Banks and other residential lenders (i.e. Homeloans, OneSavings and Permanent TSB) have been excluded from this table. Shading is also used where a company was not listed at the relevant balance date (i.e. SG Fleet, AFG, Aldermore)

The table shows a very wide range of gearing levels. The debt levels should actually be the weighted average measured over the same period as the beta factor rather than just at the current point in time. Moreover, these do not always bear any relationship to the betas of the individual companies. In some cases, lowly geared companies have equity betas towards the higher end of the range.



Having regard to the above, the debt/equity mix has been estimated as 70-80% equity and 20-30% debt. This is regarded as being broadly consistent with the beta factors of Australian financial business process outsourcing and broking companies (median beta of 0.97 based on SIRCA data, median four year average gearing of 15% but trending upwards).

Again, the gearing of United States mortgage servicing companies has been discounted given their different structure and risk profile.

3.4 WACC

On the basis of the parameters outlined and assuming a corporate tax rate of 12.5% for Ireland, 19% for the United Kingdom and 25% for Spain, the nominal WACCs are calculated to be as follows:

Calculated WACCs		
Business	Low	High
<i>Formula</i>	<i>= (Re x E/V) + (Rd x (1-t) x D/V)</i>	
Ireland	= (5.5% x 70%) + (5.0% x 0.875 x 30%) = 5.2%	= (6.1% x 80%) + (5.0% x 0.875 x 20%) = 5.8%
United Kingdom	= (5.9% x 70%) + (5.0% x 0.81 x 30%) = 5.3%	= (6.5% x 80%) + (5.0% x 0.81 x 20%) = 6.0%
Spain	= (6.4% x 70%) + (5.0% x 0.75 x 30%) = 5.6%	= (7.0% x 80%) + (5.0% x 0.75 x 20%) = 6.4%

4 Selection of Discount Rate

Grant Samuel's view is that the selected weighted average cost of capital should incorporate a margin over the calculated WACC range to reflect a broader range of evidence:

- global interest rates, including long term bond rates, are at low levels by comparison with historical norms reflecting the very substantial amounts of liquidity being pumped into many advanced economies (particularly Western Europe and the United States) to stimulate economic activity. Effective real interest rates are now low and, in some cases are negative. There is an argument that these conditions have now been present for some years and are therefore the "new normal". While there is some merit in this argument, Grant Samuel does not believe the current position is sustainable over the long term and, in our view, the risk is clearly towards a rise in bond yields. Indeed, in June 2017 the Federal Reserve in the United States raised interest rates for the third time in six months (albeit to a still low 1.25%).

Conceptually, the interest rates used to calculate the discount rate should recognise this expectation (i.e. they should be forecast for each future period) but for practical ease market practice is that a single average rate based on the current long term bond rate is generally adopted for valuation purposes. Some academics/valuation practitioners consider it to be inappropriate to add a "normal" market risk premium (e.g. 6%) to a temporarily depressed bond yield and argue that a "normalised" risk free rate should be used. This practice has become increasingly common among broker analysts. On this basis, an increase in the risk free rate to, say, 4% (still relatively low by historical standards) would, for example:

- increase the lending cost of equity range in each region to 10.6-11.2%; and
- increase the servicing WACC range in each region to around 7.5-8.5%;
- the 30 year bonds issued by the Australian government are trading at yields of 0.7% higher than equivalent 10 year bonds (the term premium for United States and United Kingdom bonds is only slightly lower at around 0.6-0.65%);
- the Gordon Growth Model ("GGM") is an alternative methodology for measuring the cost of equity capital and can provide some useful insights, particularly for mature businesses with consistent



dividend policies. Under the GGM, the implied cost of equity is calculated as the current forecast (dividend) yield plus the expected long term growth rate for the dividend ($Re = Dividend/Price + g$).

Prior to speculation in the media on 28 May 2017 that Pepper may be the subject of a change in control transaction, it was trading at FY17 dividend yield of around 3%. There are no long term forecasts of dividend growth but medium term broker forecasts indicate earnings per share growth rates (FY16-19) of around 13%, although this figure is distorted by the emerging profitability and ramp up of Pepper's European lending operations. Even assuming a more sustainable long term growth in earnings per share of 10%, the implied cost of equity capital is 13%. This compares to the CAPM based rates ranging from 7.3% (Ireland) to 9.9% (Australia);

- the one broker who values Pepper using discount cash flow analysis is currently adopting an equity cost of capital of 12% (a blended rate across all of Pepper's regions);
- for some of the regions in which Pepper operates, there are specific risks that would warrant the use of higher discount rates than those calculated by strict application of CAPM. In Grant Samuel's view, there is country/sovereign risk in South Korea (extremely high household debt, high government debt and geopolitical and economic risks associated with North Korea's military threats in the region and worsening trade relations with China and the United States), and, to a lesser extent, Spain (despite recent improvement the banking sector is fragile and there remains political uncertainty, high government debt (100% of GDP) and relatively high unemployment).

Theoretically, these types of factors should be factored into the cash flows by probability weighting various scenarios that reflect potential events occurring. However, in practice it is more common to increase the discount rate to reflect this added risk; and

- there are arguments for a small company premium (particularly relevant for Pepper's lending operations in Europe) which would increase the cost of equity capital but there is limited empirical evidence, particularly in Australia, as to the appropriate quantum of this premium (or the cut off points).

Having regard to these matters and the calculations set out above, the following discount rates have been selected for application in the discounted cash flow analysis:

Discount Rates		
Lending Businesses	Cost of Equity	
	Calculated	Selected
Australia and New Zealand	9.3-9.9%	10.5-11.5%
Pepper Savings Bank (South Korea)	8.9-9.5%	13.0-14.0%
Ireland	7.3-7.9%	11.5-12.5%
United Kingdom	7.7-8.3%	11.5-12.5%
Spain	8.2-8.8%	12.0-13.0%
Servicing Businesses	WACC	
	Calculated	Selected
Ireland	5.2-5.8%	7.5-8.5%
United Kingdom	5.3-6.0%	7.5-8.5%
Spain	5.6-6.4%	8.5-9.5%



Appendix 2

Market Evidence

1 Valuation Evidence from Transactions

Set out below is a summary of transactions involving non-bank specialist lending and loan servicing businesses in Australia and internationally over the last five years for which there is sufficient information to calculate meaningful valuation parameters:

Non-Bank Specialist Lending - Australasia

Recent Transaction Evidence – Non-Bank Specialist Lending in Australasia						
Date	Target	Transaction	Consideration ¹ (millions)	PE Multiple (times)		NTA Multiple ² (times)
				Historical	Forecast	
Jan 17	UDC Finance	Acquisition by HNA Group	NZ\$660	11.3	11.4	1.6
Jul 16	RESIMAC	Merger with Homeloans	\$134	9.9	9.6	1.6
Oct 15	Fisher & Paykel Finance	Acquisition by FlexiGroup	NZ\$294	9.9	9.8	2.8
Jan 14	Bluestone Group	Acquisition of significant interest by LDC	\$120	9.0	na ³	na

Source: Grant Samuel analysis⁴

A summary of each transaction is set out below:

UDC Finance / HNA

On 11 January 2017, Chinese conglomerate HNA Group (“HNA”) announced the acquisition of asset and equipment finance provider UDC from Australia and New Zealand Banking Group Limited for NZ\$660 million. UDC is New Zealand’s largest non-bank lender with NZ\$2.6 billion in gross loans in 2016 across a portfolio that includes vehicle, plant, equipment and machinery finance. HNA is China’s largest non-bank leasing company with 410,000 employees across Asia, North America and Europe. The acquisition provides HNA with significant growth opportunities in the Australian and New Zealand markets, and creates a number of synergies with HNA’s existing lending business. The transaction has not yet completed and is awaiting approval from both the Overseas Investment Commission (in New Zealand) and Chinese regulators.

RESIMAC / Homeloans

On 20 July 2016, ASX-listed company Homeloans Limited (“Homeloans”) entered into a scheme implementation agreement with privately-owned RESIMAC, under which Homeloans would merge with RESIMAC. Homeloans and RESIMAC are highly complementary businesses, with both primarily operating in the prime residential mortgage segment. As at 30 June 2016, RESIMAC had a loan book in excess of \$5 billion and offered a broad range of branded and third party lending products through a variety of distribution channels (online direct to consumer, mortgage aggregator, third party mortgage providers).

The combined loan portfolio of the merged company exceeded \$13 billion, with new annual originations of over \$3 billion. The merged group was also expected to deliver full-run rate cost synergies (pre-tax) of \$6 million with 12 to 18 months of implementation of the merger.

¹ Implied equity value if 100% of the company or business had been acquired.

² Represents gross consideration divided by net tangible assets (that is, net assets less intangible assets) as at latest balance date.

³ na = not available.

⁴ Grant Samuel analysis based on data obtained from IRESS, S&P Capital IQ, company announcements, transaction documentation and, in the absence of company published financial forecasts, brokers’ reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each transaction depends on analyst coverage, availability and corporate activity.



On completion of the transaction, RESIMAC shareholders held 72.5% of the merged group (with RESIMAC's largest shareholder holding 57.3%). As the consideration was 100% scrip, the implied PE multiples differ depending on the Homeloans share price used, and vary from 9.3 to 11.2 times (historical) and 9.0-10.8 times (forecast). The implied PE multiples post synergies are considerably lower at 7.6 times (historical) and 7.4 times (forecast), although again this depends on the share price used.

Fisher & Paykel Finance / FlexiGroup

On 27 October 2015, FlexiGroup Limited ("FlexiGroup") announced that it had acquired Fisher & Paykel Finance for NZ\$250 million cash plus a NZ\$65 million deferred consideration. Fisher & Paykel Finance was a leading provider of non-bank consumer credit in New Zealand, with receivables of NZ\$662 million, over 12,000 partnerships and 430,000 active cardholders. Fisher & Paykel Finance operated a portfolio of high-quality, well recognised brands that included *Q Card* and *Farmers Finance Card*.

The transaction was transformational for FlexiGroup and provided an entry point into the New Zealand consumer finance market. The acquisition also created significant operational scale, with the combined entity having receivables of over \$2.0 billion and delivering synergies through rationalisation of costs, leveraging FlexiGroup's collections processes and debt sales expertise and integrating parts of Fisher & Paykel Finance with its existing commercial leasing business in New Zealand.

Bluestone Group / Lloyds Development Capital

On 28 January 2014, United Kingdom based mid-market private equity group, Lloyds Development Capital, acquired a significant interest in Bluestone Group ("Bluestone"). Bluestone has two core operating divisions, Capital Management and Asset Management. Its Capital Management division focuses on raising and investing capital in financial assets, funding non-conforming residential mortgages in Australia, specialist auto loans and SME asset finance and acquiring SME non-performing loan portfolios. The Asset Management division has originated over £3.75 billion in mortgages and other asset backed portfolios since 2000 and is responsible for the operation and management of the group's financial and real estate assets.

Non-Bank Specialist Lending - Europe

Recent Transaction Evidence – Non-Bank Specialist Lending in Europe						
Date	Target	Transaction	Consideration (millions)	PE Multiple (times)		NTA Multiple (times)
				Historical	Forecast	
May 17	Popular Servicios Financieros	Acquisition by Abanca	€39	17.7	na	1.5
Mar 17	Shawbrook	Acquisition by Marlin Bidco	£852	12.7	9.8	2.3
Dec 15	Everyday Loans	Acquisition by Non-Standard Finance	£237	16.1	na	1.8
Jan 15	Premium Credit	Acquisition by Cinven	£462	15.8	14.0	2.9
Oct 13	Financiera El Corte Inglés	Acquisition of 51% by Banco Santander	€275	6.6	5.4	1.3

Source: Grant Samuel analysis

A summary of each transaction is set out below:

Popular Servicios Financieros / Abanca

On 2 May 2017, Abanca announced the acquisition of Popular Servicios Financieros, formerly the consumer division of Banco Pastor, for €39 million. Popular Servicios Financieros specialises in consumer finance and has more than 15,000 agreements with retailers and dealers in Spain and Portugal. Popular Servicios Financieros had 500,000 clients and a loan portfolio at the end of December 2016 of approximately €200 million.



Shawbrook / Pollen Street Capital and BC Partners

On 21 June 2017, Shawbrook Bank plc (“Shawbrook”) received a revised offer from Marlin Bidco (a company jointly owned by funds managed and/or advised by Pollen Street Capital and BC Partners). Shawbrook was initially approached by Marlin Bidco in March 2017, making a £825 million offer which was rejected. Shawbrook is a specialist lending and savings bank with a focus on underserved customer segments across the SME and consumer markets in the United Kingdom. The company operates in property finance (its largest segment), business finance and consumer lending (its smallest segment) and consumer saving. In CY16, Shawbrook originated £1.9 billion in loans and as at 31 December 2016 it had a customer loans balance of £4.1 billion.

Everyday Loans / Non-Standard Finance

On 4 December 2015, Non-Standard Finance plc agreed to acquire Everyday Loans Holdings Limited (“Everyday Loans”) from Secure Trust Bank for a consideration of £237 million. Everyday Loans provides unsecured personal loans focusing on customers in the lower-prime and sub-prime sectors. Everyday Loans was the largest branch-based consumer finance lender in the United Kingdom’s non-standard finance sector with 41 branches. At the time of acquisition, Everyday Loans had over 39,600 active customers with loans carrying APRs ranging from 24% to 299%, loan amounts ranging from £1,000 to £15,000 and loan terms ranging from one to five years.

Premium Credit / Cinven Partners

On 13 January 2015, buyout group Cinven Partners LLP agreed to acquire Premium Credit from GTCR LLC for £462 million. Premium Credit is a speciality finance provider in the United Kingdom that provides financing for insurance premiums and a variety of annual fees, including school fees and membership subscriptions. It has over 2 million customers, works with 4,000 intermediaries and had loan advances of £3.7 billion in 2013.

Financiera El Corte Inglés / Banco Santander

On 7 October 2013, Banco Santander and El Corte Inglés signed a strategic agreement under which Santander Consumer Finance, the bank’s consumer finance subsidiary, would acquire 51% of Financier El Corte Inglés. The acquisition valued the business at €415 million. At the time of acquisition, Financier El Corte Inglés was the largest consumer finance business in Spain and Portugal with more than 10.5 million store card customers. The acquisition allowed Santander to diversify its Spanish and Portuguese portfolios.

Loan Servicing

Recent Transaction Evidence – Loan Servicing						
Date	Target	Transaction	Consideration (millions)	EBITDA Multiple ⁵ (times)		NTA Multiple (times)
				Historical	Forecast	
<i>Europe</i>						
Jun 17	Capita Asset Services	Acquisition by Link	£888	12.4	11.9	4.2
Sep 14	Kensington Group	Acquisition by Blackstone and TPG	£180	na	na	1.1
Jul 14	Homeloan Management	Acquisition by Computershare	£48	8.5	na	1.3
<i>United States</i>						
Feb 16	Capital Markets Cooperative	Acquisition by Computershare	US\$98	na	7.4	9.8
Aug 11	Specialized Loan Servicing	Acquisition by Computershare	US\$111	na	3.5	4.0

Source: Grant Samuel analysis

⁵ Represents gross consideration divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation and amortisation.



A summary of each transaction is set out below:

Capita Asset Services / Link

On 26 June 2017, Link Administration Holdings Limited (“Link”) announced that it had entered into a binding agreement to acquire United Kingdom-based Capita Asset Services (“CAS”) for £888 million. CAS administers approximately £600 billion in assets and in 2016 managed approximately £45 billion in annual payments for its customers. CAS is highly complementary to Link and provided established market positions in the United Kingdom and Europe.

Kensington / Blackstone & TPG

On 9 September 2014, funds managed and/or advised by Blackstone Tactical Opportunities (“Blackstone”) and by TPG Special Situations Partners (“TPG”) agreed to acquire Kensington Group (“Kensington”), the specialty United Kingdom residential mortgage lender, from Investec plc. Kensington was a well-established leader in the specialist mortgage market that had been trading successfully for almost 20 years. It was one of the founders of the United Kingdom specialist lending market, developing industry-leading underwriting capabilities. As at 31 March 2014, Kensington had gross assets of £3.7 billion, approximately 140 employees and about 30,000 customers.

HML / Computershare

On 23 July 2014, Computershare agreed to acquire Homeloan Management Limited (“HML”) from Skipton Building Society for an upfront consideration of £47.5 million. HML was the United Kingdom’s largest third party mortgage administration business and at the time of acquisition, had approximately £37 billion of mortgage assets under administration (representing ~62% of the third-party mortgage administration market in the United Kingdom). The transaction was expected to deliver synergies progressively over the first two to three years of ownership.

Capital Markets Cooperative / Computershare

On 4 February 2016, Computershare announced that it had agreed to acquire Florida-based Capital Markets Cooperative LLC (“CMC”). CMC enables a network of mortgage originators across the United States to leverage their collective power to receive better product, service, pricing and liquidity solutions during the processing, sale and servicing of mortgages. At the time of acquisition, CMC had more than 200 originator clients with a combined annual loan origination of over \$100 billion.

Specialized Loan Servicing / Computershare

On 1 December 2011, Computershare expanded the United States mortgage market with the announcement that it had finalised the acquisition of primary and special fee-based residential mortgage loan servicer Specialized Loan Servicing, LLC (“SLS”) for a cash consideration of US\$113.6 million. As a fee-based servicer, SLS did not own, originate or take assignment of underlying residential mortgage loans but rather earned fees for processing mortgage payments. SLS serviced over 219,000 loans and represented over US\$16.5 billion in unpaid principal balances, which represented approximately 6% of total market share.



2 Valuation Evidence from Sharemarket Prices

The valuation of Pepper has been considered in the context of the sharemarket ratings of listed Australasian non-bank financial institutions, regional banks and process outsourcing/broking companies, United Kingdom and Irish specialist lenders, South Korean regional banks, specialist mortgage loan servicers in the United States and a select group of international consumer finance providers. While none of these companies is directly comparable to Pepper, the sharemarket data provides some framework to assess valuation parameters for Pepper’s individual business operations.

The multiples shown below have been calculated based on sharemarket prices as at 29 August 2017 and do not reflect a premium for control.

Australian Non-Bank Financial Institutions

Sharemarket Ratings of Selected Listed Australian NBFIs							
Company	Activities	Market Capitalisation ⁶ (millions)	PE Multiple ⁷ (times)		Dividend Yield (%)		NTA ⁸ Multiple (times)
			Historical	Forecast	Historical	Forecast	
McMillan Shakespeare	Vehicle fleet leasing	\$1,238	14.2	12.9	4.4	4.6	10.3
SG Fleet	Vehicle fleet leasing	\$1,052	15.3	13.3	4.0	4.4	(5.4)
Eclix	Vehicle fleet leasing	\$940	17.0	13.2	4.2	4.3	13.9
FlexiGroup	Consumer finance	\$625	6.9	6.9	4.6	4.6	2.6
Scottish Pacific Group	Debtor and trade finance	\$380	12.9	10.4	-	6.6	9.6
AFG	Mortgage broking	\$339	11.3	10.6	6.1	7.0	3.2
Silver Chef	Hospitality finance	\$287	14.2	11.7	5.2	5.2	1.8
Money3	Consumer finance	\$224	7.7	6.5	3.5	3.6	1.4
Thorn	Consumer finance	\$202	6.4	7.0	6.3	6.8	1.1
Homeloans	Mortgage finance	\$187	10.0	na	3.2	-	1.6
Cash Converters	Consumer finance	\$182	8.8	8.6	-	-	1.4
FSA	Consumer finance	\$179	12.4	10.5	4.9	5.6	2.3
<i>Median</i>			<i>11.8</i>	<i>10.4</i>	<i>4.3</i>	<i>4.6</i>	<i>2.0</i>
<i>Average</i>			<i>11.4</i>	<i>9.3</i>	<i>3.9</i>	<i>4.4</i>	<i>3.6</i>
<i>Weighted average</i>			<i>12.9</i>	<i>10.9</i>	<i>4.0</i>	<i>4.6</i>	<i>4.9</i>

Source: S&P Capital IQ, Company Reports and Grant Samuel analysis⁹

The companies above all have a 30 June year end except for Thorn Group Limited (“Thorn”) and Eclix Group Limited (“Eclix”) which have 31 March and 30 September year ends respectively.

Given Pepper’s unique business operations, there are limited comparable peers within the Australian non-bank financial institutions sector. Following its merger with RESIMAC in 2016, Homeloans is the most comparable company to Pepper. It operates as a direct competitor to Pepper in the residential mortgage sector and originated A\$3.6 billion of residential mortgage solutions in Australia and New Zealand in FY17. However, unlike Pepper, Homeloans has historically focused its lending on the prime segment of the market, which represented 74% of originations in FY17.

⁶ Market capitalisation based on sharemarket prices as at 29 August 2017.

⁷ Represents market capitalisation divided by net profit after tax (before significant and non-recurring items).

⁸ Represents market capitalisation divided by net tangible assets (that is, shareholders’ funds less intangibles as at the latest balance date).

⁹ Grant Samuel analysis based on data obtained from IRESS, S&P Capital IQ, company announcements and, in the absence of company published financial forecasts, brokers’ reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.



FlexiGroup Limited (“FlexiGroup”) operates as a consumer-focused speciality finance provider with a diversified product suite and similar customer base and size to Pepper. However, FlexiGroup’s product offering is focused on short-term, small-scale loans for items such as household equipment, furniture, travel and electronics.

Australian Finance Group Limited (“AFG”) and FSA Group Limited (“FSA”) offer residential mortgages and consumer finance respectively. However, in both cases, these products do not represent the majority of earnings. AFG is primarily a residential and commercial mortgage broking group but also offers white label mortgage products via warehouses and term securitisations. As at 30 June 2017, it had a residential mortgage book of \$5.5 billion and its home loans business contributed 36% of adjusted FY16 NPAT. FSA operates in two distinct segments, debt services and consumer lending. However, its residential mortgage portfolio remains sub-scale and the consumer lending segment only contributed 30% of profit before tax in FY17.

Companies such as Thorn, Money3 Corporation Limited (“Money3”) and Cash Converters Limited (“Cash Converters”) are speciality Australian non-bank financial institutions that offer small consumer leasing and personal loan products to customers. These businesses tend to focus their lending activities on non-traditional, non-prime borrowers, similar to Pepper’s focus on the non-conforming residential mortgage market.

Grant Samuel has excluded from its analysis Australian non-bank financial institutions that have limited similarities to Pepper. These companies include the large-scale fleet vehicle management companies (McMillan Shakespeare Limited (“McMillan Shakespeare”), SG Fleet Group Limited (“SG Fleet”) and Eclix). These fleet management companies are currently trading on higher earnings multiples. However, their customer bases consist predominantly of large corporates and SMEs (rather than individuals). Similarly, Scottish Pacific Group Limited (“Scottish Pacific”), a provider of debtor and trade finance for the commercial sector and Silver Chef Limited (“Silver Chef”), a provider of hospitality and business equipment finance, also have a commercial customer base focus and therefore not regarded as comparable to Pepper.

Australia/New Zealand Regional Banks

Sharemarket Ratings of Selected Listed Australian and New Zealand Regional Banks				
Company	Market Capitalisation (millions)	PE Multiple (times)		NTA Multiple (times)
		Historical	Forecast	
Bendigo and Adelaide Bank	\$5,755	13.8	12.1	1.5
Bank of Queensland	\$4,951	13.8	13.1	1.8
Heartland Bank	NZ\$971	16.0	14.5	1.9
MyState	\$424	14.1	13.0	1.9
Auswide Bank	\$228	14.6	12.7	1.4
<i>Median</i>		<i>14.1</i>	<i>13.0</i>	<i>1.8</i>
<i>Average</i>		<i>14.4</i>	<i>13.1</i>	<i>1.7</i>
<i>Weighted average</i>		<i>13.9</i>	<i>12.7</i>	<i>1.7</i>

Source: S&P Capital IQ, Company Reports and Grant Samuel analysis

The companies above all have a 30 June year end except for Bank of Queensland Limited which has a 31 August year end.

The listed regional banks are regulated ADIs that operate large residential mortgage lending businesses, primarily aimed at the high-quality prime segment of the market. Despite the regional banks operating in direct competition with Pepper’s prime residential mortgage business in Australia, they have a fundamentally different business model. As regulated ADIs, the regional banks benefit from a lower cost of funds and the ability to utilise customer deposits to support loan originations. They are also required to comply with tight regulatory and capital requirements.



South Korean Regional Banks

Sharemarket Ratings of Selected Listed Companies – South Korean Regional Banks				
Company	Market Capitalisation (billions)	PE Multiple (times)		NTA Multiple (times)
		Historical	Forecast	
BNK Financial Group	KRW3,292	6.6	5.9	0.5
DGB Financial Group	KRW1,937	6.7	6.0	0.5
Kwangju Bank	KRW659	6.4	4.3	0.5
Jeju Bank	KRW164	6.5	5.6	0.5
<i>Median</i>		6.5	5.8	0.5
<i>Average</i>		6.5	5.5	0.5
<i>Weighted average</i>		6.6	5.8	0.5

Source: S&P Capital IQ, Company Reports and Grant Samuel analysis

The companies above all have a 31 December year end.

There are no stand alone publicly listed mutual savings banks in South Korea. Mutual savings banks are either operated by major bank holding companies or other entities with strong capital backing. Grant Samuel has excluded from consideration the large-scale, first-tier, publicly listed South Korean banks as they are significantly larger than Pepper Savings Bank and are not a direct competitor as they focus their lending activities on the lower margin customer segments.

United Kingdom and Ireland Specialist Lenders

Sharemarket Ratings of Selected Listed United Kingdom and Ireland Specialist Lenders							
Company	Activities	Market Capitalisation (millions)	PE Multiple (times)		Dividend Yield (%)		NTA Multiple (times)
			Historical	Forecast	Historical	Forecast	
Paragon	Mortgage and consumer finance	£1,083	9.1	9.2	3.3	3.5	1.2
OneSavings Bank	Mortgage and consumer finance	£944	9.3	8.3	2.7	3.4	1.8
Aldermore	Mortgage and consumer finance	£761	7.9	7.2	-	1.3	1.2
Permanent TSB	Regional bank	€791	nmc ¹⁰	8.6	-	-	0.4
<i>Median</i>			8.5	8.5	3.0	3.4	1.2
<i>Average</i>			5.8	8.3	3.0	2.7	1.2
<i>Weighted average</i>			6.4	8.4	3.0	2.9	1.2

Source: S&P Capital IQ, Company Reports and Grant Samuel analysis

The companies above all have a 31 December year end except for The Paragon Group of Companies plc (“Paragon”) which has a 30 September year end.

The United Kingdom and Ireland specialist lenders have a similar product offering and customer base to Pepper, however they operate on a significantly larger scale. The most relevant comparable companies to Pepper include Paragon and Aldermore Group plc (“Aldermore”).

Paragon operates in the mortgage and consumer finance sectors in the United Kingdom. It has three business units, Paragon Mortgages, Idem Capital and Paragon Bank. Paragon Mortgages originates and services buy-to-let mortgages funded through dedicated warehouse facilities and securitisation. It had over £8.6 billion of buy-to-let loans across 67,000 accounts as at 31 December 2016. Idem Capital acquires and services consumer loan portfolios funded through a mix of external limited-recourse funding and group working capital. It manages £283 million of loans and it has recently started selling loans to Paragon Bank (because of its access to cheaper funding). Paragon Bank is a deposit-funded bank with £1.7 billion of loans as at 31 December 2016. It is involved in buy-to-let lending, car finance, second

¹⁰ nmc = not a meaningful calculation.



charge mortgages and development finance. Paragon is similar to Pepper in terms of its funding structures (warehouses, securitisation), small servicing business and exposure to the consumer mortgage market. However, it also has some significant differences, including its bank operation and its strong focus on buy-to-let lending.

Aldermore is a United Kingdom bank that focuses on secured and unsecured lending to the SME market and residential mortgages for retail customers. It operates across five segments, asset finance, invoice finance, SME commercial mortgages, buy-to-let, and residential mortgages. The bank is primarily funded through online retail and SME deposits, capital markets (RMBS and bonds) and the United Kingdom Funding for Lending Scheme. As at 30 June 2017, it had loans of £8.1 billion, of which £6.2 billion (76%) were residential and buy-to-let mortgages. In the residential lending space, Aldermore targets prime customers that are underserved by traditional banks but still creditworthy. As such, Aldermore can be regarded as a competitor to Pepper at the bottom end of the prime lending spectrum. However, its deposit funding wider range of products do differentiate it from Pepper.

Less comparable businesses include OneSavings Bank plc (“OneSavings Bank”), Provident Financial Group plc (“Provident”), and Permanent TSB Group Holdings plc (“Permanent TSB”):

- OneSavings Bank focuses on three main segments of the lending market, residential mortgages (bespoke first charge mortgages, second charge mortgages and shared ownership mortgages), buy-to-let and SME loans. It originates its lending through specialist intermediaries and secure funding lines (wholesale loan purchases). OneSavings Bank is predominantly funded by retail deposits originated through online and direct channels, as well as through a *Kent Reliance* branded network of branches. As at 30 June 2017 it had loan assets of £6.5 billion, of which 66% were buy-to-let loans, 26% were residential mortgages and 8% were SME loans. Despite many similarities to Pepper, OneSavings Bank is considered less comparable because of its deposit funding structure;
- Provident Financial is a specialist non-standard lender with over 2.5 million customers across credit cards, consumer credit and vehicle finance in the United Kingdom, Ireland and Poland. While it operates in the non-prime market, its focus is primarily on smaller ticket, higher APR products. Provident Financial offers non-standard revolving credit cards through Vanquis Bank (APR of 39.9-59.9%), door to door and online loans under the *Satsuma* brand (APRs of 299-991%) and car and van finance through the *Moneybarn* brand (APRs of 20-50%). Provident Financial has a significant exposure to the United Kingdom non-standard lending market. However, following its second profit warning for CY17 and cancellation of its interim dividend at the end of August 2017 as well as an ongoing FCA investigation, its share price has fallen by 70% and its trading multiples are not meaningful; and
- Permanent TSB operates a network of bank branches across Ireland offering its 1.1 million customers residential mortgages, term loans, credit cards and overdrafts. It had a loan book of €18.6 billion as at 30 June 2017 and the majority (68%) of its loans are prime owner occupied. Permanent TSB is funded through customer deposits (80%), wholesale of loans (13%) and ECB funding (7%). It competes with Pepper Ireland in the prime residential mortgage space but it has a different funding structure and is therefore a less comparable peer.

International Consumer Finance Providers

Sharemarket Ratings of Selected Listed Companies – International Consumer Finance Providers							
Company	Activities	Market Capitalisation (millions)	PE Multiple (times)		Dividend Yield (%)		NTA Multiple (times)
			Historical	Forecast	Historical	Forecast	
International Personal Finance	Personal loans	£414	6.2	6.4	6.3	6.3	1.0
Non-Standard Finance	Personal loans	£254	nmc	16.2	4.6	5.2	2.6
S&U	Consumer and motor finance	£240	11.8	9.9	1.5	2.9	1.7
<i>Median</i>			<i>9.0</i>	<i>9.9</i>	<i>4.6</i>	<i>5.2</i>	<i>1.7</i>
<i>Average</i>			<i>9.0</i>	<i>10.8</i>	<i>4.1</i>	<i>4.8</i>	<i>1.8</i>
<i>Weighted average</i>			<i>8.9</i>	<i>10.1</i>	<i>4.5</i>	<i>5.1</i>	<i>1.6</i>

Source: S&P Capital IQ, Company Reports and Grant Samuel analysis



The companies above all have a 31 December year end except S&U plc (“S&U”) which has a 31 January year end.

The companies above are listed providers of consumer finance. Their primary activities include the provision of unsecured personal loans to non-prime and non-traditional borrowers.

International Personal Finance plc (“International Personal Finance”) provides home credit under the *Provident* brand (loans up to £400) and digital loans under various brands (loans up to £3,500) in Poland, Lithuania, the Czech Republic, Slovakia, Southern Europe and Mexico. As at 30 June 2017, it had 2.4 million customers and loan assets of £1.0 billion. The company funds its loans through a combination of locally issued bonds and bank borrowings. As a result, it is required to adhere to strict covenants including gearing, interest cover, equity and caps on lending. While International Personal Finance’s business model resembles Pepper Spain, the funding structure is different.

Non-Standard Finance plc (“Non-Standard Finance”) provides unsecured personal loans to approximately 140,000 customers in the United Kingdom. It offers branch-based unsecured lending under the *Everyday Loans* brand (maximum size of £15,000, APR of 24-299%), personal loans under the *Home Credit* brand (maximum loan size of £1,000t, APR of 164-733%) and unsecured guaranteed loans under the *Trusttwo* brand (maximum loan size of £7,500, APR of 44-49%). Non-Standard Finance has a high exposure to the non-conforming consumer lending market in the United Kingdom (smaller size, higher APR unsecured loans). As such, it is comparable to Pepper’s Spanish lending operations. However, Non-Standard Finance made an operating loss of £5.2 million in 2016 and the recent (August 2017) acquisition of George Banco, a loan guarantor company which is complementary to Non-Standard Finance’s *Trusttwo* business, has resulted in a re-rating which has distorted the forecast PE multiple.

S&U provides motor finance under the *Advantage* brand to over 43,000 customers and had net receivables of £194 million as at 31 January 2017. The business is funded through a combination of bank facilities (term loans, overdrafts and revolving credit facilities).

United States Specialist Mortgage Loan Servicers

Sharemarket Ratings of Selected Listed Companies – United States Mortgage Loan Servicers						
Company	Market Capitalisation (millions)	EBITDA Multiple (times)		PE Multiple (times)		NTA Multiple (times)
		Historical	Forecast	Historical	Forecast	
Nationstar Mortgage	US\$1,645	na	29.2	21.2	15.2	1.1
PHH Corporation	US\$729	na	na	nmc	na	0.8
PennyMac Financial Services	US\$400	na	na	6.0	7.3	1.1
Oewen Financial Corporation	US\$377	23.0	na	nmc	nmc	(0.9)
Walter Investment Management	US\$16	na	70.3	nmc	nmc	(0.1)
<i>Median</i>		<i>nc¹¹</i>	<i>nc</i>	<i>nc</i>	<i>nc</i>	<i>0.8</i>
<i>Average</i>		<i>nc</i>	<i>nc</i>	<i>nc</i>	<i>nc</i>	<i>0.4</i>
<i>Weighted average</i>		<i>nc</i>	<i>nc</i>	<i>nc</i>	<i>nc</i>	<i>0.9</i>

Source: S&P Capital IQ, Company Reports and Grant Samuel analysis

The companies above all have a 31 December year end.

Like Pepper, non-bank listed mortgage servicers in the United States experienced an increased level of activity in their portfolios following the global financial crisis as a result of both an increase in the number of delinquent borrowers from distressed lenders and the stricter regulatory capital requirements on lenders.

¹¹ nc = not calculated.



However, in the United States, third party mortgage servicers are required to acquire “mortgage servicing rights” and advance principal, interest, tax and insurance payments on behalf of borrowers and therefore have significant capital requirements. The United States mortgage servicers also have direct access to a significantly larger residential mortgage market and service much larger portfolios.

The earnings multiples for PHH Corporation, Ocwen Financial Corporation and Walter Investment Management Corporation (“Walter Investment Management”) are not meaningful given the companies have been loss making in recent financial years. The available EBITDA multiples are not meaningful given the significant capital requirements of third party mortgage servicers in the United States. On this basis, these United States companies have been excluded from Grant Samuel’s analysis.

Australian Business Process Outsourcing and Debt Management Companies

Sharemarket Ratings of Selected Listed Australian Business Services and Debt Managers					
Company	Activities	Market Capitalisation (millions)	PE Multiple (times)		NTA Multiple (times)
			Historical	Forecast	
Computershare	Business services	US\$7,446	28.0	22.4	(6.6)
Credit Corp	Debt collection	\$841	15.2	13.0	3.4
Mortgage Choice	Mortgage broker	\$296	13.1	12.3	3.0
Collection House	Debt collection	\$179	10.3	9.3	1.2
<i>Median</i>			<i>14.1</i>	<i>13.0</i>	<i>2.1</i>
<i>Average</i>			<i>14.4</i>	<i>13.1</i>	<i>0.2</i>
<i>Weighted average</i>			<i>13.9</i>	<i>12.7</i>	<i>-5.2</i>

Source: S&P Capital IQ, Company Reports and Grant Samuel analysis

The companies above all have a 30 June year end.

These companies provide a range of business services that expose them to the credit servicing and consumer mortgage markets. However, for the reasons outlined below, none are considered to be comparable to Pepper’s servicing business operations.

Computershare is a large diversified group that operates internationally and generates most of its revenues (\$2.3billion for CY17) in the United States (46%). It is a global market leader in transfer agency and share registration, provides employee equity plan administration, proxy solicitation and stakeholder communications. It also specialises in mortgage servicing, corporate trust, bankruptcy and class action administration, competing directly with Pepper in the United Kingdom in third party loan servicing. However, Computershare generates only 14% of its revenues from third party servicing in the United Kingdom and given its size, geographic diversification and breath of products, it is not considered comparable to Pepper’s servicing business operations.

Credit Corp Group Limited (“Credit Corp”) and Collection House Limited (“Collection House”) both specialise in debt purchasing and collection, and receivable management services. While their debt collection services resemble Pepper’s, these companies purchase and hold debts on their balance sheet whereas Pepper acts as a third party servicer. Consequently, these companies are not directly comparable to Pepper’s servicing business operations.

Mortgage Choice Limited (“Mortgage Choice”) provides mortgage broking services in Australia. It offers customers assistance in determining their borrowing capacity, assessing a range of home loans and other products and submits loan applications on behalf of borrowers. While Mortgage Choice has direct exposure to consumers and the lending market, it is not directly comparable to Pepper’s servicing business operations.



Appendix 3

Broker Consensus Forecasts

Pepper Group Limited (“Pepper”) has not publicly released earnings forecasts for CY17¹ or beyond. Accordingly, the prospective multiples implied by the valuation of Pepper in the Grant Samuel report are based on median broker forecasts. These forecasts are sufficiently close to Pepper’s CY17 Budget and CY18 forecast to be useful for analytical purposes.

Set out below is a summary of forecasts prepared by brokers that follow Pepper in the Australian stockmarket:

Pepper – Broker Forecasts (\$ millions)					
Broker	Date	Revenue		Adjusted NPAT ²	
		CY17	CY18	CY17	CY18
Broker 1	25 August 2017	459.4	501.8	70.8	81.2
Broker 2	25 August 2017	461.1	514.8	68.6	81.8
Median		460.3	508.3	69.7	81.5

Source: Brokers’ reports, Grant Samuel analysis

When reviewing this data the following should be noted:

- as far as Grant Samuel is aware, Pepper is followed by only two brokers;
- the forecasts presented above represent the latest available broker forecasts for Pepper and were released subsequent to Pepper announcing its results for 1HY17³; and
- as far as is possible to identify from a review of the brokers’ reports, Grant Samuel believes that the earnings forecasts do not incorporate any one-off adjustments or non-recurring items.

The brokers do not provide adjusted NPAT by region. To provide guidance by region for the purposes of assessing the prospective multiples implied by the valuations of each region, Grant Samuel has apportioned the consolidated consensus median forecast adjusted NPAT on the same basis as the CY17 Budget and the CY18 forecast:

Pepper – Adjusted NPAT by Region (\$ millions)					
Region	Company Forecast Proportion		Allocated Consensus Median Adjusted NPAT		
	CY17	CY18	CY17	CY18	
Australia and New Zealand	67%	60%	46.4	49.3	
Pepper Savings Bank	32%	32%	22.2	25.7	
PrimeCredit	13%	11%	9.0	9.2	
Europe	39%	37%	26.9	30.4	
Corporate	(50)%	(41)%	(34.8)	(33.1)	
Total	100%	100%	69.7	81.5	

These forecasts by region are sufficiently close to Pepper’s CY17 Budget and CY18 forecast to be useful for analytical purposes.

As the European business is substantially a servicing operation, the more relevant parameter for valuation purposes is EBITDA⁴. To provide guidance for Europe EBITDA, Grant Samuel has applied the effective tax

¹ CYXX is the year ending 31 December 20XX.

² NPAT is net profit after tax. Adjusted NPAT is before amortisation of acquired intangible assets.

³ 1HY17 is the six months ended 30 June 2017.

⁴ EBITDA is earnings before net interest, tax and depreciation and amortisation.



rate and the depreciation and amortisation allocation for CY16 to the allocated consensus median adjusted NPAT for Europe:

Pepper Europe – Estimate of EBITDA (\$ millions)		
	CY17	CY18
Allocated consensus median adjusted NPAT	26.9	30.4
Taxation ⁵	5.1	5.8
CY16 depreciation and amortisation ⁶	3.5	3.5
Estimated CY17 EBITDA	35.5	39.7

The estimated EBITDA for Pepper Europe is sufficiently close to Pepper's CY17 Budget and CY18 forecast to be useful for analytical purposes.

⁵ Assumes an effective tax rate of 16.0% calculated as \$3.128 million/\$19.506 million = 16.0%. Refer to page 57 of Pepper's CY16 Annual Report.

⁶ Refer to page 57 of Pepper's CY16 Annual Report.

Annexure C – Scheme of Arrangement



Scheme of Arrangement

Pepper Group Limited (**Pepper**)

The Scheme Shareholders

Jones Day
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Phillip Street
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Tel: 61 2 8272 0500
Fax: 61 2 8272 0599
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TABLE OF CONTENTS

	Page
1. DEFINITIONS AND INTERPRETATION	1
1.1 Definitions	1
1.2 Interpretation.....	4
2. PRELIMINARY	5
2.1 Pepper	5
2.2 Bidder	5
2.3 General.....	5
2.4 Consequence of this Scheme becoming Effective	6
3. CONDITIONS	6
3.1 Condition precedent.....	6
3.2 Certificate	7
3.3 End Date.....	7
4. IMPLEMENTATION.....	7
4.1 Effective Date	7
4.2 Lodgement of Court orders with ASIC.....	7
4.3 Transfer of Transferring Shares	7
5. SCHEME CONSIDERATION.....	8
5.1 Entitlement to Scheme Consideration	8
5.2 Election procedure	8
5.3 Foreign Scheme Shareholders	9
5.4 Determination of Scheme Consideration.....	9
5.5 Provision of Scheme Consideration	12
5.6 Joint holders	13
5.7 Fractional entitlements.....	13
5.8 Cancellation and reissue of cheques	14
5.9 Unclaimed monies	14
5.10 Status of HoldCo Shares	14
5.11 Order of a court or Government Agency	14
5.12 Definition of 'sending'.....	15
6. RETENTION ELECTION	15
6.1 General.....	15
6.2 Retained Shares Scaleback.....	15
6.3 Pro Rata Scaleback.....	16
6.4 Further Scaleback.....	16

TABLE OF CONTENTS
(continued)

	Page
6.5 Fractions	17
7. DEALINGS IN SHARES	17
7.1 Determination of Scheme Shareholders	17
7.2 Register	17
8. QUOTATION OF SHARES	18
9. GENERAL SCHEME PROVISIONS	18
9.1 Consent to amendments to this Scheme	18
9.2 Binding effect of Scheme	18
9.3 Scheme Shareholders' agreements and acknowledgment	18
9.4 Warranties by Scheme Shareholders	19
9.5 Title to and rights in Scheme Shares	19
9.6 Authority given to Pepper	19
9.7 Appointment of sole proxy	20
9.8 Instructions and elections	20
9.9 Amendments to Shareholders Deed and Share Rights Agreement	21
10. GENERAL	21
10.1 Further action by Pepper	21
10.2 Authority and acknowledgement	21
10.3 No liability when acting in good faith	21
10.4 Enforcement of Deed Poll	21
10.5 Stamp duty	21
10.6 Notices	22
10.7 Governing law	22

DATE

2017

This scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth).

BETWEEN THE PARTIES

- (1) **Pepper Group Limited** (ACN 094 317 665) (**Pepper**)
- (2) **The Scheme Shareholders**

OPERATIVE PROVISIONS

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691) or the Australian Securities Exchange, as the context requires.

Bidder means Red Hot Australia Bidco Pty Limited (ACN 620 321 600).

Bidder Confirmation Certificate has the meaning given in clause 4.3(a)(ii).

Business Day means a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Sydney, Australia.

Cash Scheme Consideration means an amount equal to the aggregate amount of the cash component of the Scheme Consideration payable to Scheme Shareholders under the terms of this Scheme.

CHES means the clearing house electronic subregister system of share transfers operated by ASX Settlement Pty Limited (ABN 49 008 504 532).

Corporations Act means the *Corporations Act 2001* (Cth).

Custodian has the meaning in the Shareholders Deed.

Custodian Deed has the meaning in the Shareholders Deed.

Court means the Federal Court of Australia (Sydney registry) or such other court of competent jurisdiction under the Corporations Act agreed to in writing by Pepper and Bidder.

Deed Poll means the deed poll dated [*] 2017 executed by Bidder and HoldCo under which each of Bidder and HoldCo covenant in favour of the Scheme Shareholders to perform (or procure performance) of its obligations as contemplated under this Scheme.

Dividend Record Date means 7.00pm on the date that is three Business Days after the Effective Date, or such other date as may be agreed in writing between Bidder and Pepper or as may be required by ASX.

Effective means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.

Effective Date means the date on which this Scheme becomes Effective.

Election means an election by a Pepper Shareholder to:

- (a) receive up to 100% of the total value of any Scheme Consideration they are to receive in the form of HoldCo Shares in accordance with clause 5.4 of this Scheme (**HoldCo Election**); or
- (b) retain up to 100% of their Scheme Shares and not transfer those shares to Bidder in accordance with clauses 5.4, 6.2, 6.3, 6.4 and 6.5 of this Scheme (**Retention Election**).

Election Date means 5.00pm on the date that is three clear Business Days before the date of the Scheme Meeting or such other date as is agreed in writing between Bidder and Pepper.

Election Form means a form issued by Pepper for the purposes of a Pepper Shareholder making an Election.

End Date means 31 December 2017 or such other date as is agreed in writing between Bidder and Pepper.

Foreign Scheme Shareholder means a Scheme Shareholder whose address in the register of member of Pepper as at the Record Date is a place outside Australia or New Zealand unless Pepper and Bidder agree in writing that it is lawful and not unduly onerous or impracticable to issue HoldCo Shares to that Scheme Shareholder if the Scheme Shareholder so elects under the Scheme in which case that person is not a "Foreign Scheme Shareholder".

Government Agency means any governmental, semi-governmental, administrative, fiscal, statutory or judicial entity or authority, or any minister, department, office, commission, agency or delegate of any government, whether in Australia or elsewhere, and includes any regulatory organisation established under statute or otherwise discharging substantially public or regulatory functions (including ASIC and the Takeovers Panel) or any stock exchange.

HoldCo means Red Hot Australia Holdco Pty Ltd (ACN 620 321 351).

HoldCo Constitution means the constitution adopted, or to be adopted, by HoldCo substantially in the form contained in Annexure B to this Scheme.

HoldCo Share means a fully paid ordinary in the capital of HoldCo issued on the terms of issue set out in the Shareholders Deed.

Immediately Available Funds means a bank cheque or other form of cleared funds acceptable to Pepper.

Implementation Date means the fifth Business Day after the Record Date or such other date after the Record Date agreed to in writing between Pepper and Bidder.

Listing Rules means the official listing rules of ASX.

Pepper Registry means Computershare Investor Services Pty Ltd (ACN 078 279 277) or any replacement provider of share registry services to Pepper.

Pepper Share means an issued fully paid ordinary share in the capital of Pepper.

Pepper Shareholder means a person registered in the Share Register as a holder of Pepper Shares from time to time.

Qualifying Tax Payer means a Scheme Shareholder other than a Foreign Scheme Shareholder who has:

- (a) declared to Pepper (as set out in the Election Form) that if Holdco Shares were to be issued to them as Scheme Consideration, it would result in a Taxable Event for them or their associate (including a beneficiary of a trust of which they are the trustee) without the benefit of Rollover Relief; and
- (b) lodged with their Election Form provided to Pepper a copy of a certificate from their professional tax adviser (in a form prescribed by Pepper) certifying that the declaration made by them under paragraph (a) is correct.

Record Date means 7.00pm on the date that is five Business Days after the Effective Date, or such other date as may be agreed in writing between Bidder and Pepper or as may be required by ASX.

Registered Address means, in relation to a Pepper Shareholder, the address shown in the Share Register as at the Record Date.

Retained Share means a Scheme Share to be retained by a Scheme Shareholder in accordance with clause 6.

Retaining Shareholder means a Scheme Shareholder that holds any Retained Shares.

Retained Shares Scaleback Percentage means the percentage calculated by the following formula:

$$1 - (B \div F),$$

where B and F have the meaning given to them in clause 6.2.

Retention Cap means 9.9% of the shares on issue as at the Record Date.

Rollover Relief means either the non-recognition or deferred recognition for tax purposes of a gain.

Scheme means this scheme of arrangement under Part 5.1 of the Corporations Act between Pepper and the Scheme Shareholders, subject to any alterations or conditions agreed or any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and agreed to by Bidder and Pepper, but does not include the Shareholders Deed.

Scheme Consideration has the meaning given in clause 5.4.

Scheme Implementation Deed means the scheme implementation deed dated [*] 2017 between Pepper and Bidder.

Scheme Meeting means the meeting of Pepper Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on this Scheme and includes any meeting convened following any adjournment or postponement of that meeting.

Scheme Share means a Pepper Share held by a Scheme Shareholder as at the Record Date.

Scheme Shareholder means a Pepper Shareholder as at the Record Date.

Scheme Transfer means a duly completed and executed proper share instrument of transfer in respect of the Transferring Shares for the purposes of section 1071B of the Corporations Act, in favour of Bidder as transferee, which may be a master transfer of all or part of the Transferring Shares.

Second Court Date means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving this Scheme is heard or scheduled to be heard or, if the application is adjourned for any reason, means the date on which the adjourned application is heard or scheduled to be heard.

Security Interest means a mortgage, charge, lien, encumbrance, pledge, and including any “security interests” within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)

Share Cap means 48.5% of the shares on issue as at the Record Date.

Share Register means the register of members of Pepper maintained by or on behalf of Pepper in accordance with the Corporations Act.

Share Rights Agreement means the letter agreement titled “Share Rights Agreement”, dated [*] 2017 between Bidder and HoldCo.

Shareholders Deed means the shareholders deed in relation to HoldCo in the form set out in Annexure A to this Scheme.

Subsidiary, in relation to an entity, has the meaning given in Division 6 of Part 1.2 of the Corporations Act but so that:

- (a) an entity will also be deemed to be a “Subsidiary” of an entity if that entity is required by the accounting standards to be consolidated with that entity;
- (b) a trust or fund may be a “Subsidiary”, for the purposes of which any units or other beneficial interests will be deemed shares; or
- (c) a corporation or trust or fund may be a “Subsidiary” of a trust or fund if it would have been a Subsidiary if that trust or fund were a corporation.

Taxable Event means any action or event that results in tax becoming due and payable in a jurisdiction other than Australia or New Zealand by a person.

Transferring Shareholder means a Scheme Shareholder that holds Transferring Shares.

Transferring Share means a Scheme Share that is not a Retained Share.

Trust Account means an Australian dollar denominated trust account operated by Pepper to hold the Cash Scheme Consideration on trust for the purpose of paying the Cash Scheme Consideration to the Transferring Shareholders in accordance with clause 5.4 of this Scheme.

1.2 Interpretation

In this Scheme, headings are for ease of reference only and do not affect interpretation and, unless the context requires otherwise:

- (a) the singular includes the plural and vice versa;
- (b) a gender includes other genders;
- (c) another grammatical form of a defined word or expression has a corresponding meaning;
- (d) a reference to a person includes a natural person, body corporate, corporation, trust, partnership, incorporated body or other entity;
- (e) a reference to a clause, paragraph, schedule or annexure is to a clause or paragraph

of, or schedule or annexure to, this Scheme;

- (f) a reference to a document (including a reference to this Scheme) includes any agreement, deed or other legally enforceable arrangement created by it (whether the document is in the form of an agreement, deed or otherwise);
- (g) a reference to a document (including this Scheme) includes any variation, replacement or novation of it;
- (h) a reference to dollars or \$ or A\$ is a reference to the currency of Australia;
- (i) a reference to time is to Sydney, Australia time;
- (j) a reference to a statute, ordinance, code or other law includes regulations and other instruments issued under it and consolidations, amendments, re-enactments or replacements of any of them;
- (k) the meaning of general words is not limited by using the words including, for example or similar expressions;
- (l) a party means a party to this Scheme;
- (m) the word "person" includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any Regulatory Authority;
- (n) a particular person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (o) if a period of time is specified and dates from a given day or the day of an act or event, it is to be calculated exclusive of that day;
- (p) nothing in this Scheme is to be construed to the disadvantage of a party because the party was responsible for the preparation of this Scheme or any part of it, or put the relevant part of the agreement forward; and
- (q) if a day on or by which an obligation must be performed or an event must occur is not a Business Day, the obligation must be performed or the event must occur on or by the next Business Day.

2. PRELIMINARY

2.1 Pepper

- (a) Pepper is a public company limited by shares, registered in New South Wales and admitted to the official list of ASX. Pepper Shares are quoted for trading on ASX.
- (b) As at the date of the Scheme Implementation Deed:
 - (i) 182,486,032 Pepper Shares were on issue; and
 - (ii) the Board has determined that Pepper will issue a further 1,570,842 Pepper Shares prior to the Record Date.

2.2 Bidder

Bidder is a proprietary company limited by shares registered in Victoria.

2.3 General

- (a) Pepper and Bidder have agreed by executing the Scheme Implementation Deed to implement this Scheme.
- (b) Bidder and HoldCo have executed the Share Rights Agreement to permit Bidder to implement its obligations in relation to the Scheme Consideration under the Scheme Implementation Deed,
- (c) Bidder and HoldCo have executed the Deed Poll for the purpose of covenanting in favour of the Scheme Shareholders to perform (or procure performance) of its obligations as contemplated by the Scheme including to provide the Scheme Consideration.

2.4 Consequence of this Scheme becoming Effective

If this Scheme becomes Effective:

- (a) subject to each of Bidder and HoldCo complying with its obligations under the Deed Poll, Pepper will provide or procure the provision of the Scheme Consideration to Pepper and Scheme Shareholders, as applicable, in accordance with clause 5.5 of this Scheme;
- (b) all the Transferring Shares, together with all rights and entitlements attaching to the Transferring Shares as at the Implementation Date, will be transferred to Bidder; and
- (c) Pepper will enter the name of Bidder in the Share Register in respect of all Transferring Shares transferred to Bidder in accordance with the terms of this Scheme with the result that Bidder will hold all Pepper Shares other than any Retained Shares.

3. CONDITIONS

3.1 Condition precedent

- (a) This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:
 - (i) all the conditions precedent in clause 3.1 of the Scheme Implementation Deed (other than the condition in clause 3.1(f) of the Scheme Implementation Deed relating to the Court approval of this Scheme) having been satisfied or waived in accordance with the terms of the Scheme Implementation Deed before 8.00am on the Second Court Date;
 - (ii) neither the Scheme Implementation Deed nor the Deed Poll having been terminated in accordance with their terms by no later than 8.00am on the Second Court Date;
 - (iii) approval of this Scheme by the Court under section 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act as are agreed to in writing by Pepper and Bidder;
 - (iv) such other conditions imposed by the Court under section 411(6) of the Corporations Act, as are acceptable to Pepper and Bidder, having been satisfied or waived; and
 - (v) the orders of the Court made under section 411(4)(b) (and if applicable section 411(6)) of the Corporations Act approving the Scheme coming into effect, pursuant to section 411(10) of the Corporations Act.

- (b) The satisfaction of the conditions referred to in clause 3.1(a) of this Scheme is a condition precedent to the operation of clauses 4, 5 and 6.

3.2 Certificate

- (a) Pepper and Bidder will provide to the Court on the Second Court Date a certificate, or such other evidence as the Court requests, confirming (in respect of matters within their knowledge) whether or not all of the conditions precedent in clauses 3.1(a)(i) and 3.1(a)(ii) have been satisfied or waived.
- (b) The certificate referred to in clause 3.2(a) constitutes conclusive evidence that such conditions precedent were satisfied, waived or taken to be waived.

3.3 End Date

This Scheme will lapse and be of no further force or effect if:

- (a) the Effective Date does not occur on or before the End Date; or
- (b) the Scheme Implementation Deed or the Deed Poll is terminated in accordance with its terms, unless Pepper and Bidder otherwise agree in writing.

4. IMPLEMENTATION

4.1 Effective Date

Subject to clause 3.3, this Scheme will come into effect on and from the Effective Date.

4.2 Lodgement of Court orders with ASIC

Pepper must lodge with ASIC, in accordance with section 411(10) of the Corporations Act, an office copy of the Court order approving this Scheme as soon as reasonably practicable after the Court approves this Scheme and in any event by no later than by 5.00pm on the first Business Day after the day on which the Court approves this Scheme.

4.3 Transfer of Transferring Shares

On the Implementation Date:

- (a) subject to:
 - (i) the payment by Pepper of the cash component of the Scheme Consideration in the manner contemplated by clause 5.5(d); and
 - (ii) Bidder confirming in writing to Pepper by no later than 12 noon (or such later time as Bidder and Pepper may agree in writing) on the Implementation Date that the HoldCo Shares component of the Scheme Consideration has been provided in the manner contemplated by clause 5.5(b) (**Bidder Confirmation Certificate**),

the Transferring Shares, together with all rights and entitlements attaching to the Transferring Shares at the Implementation Date, will be transferred to Bidder, without the need for any further act by any Transferring Shareholder (other than acts performed by Pepper or its officers as agent and attorney of the Scheme Shareholders under clause 9.6 or otherwise), by:

- (iii) Pepper delivering to Bidder a duly completed and executed Scheme Transfer, executed on behalf of the Transferring Shareholders by Pepper; and

- (iv) Bidder duly executing the Scheme Transfer and delivering it to Pepper for registration; and
- (b) immediately after receipt of the Scheme Transfer in accordance with clause 4.3(a)(iv), Pepper must enter, or procure the entry of, the name of Bidder in the Share Register in respect of the Transferring Shares transferred to Bidder in accordance with this Scheme.

5. SCHEME CONSIDERATION

5.1 Entitlement to Scheme Consideration

On the Implementation Date, in consideration for the transfer to Bidder of the Transferring Shares, each Transferring Shareholder will be entitled to receive the Scheme Consideration in respect of each of their Transferring Shares in accordance with clause 5.4 of this Scheme.

5.2 Election procedure

- (a) Subject to clauses 5.2(b), (c), (d), (e) and (f), clause 5.3 and clause 6.1(a), each Pepper Shareholder other than a Foreign Scheme Shareholder will be entitled to make an Election. All Elections will take effect in accordance with this Scheme to the extent that any Pepper Shareholder who makes an Election qualifies as a Scheme Shareholder.
- (b) A Pepper Shareholder which makes an Election may vary, withdraw or revoke that Election by lodging a replacement Election Form so that it is received on or before the Election Date.
- (c) An Election must be made in accordance with the terms and conditions of the Election Form and this clause 5.2, and an Election not so made will not be a valid election for the purpose of this Scheme and will not be recognised by Bidder or Pepper for any purpose (provided that Bidder may, with the agreement of Pepper, waive this requirement and may, with the agreement of Pepper, settle as it thinks fit any difficulty, matter of interpretation or dispute which may arise in connection with determining the validity of any Election, and any such decision will be conclusive and binding on Bidder, Pepper and the relevant Scheme Shareholder).
- (d) Clause 5.3 will apply to any Pepper Shareholder who purports to make an Election but who qualifies as a Foreign Scheme Shareholder.
- (e) Subject to clause 5.2(f), if a Pepper Shareholder makes an Election, that Election will be deemed to apply in respect of that Pepper Shareholder's entire registered holding of Pepper Shares at the Record Date, regardless of whether the Pepper Shareholder's holding of Pepper Shares at the Record Date is greater or less than the Pepper Shareholder's holding at the time it made its Election, unless Bidder and Pepper agree otherwise, in their absolute discretion.
- (f) A Pepper Shareholder who is noted on the Share Register as holding one or more parcels of Pepper Shares as trustee or nominee for, or otherwise on account of, another person, may make separate Elections under this clause 5.2 in relation to each of those parcels of Shares (subject to it providing to Bidder and Pepper any substantiating information they reasonably require), and if it does so it will be treated as a separate Pepper Shareholder in respect of each such parcel in respect of which a separate Election is made (and in respect of any balance of its holding), provided that if, at the Record Date, it holds fewer Pepper Shares than it held at the time it made the Election, then, unless it has at the time of any sale of Pepper Shares notified Pepper whether the Pepper Shares sold relate to any such separate Election (and if so which separate Election the Shares sold relate to), it will be treated as not having made a valid Election in respect of any of its Pepper Shares (or will be treated in any other manner that Bidder and Pepper agree is fair to the Pepper Shareholder

in all the circumstances acting reasonably).

5.3 Foreign Scheme Shareholders

No Foreign Scheme Shareholder will be entitled to receive any HoldCo Shares under the Scheme, nor will they be entitled to retain their Scheme Shares. Accordingly, no Foreign Scheme Shareholder may make a valid Election.

5.4 Determination of Scheme Consideration

(a) If:

- (i) a Transferring Shareholder is not a Foreign Scheme Shareholder and has made a valid HoldCo Election on or before the Election Date;
- (ii) no Retained Shares Scaleback in respect of Retaining Shareholders is required under clause 6.2; and
- (iii) the total number of Scheme Shares held by Scheme Shareholders in aggregate who have made valid Elections on or before the Election Date does not equal or exceed the Share Cap,

then the Scheme Consideration applicable to that Transferring Shareholder is one HoldCo Share for each Scheme Share held by the Scheme Shareholder.

(b) If:

- (i) a Transferring Shareholder is not a Foreign Scheme Shareholder and has made a valid HoldCo Election on or before the Election Date;
- (ii) no Retained Share Scaleback in respect of Retaining Shareholders is required under clause 6.2; and
- (iii) the aggregate of the total number of Scheme Shares:
 - (A) held by Scheme Shareholders who have made valid HoldCo Elections on or before the Election Date; and
 - (B) to be retained by Scheme Shareholders who have made valid Retention Elections on or before the Election Date,

exceeds the Share Cap,

then clause 6.3 will apply in respect of Retaining Shareholders and the Scheme Consideration applicable to that Transferring Shareholder is:

- (iv) the number of HoldCo Shares calculated in accordance with the following formula:

$$N = (B \div A) \times C$$

where:

N = the number of HoldCo Shares to be received by or on behalf of the Transferring Shareholder under the Scheme

B = the Share Cap

A = the aggregate of the total number of Scheme Shares in clause 5.4(b)(iii) above

C = the number of Scheme Shares held by the Transferring Shareholder;

plus:

- (v) an amount in Australian dollars calculated in accordance with the following formula:

$$\mathbf{\$X = (C - N) \times \$3.60}$$

Where:

\$X is the Australian dollar amount to be received by the Transferring Shareholder under the Scheme

C = the number of Scheme Shares held by the Transferring Shareholder

N = the number of HoldCo Shares determined in accordance with clause 5.4(b)(iv).

(c) If:

- (i) a Transferring Shareholder is not a Foreign Scheme Shareholder and has made a valid HoldCo Election on or before the Election Date;
- (ii) a Retained Share Scaleback in respect of Retaining Shareholders under clause 6.2 is required; and
- (iii) after the Retained Share Scaleback under clause 6.2, the aggregate of:
- (A) total number of Scheme Shares held by Scheme Shareholders in aggregate who have made valid HoldCo Elections on or before the Election Date; plus
- (B) the total number of Scheme Shares to be retained by Scheme Shareholders after the Retained Share Scaleback under clause 6.2,

exceeds the Share Cap, then the Scheme Consideration applicable to that Transferring Shareholder is:

- (iv) the number of HoldCo Shares calculated in accordance with the following formula:

$$\mathbf{NN = (B+E) \times C}$$

where:

NN = the number of HoldCo Shares to be received by or on behalf of the Transferring Shareholder under the Scheme

B = the Share Cap

E = the number of Scheme Shares held by Scheme Shareholders in aggregate who have made valid Elections on or before the Election Date

C = the number of Scheme Shares held by the Transferring Shareholder;

plus:

- (v) an amount in Australian dollars calculated in accordance with the following formula:

$$\text{\$X} = (\text{C} - \text{NN}) \times \text{\$3.60}$$

where:

\\$X = the Australian dollar amount to be received by the Transferring Shareholder under the Scheme

C = the number of Scheme Shares held by the Transferring Shareholder

NN = the number of HoldCo Shares determined in accordance with clause 5.4(c)(iv).

If the application of the formula in clause 5.4(c)(iv) in relation to the Transferring Shareholder would result in a reduction of the number of HoldCo Shares to be received by or on behalf of that Transferring Shareholder, expressed as a percentage of the number of Scheme Shares held by that Transferring Shareholder, greater than the Retained Share Scaleback Percentage, then:

- (vi) NN will be that number of Scheme Shares which equals the number of Scheme Shares held by that Transferring Shareholder as reduced by the Retained Share Scaleback Percentage; and
 - (vii) clause 5.4(d) will apply.
- (d) If, after applying clauses 5.4(c) and clause 6.2 the aggregate of:
- (i) the total number of Scheme Shares to be retained by Scheme Shareholders who have made valid Retention Elections (**Total Adjusted Retained Shares**); and
 - (ii) the total number of HoldCo shares to be received by or on behalf of Scheme Shareholders who have made valid HoldCo Elections under the Scheme (**Total Adjusted HoldCo Shares**),

exceeds the Share Cap, then:

- (iii) this clause 5.4(d) will apply, and clause 5.4(c) will not apply (other than for the purpose of giving effect to this clause 5.4(d)), in respect of a Transferring Shareholder (not being a Scheme Shareholder who has become a Transferring Shareholder by operation of clause 6);
- (iv) clause 6.4 will apply in respect of Retaining Shareholders; and
- (v) the Scheme Consideration applicable to that Transferring Shareholder is:
 - (A) the number of HoldCo Shares calculated in accordance with the following formula:

$$\text{FN} = \text{B} \div \text{Y} \times \text{CC}$$

where:

FN = is the number of HoldCo Shares to be received by the Transferring Shareholder

B = is the Share Cap

Y = is the aggregate of the Total Adjusted HoldCo Shares and the Total Adjusted Retained Shares

CC = the number of HoldCo Shares to be received by or on behalf of that Transferring Shareholder calculated in accordance with the formula in clause 5.4(c);

plus:

- (B) an amount in Australian dollars calculated in accordance with the following formula;

$$\mathbf{\$X = (C - FN) \times \$3.60}$$

Where:

\$X = the Australian dollar amount to be received by the Transferring Shareholder under the Scheme

C = has the meaning in clause 5.4(c)(iv) above.

FN = has the meaning in clause 5.4(d)(v)(A) above.

- (e) If the Transferring Shareholder:
- (i) is a Foreign Scheme Shareholder; or
 - (ii) has not made a valid Election on or before the Election Date,
- the Scheme Consideration applicable to that Transferring Shareholder is \$3.60 for each Scheme Share held by the Transferring Shareholder.
- (f) If a Scheme Shareholder has made a valid Retention Election and clause 6 has been applied to their holding of Scheme Shares, with the effect that that Scheme Shareholder is a Transferring Shareholder by reason of any one or more of clauses 6.2, 6.3 or 6.4, the Transferring Shareholder will receive Scheme Consideration of \$3.60 for each Transferring Share held by that Transferring Shareholder.
- (g) If a Scheme Shareholder has made a valid Holdco Election and this clause 5 has been applied to their holding of Scheme Shares, with the effect that that Scheme Shareholder will receive Scheme Consideration in the form of both Holdco Shares and cash, then that Scheme Shareholder will be deemed to receive cash Scheme Consideration in respect of that number of Scheme Shares equal to the total amount of cash to be paid to that Scheme Shareholder as Scheme Consideration divided by \$3.60.

5.5 Provision of Scheme Consideration

- (a) Bidder must by no later than the Business Day before the Implementation Date, deposit (or procure the deposit) in Immediately Available Funds the aggregate amount of the Cash Scheme Consideration into the Trust Account, such amount to be held by Pepper on trust for the purpose of paying the Cash Scheme Consideration to Transferring Shareholders who are entitled to receive it under clause 5.4 (except that the amount of any interest on the amount deposited will be to Bidder's account).

- (b) Bidder must procure that HoldCo must, before 12 noon (or such later time as Bidder and Pepper may agree in writing) on the Implementation Date, procure that the name of each Transferring Shareholder and the Custodian entitled to be issued HoldCo Shares under this Scheme is entered in HoldCo's register of members as the holder of those HoldCo Shares (and in relation to HoldCo Shares issued to a Transferring Shareholder, having the same holding name and address and other details as the holding of the relevant Transferring Shares).
- (c) The HoldCo Shares in respect of which a Transferring Shareholder is entitled may, in Bidder's absolute discretion, be issued directly to that Transferring Shareholder (such that that Transferring Shareholder will be the legal holder of the relevant HoldCo Shares) or issued to the Custodian to hold on as bare trustee for that Transferring Shareholder (such that that Transferring Shareholder will be the beneficial holder but not the legal holder of the relevant HoldCo Shares).
- (d) On the Implementation Date and subject to funds having been deposited in accordance with clause 5.5(a), Pepper must pay or procure the payment of the cash component of the Scheme Consideration to each Transferring Shareholder from the Trust Account by doing any of the following at its election:
 - (i) sending (or procuring the Pepper Registry to send) it to the Transferring Shareholder's Registered Address by cheque in Australian currency drawn out of the Trust Account; or
 - (ii) depositing (or procuring the Pepper Registry to deposit) it into an account with any Australian ADI (as defined in the Corporations Act) notified to Pepper (or the Pepper Registry) by an appropriate authority from the Transferring Shareholder.
- (f) On or before the date that is five Business Days after the Implementation Date, Bidder must send or procure the sending of a certificate to each Transferring Shareholder and/or Custodian entitled to be issued HoldCo Shares under this Scheme, reflecting the issue of such HoldCo Shares.
- (g) To the extent that, following satisfaction of Pepper's obligations under clause 5.5(d), there is a surplus in the amount held in the Trust Account (after taking into account any funds required to satisfy any outstanding cheques issued in accordance with this clause 5.4 and any obligations under clause 5.9), that surplus may be paid by Pepper to Bidder.

5.6 Joint holders

In the case of Transferring Shares held in joint names:

- (a) any HoldCo Shares comprised in the Scheme Consideration are to be registered in the names of the joint holders or, if these HoldCo Shares are issued to the Custodian to hold as bare trustee for the joint holders, the joint holders will have joint beneficial ownership of these HoldCo shares;
- (b) any cheque required to be sent under this Scheme will be made payable to the joint holders and sent at the sole discretion of Pepper, either to the holder whose name appears first in the Share Register as at the Record Date or to the joint holders; and
- (c) any other document required to be sent under this Scheme, will be forwarded, at the sole discretion of Pepper, either to the holder whose name appears first in the Share Register as at the Record Date or to the joint holders.

5.7 Fractional entitlements

Where the calculation of the Scheme Consideration to be provided to a Transferring Shareholder would result in the Transferring Shareholder becoming entitled to a fraction of a cent or a fraction of a HoldCo Share, that fractional entitlement will be rounded down to the nearest whole cent or HoldCo Share as the case may be.

5.8 Cancellation and reissue of cheques

- (a) Pepper may cancel a cheque sent under this clause 5 if the cheque:
 - (i) is returned to Pepper; or
 - (ii) has not been presented for payment within six months after the date on which the cheque was sent.
- (b) During the period of 12 months commencing on the Implementation Date, on request in writing from a Transferring Shareholder to Pepper (or the Pepper Registry) (which request may not be made until the date which is 20 Business Days after the Implementation Date), Pepper must reissue a cheque that was previously cancelled under clause 5.8(a).

5.9 Unclaimed monies

- (a) The *Unclaimed Money Act 1995* (NSW) will apply in relation to any Scheme Consideration which becomes “unclaimed money” (as defined in section 7 of the *Unclaimed Money Act 1995* (NSW)).
- (b) Any interest or other benefit accruing from unclaimed Scheme Consideration will be to the benefit of Bidder.

5.10 Status of HoldCo Shares

Subject to this Scheme becoming Effective, Bidder must procure that HoldCo:

- (a) issue (or procure the issue of) the HoldCo Shares required to be issued under this Scheme on terms such that each such HoldCo Share will rank equally in all respects with each other HoldCo Share; and
- (b) ensure that each HoldCo Share required to be issued under this Scheme is duly and validly issued in accordance with all applicable laws and the HoldCo Constitution, and is fully paid and free from any Security Interest (except for any lien arising under the HoldCo Constitution).

5.11 Order of a court or Government Agency

If:

- (a) written notice is given to Pepper (or the Pepper Registry) of an order or direction made by a court of competent jurisdiction or by another Government Agency that requires payment to a third party of a sum in respect of Transferring Shares held by a particular Transferring Shareholder, which would otherwise be payable to that Transferring Shareholder by Pepper in accordance with this clause 5, then Pepper may procure that payment is made in accordance with that order or direction; or
- (b) written notice is given to Pepper (or the Pepper Registry) of an order or direction made by a court of competent jurisdiction or by another Government Agency that prevents Pepper from making a payment to any particular Transferring Shareholder in accordance with clause 5.5(c), or such payment is otherwise prohibited by applicable law, Pepper may retain an amount equal to the number of Transferring Shares held by that Transferring Shareholder multiplied by the Scheme Consideration until such

time as payment in accordance with this clause 5 is permitted by that order or direction or otherwise by law,

and the payment or retention by Pepper (or the Pepper Registry) will constitute the full discharge of Pepper's obligations under clause 5.5(d) with respect of the amount so paid or retained until, in the case of clause 5.11(b), it is no longer required to be retained.

5.12 Definition of 'sending'

For the purposes of clause 5, the expression sending means, in relation to each Transferring Shareholder:

- (a) sending by ordinary pre-paid post or courier to the Registered Address of that Transferring Shareholder as at the Record Date; or
- (b) delivery to the Registered Address of that Transferring Shareholder as at the Record Date by any other means at no cost to the recipient.

6. RETENTION ELECTION

6.1 General

- (a) Any Pepper Shareholder, other than a Foreign Scheme Shareholder, who is a Qualifying Tax Payer will be entitled to make a Retention Election, subject to the terms of this clause 6.
- (b) Subject to clauses 6.2, 6.3 and 6.4:
 - (i) a Scheme Shareholder who makes a valid Retention Election will retain all of their Scheme Shares;
 - (ii) a Scheme Shareholder will be a Retaining Shareholder in respect of the Scheme Shares they retain; and
 - (iii) the Scheme Shares retained by the Retaining Shareholder will be Retained Shares.

6.2 Retained Shares Scaleback

Subject to the remainder of this clause 6, if the number of Scheme Shares held by Scheme Shareholders who have made valid Retention Elections is greater than the Retention Cap, the number of Scheme Shares to be retained by a Scheme Shareholder who has made a valid Retention Election will be calculated in accordance with the following formula (**Retained Share Scaleback**):

$$NR = (B+F) \times C$$

where:

NR = the number of Scheme Shares to be retained by the Scheme Shareholder, subject to the remainder of this clause 6.2

B = the Retention Cap;

F = the number of Scheme Shares (in aggregate) in respect of which a valid Retention Election has been made; and

C = the number of Scheme Shares held by the Scheme Shareholder.

In which case that Scheme Shareholder will be a Transferring Shareholder in respect of that number of Scheme Shares by which C exceeds NR, and clause 5.4(f) applies to those Transferring Shares.

6.3 Pro Rata Scaleback

If clause 5.4(b) applies, the number of Scheme Shares to be retained by a Scheme Shareholder who has made a valid Retention Election will be calculated in accordance with the following formula:

$$RN = B \div A \times C$$

where:

RN = the number of Scheme Shares to be retained by the Scheme Shareholder;

B = the Share Cap;

A = the aggregate of the total number of Scheme Shares in Clause 5.4(b)(iii)(A) and 5.4(b)(iii)(B); and

C = the number of Scheme Shares held by that Scheme Shareholder,

in which case that Scheme Shareholder will be a Transferring Shareholder in respect of that number of Shares by which C exceeds RN, and clause 5.4(f) applies to those Transferring Shares.

6.4 Further Scaleback

If, after applying clauses 5.4(c) and 6.2 the aggregate of:

- (a) the total number of Scheme Shares to be retained by Scheme Shareholders who have made valid Retention Elections (**Total Adjusted Retained Shares**); and
- (b) the total number of HoldCo shares to be received by or on behalf of a Transferring Shareholder under the Scheme (**Total Adjusted HoldCo Shares**),

exceeds the Share Cap, then despite clause 6.2 the number of Scheme Shares to be retained by a Retaining Shareholder will be that number calculated in accordance with the following formula:

$$FN = B \div Y \times CC$$

where:

FN = the number of Scheme Shares to be retained by the Scheme Shareholder;

Y = the aggregate of the Total Adjusted HoldCo Shares and the Total Adjusted Retained Shares;

B = the Share Cap;

CC = the number of Scheme Shares to be retained by that Retaining Shareholder, after the application of the formula in clause 6.2,

in which case that Scheme Shareholder will be a Transferring Shareholder in respect of that number of Scheme Shares by which CC exceeds FN, and clause 5.4(f) applies to those Transferring Shares.

6.5 Fractions

- (a) Where the calculation of the number of Scheme Shares to be retained by a Retaining Shareholder under this clause results in a fractional amount of a share, that fractional amount of a share will be disregarded for the purpose of finally determining the number of Retained Shares to be retained by that Retaining Shareholder.
- (b) Any Scheme Shares held by a Retaining Shareholder that are not Retained Shares due to the operation of this clause 6 are Transferring Shares, and the Retaining Shareholder is a Transferring Shareholder in respect of those Transferring Shares.

7. DEALINGS IN SHARES

7.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in Pepper Shares or other alterations to the Share Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHESSE, the transferee is registered in the Share Register as the holder of the relevant Scheme Shares on or before the Dividend Record Date; and
- (b) in all other cases, registrable transmission applications or transfers in respect of those dealings are received on or before the Dividend Record Date at the place where the Share Register is kept,

and Pepper will not accept for registration, nor recognise for any purpose (except a transfer to Bidder under this Scheme and any subsequent transfer by Bidder or its successors in title), any transfer or transmission application or other request received after such times, or received prior to such times but not in registrable or actionable form, as appropriate.

7.2 Register

- (a) Pepper must register registrable transmission applications or transfers of the kind referred to in clause 7.1(b) on or before the Dividend Record Date (provided that for the avoidance of doubt nothing in this clause 7.2 requires Pepper to register a transfer that would result in a Pepper Shareholder holding a parcel of Pepper Shares that is less than a 'marketable parcel' (as defined in the operating rules of ASX).
- (b) Pepper will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Scheme Shares received after the Dividend Record Date (except a transfer to Bidder in accordance with this Scheme and any subsequent transfer by Bidder or its successors in title) or received prior to the Dividend Record Date but not in registrable or actionable form.
- (c) For the purpose of determining entitlements to the Scheme Consideration, Pepper must maintain the Share Register in accordance with the provisions of this clause 7.2 until the Scheme Consideration has been provided to the Transferring Shareholders and Bidder has been entered in the Share Register as the holder of all of the Transferring Shares. The Share Register in this form will solely determine entitlements to the Scheme Consideration.
- (d) If this Scheme becomes Effective, a Scheme Shareholder (and any person claiming through that holder) must not dispose of, or purport or agree to dispose of, any Scheme Shares or any interest in them during the period from the Dividend Record Date until, and including, the Implementation Date otherwise than pursuant to this Scheme, and any attempt to do so will have no effect and Pepper will be entitled to disregard any such disposal.

- (e) All statements of holding for Transferring Shares will cease to have effect after the Record Date as documents of title in respect of those shares. After the Record Date, each entry current on the Share Register as at the Record Date in respect of Transferring Shares (other than a holding in favour of Bidder and its successors in title) will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Transferring Shares relating to that entry.
- (f) As soon as practicable after the Record Date and in any event within three Business Day after the Record Date, Pepper will ensure that details of the names, Registered Addresses and holdings of Scheme Shares for each Scheme Shareholder as shown in the Share Register at the Record Date are available to Bidder in such form as Bidder reasonably requires.

8. QUOTATION OF SHARES

- (a) Pepper will apply to ASX to suspend trading on the ASX in Pepper Shares with effect from the close of trading on the Effective Date.
- (b) On a date after the Implementation Date to be determined by Bidder, and only after the transfer of the Scheme Shares has been registered in accordance with clause 4.3(b), Pepper will apply:
 - (i) for termination of the official quotation of Pepper Shares on ASX; and
 - (ii) to have itself removed from the official list of ASX.

9. GENERAL SCHEME PROVISIONS

9.1 Consent to amendments to this Scheme

If the Court proposes to approve this Scheme subject to any alterations or conditions:

- (a) Pepper may, by its counsel or solicitors, consent on behalf of all persons concerned to those alterations or conditions to which Bidder has consented in writing (which consent cannot be unreasonably withheld); and
- (b) each Scheme Shareholder agrees to any such alterations or conditions to which counsel or solicitors for Pepper has consented.

9.2 Binding effect of Scheme

This Scheme binds Pepper and all Scheme Shareholders (including those who did not attend the Scheme Meeting, those who did not vote at that meeting, or voted against this Scheme at that meeting) and, to the extent of any inconsistency, overrides the constitution of Pepper.

9.3 Scheme Shareholders' agreements and acknowledgment

Each Scheme Shareholder:

- (a) agrees to the transfer of all of their Transferring Shares together with all rights and entitlements attaching to those shares in accordance with this Scheme;
- (b) agrees to any variation, cancellation or modification of the rights attached to their Transferring Shares constituted by or resulting from this Scheme;
- (c) agrees to, on the direction of Bidder, destroy any share certificates relating to their Transferring Shares;
- (d) to the extent they are issued with HoldCo Shares as a component of the Scheme

Consideration to which they are entitled, agrees to become a shareholder of HoldCo and to be bound by the HoldCo Constitution and the Shareholders Deed;

- (e) to the extent they hold Retained Shares, agrees to be bound by the Shareholders Deed;
- (f) to the extent they are entitled to HoldCo Shares as a component of the Scheme Consideration and these HoldCo Shares are issued to the Custodian to hold as bare trustee for the Scheme Shareholder, agrees to become bound by the Custodian Deed; and
- (g) acknowledges and agrees that this Scheme binds Pepper and all Scheme Shareholders (including those who did not attend the Scheme Meeting or did not vote at that meeting or voted against this Scheme at that Scheme Meeting).

9.4 Warranties by Scheme Shareholders

- (a) Each Scheme Shareholder warrants to Bidder, and is deemed to have authorised Pepper to warrant to Bidder as agent and attorney of each Scheme Shareholder, that as at the Implementation Date:
 - (i) all of its Transferring Shares, including any rights and entitlements attaching to those shares, will, at the time of transfer under this Scheme, be fully paid and free from all Security Interests and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, excluding any Security Interests, interests or restrictions in favour of a Pepper Group Member; and
 - (ii) it has full power and capacity to transfer its Transferring Shares to Bidder together with any rights and entitlements attaching to those shares.

9.5 Title to and rights in Scheme Shares

- (a) To the extent permitted by law, the Transferring Shares (including all rights and entitlements attached to Scheme Shares) transferred under this Scheme to Bidder will, at the time of transfer to Bidder, vest in Bidder free from all Security Interests and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, excluding any Security Interests, interests or restrictions in favour of a Pepper Group Member .
- (b) Immediately upon provision of the Scheme Consideration to each Scheme Shareholder in the manner contemplated by clause 5, Bidder will be beneficially entitled to the Transferring Shares to be transferred to it under this Scheme pending registration by Pepper of Bidder in the Share Register as the holder of the Transferring Shares.

9.6 Authority given to Pepper

Each Scheme Shareholder, without the need for any further act:

- (a) on the Implementation Date, irrevocably appoints Pepper and each of its directors, officers and secretaries (jointly and each of them severally) as its agent and attorney to do and execute all acts, matters, things and documents on the part of each Scheme Shareholder necessary for or incidental to the implementation of this Scheme, including executing and delivering:
 - (i) a share transfer or transfers in relation to Transferring Shares as contemplated by clause 4.3;
 - (ii) any deed or document required by Pepper, Bidder or HoldCo that causes

each Transferring Shareholder entitled to HoldCo Shares to be bound by the Shareholders Deed, the Custodian Deed and the HoldCo Constitution;

- (iii) any deed or document required by Pepper, Bidder or HoldCo that causes each Retaining Shareholder to be bound by the Shareholders Deed; and
 - (iv) any deed or document required by Pepper, Bidder or HoldCo that causes each Scheme Shareholder issued HoldCo Shares under this Scheme to be bound by the constituent documents of any trust for the Scheme Shareholder the trustee of which will hold on bare trust for the Scheme Shareholder the Scheme Shareholder's HoldCo Shares; and
- (b) on the Effective Date, irrevocably appoints Pepper and all of its directors, secretaries and officers (jointly and each of them severally) as its attorney and agent for the purpose of:
- (i) enforcing the Deed Poll against Bidder and HoldCo; and
 - (ii) executing any document necessary to give effect to this Scheme including (without limitation) executing a proper instrument of transfer of its Transferring Shares for the purposes of section 1071B of the Corporations Act which may be a master transfer of all the Transferring Shares,
- and Pepper accepts each such appointment.

9.7 Appointment of sole proxy

- (a) Immediately upon provision of the Scheme Consideration to each Transferring Shareholder in the manner contemplated by clause 5, and after until Pepper registers Bidder as the holder of all Transferring Shares in the Share Register, each Transferring Shareholder:
- (i) irrevocably appoints Pepper as its attorney and agent (and directs Pepper in each such capacity) to appoint Bidder and each of its directors and officers and any secretary or agent nominated by Bidder, as its sole proxy and, where applicable, corporate representative to attend shareholders' meetings of Pepper, exercise the votes attaching to the Transferring Shares registered in its name and sign any shareholders' resolution or document;
 - (ii) undertakes not to otherwise attend shareholders' meetings, exercise the votes attaching to Transferring Shares registered in its name or sign or vote on any resolutions (whether in person, by proxy or by corporate representative) other than pursuant to clause 9.7(a)(i);
 - (iii) must take all other actions in the capacity of a registered holder of Transferring Shares as Bidder reasonably directs; and
 - (iv) acknowledges and agrees that in exercising the powers referred to in clause 9.7(a)(i), Bidder and any director, officer, secretary or agent nominated by Bidder under clause 9.7(a)(i) may act in the best interests of Bidder as the intended registered holder of the Transferring Shares.
- (b) Pepper undertakes in favour of each Transferring Shareholder that it will appoint Bidder and each of its directors from time to time (jointly and each of them individually) as that Transferring Shareholder's proxy or, where applicable, corporate representative in accordance with clause 9.7(a) of this Scheme.

9.8 Instructions and elections

If not prohibited by law (and including where permitted or facilitated by relief granted by a Government Agency), all instructions, notifications or elections by a Transferring Shareholder to Pepper binding or deemed binding between the Transferring Shareholder and Pepper relating to Pepper or Transferring Shares (including any email addresses, instructions relating to communications from Pepper, whether dividends are to be paid by cheque or into a specific bank account, notices of meetings or other communications from Pepper) will be deemed from the Implementation Date (except to the extent determined otherwise by Bidder in its sole discretion), by reason of this Scheme, to be made by the Transferring Shareholder to Bidder and be a binding instruction, notification or election to, Bidder in respect of the HoldCo Shares provided to that Transferring Shareholder until that instruction, notification or election is revoked or amended in writing addressed to Bidder at its registry.

9.9 Amendments to Shareholders Deed and Share Rights Agreement

Bidco must and must procure that Holdco ensure that the Shareholders Deed and the Share Rights Agreement are not amended without the consent of Pepper, before the issue of any HoldCo Shares to the Transferring Shareholders in accordance with clause 5.

10. GENERAL

10.1 Further action by Pepper

Pepper will execute all documents and do all things (on its own behalf and on behalf of each Scheme Shareholder) necessary or expedient to implement, and perform its obligations under, this Scheme.

10.2 Authority and acknowledgement

Each of the Scheme Shareholders:

- (a) irrevocably consents to Pepper and Bidder doing all things necessary or expedient for or incidental to the implementation of this Scheme; and
- (b) acknowledges that this Scheme binds Pepper and all Scheme Shareholders (including those who do not attend the Scheme Meeting or do not vote at that meeting or vote against the Scheme at that Meeting) and, to the extent of any inconsistency and to the extent permitted by law, overrides the constitution of Pepper.

10.3 No liability when acting in good faith

Neither Pepper, Bidder nor HoldCo, nor any of their respective directors, officers, secretaries or employees, will be liable for anything done or omitted to be done in the performance of this Scheme and the Deed Poll in good faith.

10.4 Enforcement of Deed Poll

Pepper undertakes in favour of each Scheme Shareholder to enforce the Deed Poll against Bidder and HoldCo on behalf of and as agent and attorney for the Scheme Shareholders.

10.5 Stamp duty

Bidder will:

- (a) pay all stamp duty (if any) (including any fines, penalties and interest) payable in connection with this Scheme or the Deed Poll; and
- (b) indemnify each Scheme Shareholder against any liability incurred by the Scheme Shareholder arising from failure to comply with clause 10.5(a).

10.6 Notices

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Pepper, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Pepper's registered office or at the office of the Pepper Registry.
- (b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any Pepper Shareholder shall not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

10.7 Governing law

This Scheme is governed by the laws of New South Wales, Australia. Each party irrevocably submit to the non-exclusive jurisdiction of the courts of New South Wales, Australia, and any court that may hear appeals from any of those courts, for any proceedings in connection with this Scheme.

ANNEXURE A
Shareholders Deed

ANNEXURE B
HoldCo Constitution

Annexure D – Deed Poll



Deed Poll

Red Hot Australia Bidco Pty Limited (**Bidder**)

Red Hot Australia Holdco Pty Limited (**HoldCo**)

Jones Day
Level 41, Aurora Place
Phillip Street
Sydney NSW 2000
Tel: 61 2 8272 0500
Fax: 61 2 8272 0599
www.jonesday.com

TABLE OF CONTENTS

	Page
1. DEFINITIONS AND INTERPRETATION	1
1.1 Definitions	1
1.2 Interpretation	2
1.3 Nature of deed poll	2
2. CONDITIONS PRECEDENT AND TERMINATION	2
2.1 Conditions precedent	2
2.2 Termination	2
2.3 Consequences of termination	2
3. PERFORMANCE OF OBLIGATIONS	2
3.1 Generally	2
3.2 Provision of Scheme Consideration	3
3.3 HoldCo Shares to rank equally	3
4. REPRESENTATIONS AND WARRANTIES	4
5. CONTINUING OBLIGATIONS	5
5.1 Deed poll irrevocable	5
5.2 Variation	5
5.3 Capital structure	5
6. NOTICES	6
7. GENERAL	7
7.1 Stamp duty	7
7.2 Assignment	7
7.3 Further assurances	7
7.4 Waiver	7
7.5 Remedies cumulative	8
7.6 Governing law	8
7.7 Counterparts	8

DATE 9 OCTOBER 2017

THIS DEED POLL IS MADE BY

- (1) Red Hot Australia Bidco Pty Limited (ACN 620 321 600) (Bidder)
- (2) Red Hot Australia Holdco Pty Limited (ACN 620 321 351) (HoldCo)

in favour of each registered holder of fully paid ordinary shares in Pepper as at the Record Date and Pepper to the extent contemplated in clauses 3.1(b) and 5.3.

RECITALS

- (A) Pepper and Bidder have entered into the Scheme Implementation Deed to provide for (among other matters) the implementation of the Scheme.
- (B) The effect of the Scheme will be to transfer all Scheme Shares (except for any Retained Shares) to Bidder in return for the Scheme Consideration.
- (C) In the Scheme Implementation Deed, Bidder has agreed to provide, or procure the provision of, the Scheme Consideration to Scheme Shareholders subject to satisfaction of certain conditions.
- (D) Pursuant to the Share Rights Agreement, Bidder has procured HoldCo to grant to Bidder certain rights with respect to the HoldCo Shares and to enter into this deed poll. Each of Bidder and HoldCo enter this deed poll to covenant in favour of the Scheme Shareholders to perform its respective obligations (including, with respect to HoldCo, obligations undertaken in the Share Rights Agreement) in relation to the Scheme.

OPERATIVE PROVISIONS

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

- (a) The following definitions apply unless the context requires otherwise.

Cash Scheme Consideration has the meaning given in the Scheme.

Custodian has the meaning given in the Scheme.

Liability means a debt, liability or obligation, whether actual, prospective, contingent or otherwise and whether or not ascertained, and whether or not owing or incurred alone, or jointly and severally, with any other person.

Scheme Implementation Deed means the scheme implementation deed dated [*] August 2017 between Pepper and Bidder under which, amongst other things, Pepper has agreed to propose the Scheme to Pepper Shareholders, and each of Bidder and Pepper has agreed to take certain steps to give effect to the Scheme.

Share Rights Agreement has the meaning given in the Scheme Implementation Deed.

Trust Account has the meaning given in the Scheme.

- (b) Unless the context otherwise requires, terms defined in the Scheme Implementation Deed have the same meaning when used in this deed poll unless the context requires otherwise.

1.2 Interpretation

Clause 1.2 of the Scheme Implementation Deed applies to the interpretation of this deed poll except that references to "this deed" in that clause are to be read as references to "this deed poll".

1.3 Nature of deed poll

Each of Bidder and HoldCo acknowledge and agree that:

- (a) this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not a party to it; and
- (c) under the Scheme, each Scheme Shareholder irrevocably appoints Pepper and each of its directors, officers and secretaries (jointly and each of them severally) as its agent and attorney to enforce this deed poll against Bidder and HoldCo.

2. CONDITIONS PRECEDENT AND TERMINATION

2.1 Conditions precedent

Each of Bidder's and HoldCo's obligations under clause 3 are subject to the Scheme becoming Effective.

2.2 Termination

This deed poll and the obligations of Bidder and HoldCo under this deed poll will automatically terminate and the terms of this deed poll will be of no further force or effect if:

- (a) the Scheme has not become Effective on or before the End Date or any later date as the Court, with the consent of Bidder, HoldCo and Pepper, may order; or
- (b) the Scheme Implementation Deed is terminated in accordance with its terms, unless Bidder, HoldCo and Pepper otherwise agree in writing.

2.3 Consequences of termination

If this deed poll is terminated under clause 2.2, then, in addition and without prejudice to any other rights, powers or remedies available to it:

- (a) Bidder and HoldCo are released from their obligations to further perform this deed poll except those obligations contained in clause 7.1 and any other obligations which by their nature survive termination; and
- (b) each Scheme Shareholder retains the rights, powers or remedies they have against Bidder and HoldCo in respect of any breach of this deed poll which occurs before it is terminated.

3. PERFORMANCE OF OBLIGATIONS

3.1 Generally

- (a) Bidder must comply with its obligations under the Scheme Implementation Deed and, subject to clause 2, each of Bidder and HoldCo (pursuant to the terms of the Share Rights Agreement) covenants in favour of Scheme Shareholders to perform the actions attributed to them respectively under the Scheme as if Bidder and HoldCo were parties to the Scheme.

- (b) Each of Bidder and HoldCo undertakes in favour of Pepper and the Scheme Shareholders to enforce its rights and comply with its obligations under the Share Rights Agreement.

3.2 Provision of Scheme Consideration

- (a) Subject to clause 2, each of Bidder and, as required by the terms of the Share Rights Agreement, HoldCo undertake in favour of each Scheme Shareholder to:
 - (i) provide or procure the provision of the Scheme Consideration to the Scheme Shareholder in accordance with the terms of the Scheme;
 - (ii) undertake all other actions attributed to them under the Scheme;subject to and in accordance with the terms of the Scheme.
- (b) The obligations of Bidder and HoldCo under clause 3.2(a) will be satisfied if, in respect of the Scheme Consideration:
 - (i) Bidder deposits, no later than one Business Day before the Implementation Date, an amount equal to the Cash Scheme Consideration in Immediately Available Funds to the Trust Account;
 - (ii) Bidder instructs HoldCo to issue pursuant to terms of the Share Rights Agreement and this deed poll, the HoldCo Shares;
 - (iii) no later than 12.00 noon (or such later time as Bidder, and Pepper may agree in writing) on the Implementation Date, HoldCo issues all of the HoldCo Shares which it is obliged to issue to Scheme Shareholders and/or the Custodian under the Scheme and Bidder provides Pepper with written confirmation that HoldCo has done so;
 - (iv) Bidder and HoldCo no later than 12:00 noon (or such later time as Bidder and Pepper may agree in writing) on the Implementation Date procure that the name of each Scheme Shareholder (if any) and/or the Custodian entitled to receive HoldCo Shares under the Scheme is entered into HoldCo's register of members as the holder of those HoldCo Shares (and in relation to HoldCo Shares issued to a Scheme Shareholder rather than the Custodian, having the same holding name and address and other details as the holding of the relevant Scheme Shares); and
 - (v) on or before the date that is five Business Days after the Implementation Date, Bidder sends or procures the sending of a certificate to each Scheme Shareholder and/or the Custodian entitled to receive HoldCo Shares under the Scheme, reflecting the issue of such HoldCo Shares, in each case, in accordance with, and subject to, the provisions of the Scheme.

3.3 HoldCo Shares to rank equally

HoldCo covenants in favour of each Scheme Shareholder that the HoldCo Shares issued in accordance with the Scheme will:

- (a) rank equally in all respects with each other HoldCo Share on issue at that time and will have the rights set out in the constitution of HoldCo and the Shareholders Deed; and
- (b) be issued fully paid and free from any mortgage, charge, lien, encumbrance or other security interest.

4. REPRESENTATIONS AND WARRANTIES

- (a) Each of Bidder and HoldCo represents and warrants to each Scheme Shareholder, in respect of itself, that:
- (i) **status:** it is a corporation duly incorporated or validly existing in accordance with the laws of its place of incorporation;
 - (ii) **power:** it has power to enter into this deed poll, to comply with its obligations under it and exercise its rights under it;
 - (iii) **corporate authorisations:** it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transaction contemplated by this deed poll;
 - (iv) **validity of obligations:** its obligations under this deed poll are valid and binding and are enforceable against it in accordance with its terms;
 - (v) **no contravention:** this deed poll does not conflict with, or result in the breach of or default under, any provision of its constitution, or any writ, order or injunction judgment, law, rule or regulation to which it is party or subject or by which it is bound; and
 - (vi) **Insolvency Event:** it is solvent and not subject to an Insolvency Event.
- (b) HoldCo and Bidder represent and warrant to each Scheme Shareholder that, immediately prior to implementation of the Scheme, each of HoldCo and Bidder:
- (i) does not Control any entity, other than HoldCo Controlling Bidder;
 - (ii) is not the legal or beneficial owner of any shares or capital in any body corporate (wherever incorporated), other than HoldCo being the legal and beneficial owner of shares in Bidder;
 - (iii) is not a member of any incorporated or unincorporated joint venture, partnership or other unincorporated association (other than a recognised trade association);
 - (iv) has not commenced trading or conducted business other than, as applicable, in connection with the respective incorporations, entry into of the Scheme Implementation Deed and any ancillary documents (as agreed between Pepper and Bidder for the purposes of this clause), the Equity Commitment Letter, Share Rights Agreement, Shareholders Deed, Custodian Deed, Disclosure Letter and this deed poll and the taking of such other actions as are necessary to facilitate the implementation of the Transaction (including actions in relation to the incurrence of costs, fees and expenses in connection with the Transaction);
 - (v) does not own any assets and does not have any Liabilities, other than assets derived, or Liabilities incurred, in connection with, as applicable, their respective incorporations, entry into of the Scheme Implementation Deed and any ancillary documents (as agreed between Pepper and Bidder for the purposes of this clause), the Equity Commitment Letter, Share Rights Agreement, Shareholders Deed, Custodian Deed, Disclosure Letter and this deed poll and the taking of such other actions as are necessary to facilitate the implementation of the Transaction or otherwise disclosed in writing to Pepper prior to the date of the Scheme Implementation Deed (including actions in relation to the incurrence of costs, fees and expenses in connection with the Transaction); and

(vi) has not given any guarantee or granted any powers of attorney,

in each case, other than as expressly contemplated in this deed poll or the Scheme.

(c) HoldCo warrants to each Scheme Shareholder that receives HoldCo Shares pursuant to the HoldCo Election that, from the date of the Scheme Implementation Deed until immediately prior to the implementation of the Scheme, it has not issued any HoldCo Shares:

(i) other than for cash;

(ii) at an issue price that is less than \$3.60 per HoldCo Share; and

(iii) other than in connection with the funding of the Scheme Consideration or the payment of costs, fees and expenses incurred in connection with the Transaction,

unless otherwise agreed with Pepper.

5. CONTINUING OBLIGATIONS

5.1 Deed poll irrevocable

Subject to clause 5.2, this deed poll is irrevocable and, subject to clause 2, remains in full force and effect until the earlier of:

(a) both Bidder and HoldCo having fully performed their respective obligations under this deed poll; and

(b) termination of this deed poll under clause 2.2.

5.2 Variation

A provision of this deed poll or any right created under it may not be varied unless, altered or otherwise amended unless:

(a) if before the Second Court Date, the variation is agreed to in writing by Pepper; or

(b) if on or after the Second Court Date, the variation is agreed to in writing by Pepper and is approved by the Court.

in which event Bidder and HoldCo must enter into a further deed poll in favour of the Scheme Shareholders giving effect to the variation, alteration or amendment.

5.3 Capital structure

(a) From the date of this deed poll until immediately prior to implementation of the Scheme, HoldCo will not issue any HoldCo Shares:

(i) other than for cash;

(ii) at an issue price that is less than \$3.60 per HoldCo Share; and

(iii) other than in connection with the funding of the Scheme Consideration or the payment of costs, fees and expenses incurred in connection with the Transaction,

unless otherwise agreed with Pepper.

6. NOTICES

Any notice, demand, consent or other communication (a **Notice**) to Bidder or HoldCo in connection with this deed poll:

- (a) must be in writing and signed by the sender or a person duly authorised by the sender;
- (b) must be delivered to the intended recipient by prepaid post (if posted to an address in another country, by registered airmail) or by hand, fax or email to the address, fax number or email address below or the address, fax number or email address last notified by the intended recipient to the sender.

Party	Notice details
Bidder	Attention: General Counsel Address: KKR Credit Advisors (US) LLC 555 California Street 50 th Floor San Francisco, California 94104 Email: KKRCreditLegal@kkf.com
HoldCo	Attention: General Counsel Address: KKR Credit Advisors (US) LLC 555 California Street 50 th Floor San Francisco, California 94104 Email: KKRCreditLegal@kkf.com

- (c) will be conclusively taken to be duly given or made:
 - (i) in the case of delivery in person, when delivered;
 - (ii) in the case of delivery by post, two Business Days after the date of posting (if posted to an address in the same country) or seven Business Days after the date of posting (if posted to an address in another country);
 - (iii) in the case of fax, on receipt by the sender of a transmission control report from the despatching machine showing the relevant number of pages and the correct destination fax number or name of recipient and indicating that the transmission has been made without error; and
 - (iv) in the case of email, two hours after the time the email is sent (as recorded on the device from which the sender sent the email) unless the sender receives a delivery failure notification indicating that the email has not been delivered,

but if the result is that a Notice would be taken to be given or made on a day that is not a business day in the place to which the Notice is sent or at a time that is later than 5.00pm in the place to which the Notice is sent, it will be conclusively taken to have been duly given or made at 9.00am on the next business day in that place.

7. GENERAL

7.1 Stamp duty

Bidder must:

- (a) pay all stamp duty (including fines, penalties and interest) payable and assessed on or in connection with this deed poll, the performance of this deed poll, or any instruments entered into under this deed poll and in respect of a transaction effected by or made under the Scheme and this deed poll;
- (b) pay other costs in respect of the Scheme (including, in connection with the transfer of Scheme Shares to Bidder in accordance with the terms of the Scheme); and
- (c) indemnify on demand each Scheme Shareholder against any liability arising from failure to comply with clauses 7.1(a) or 7.1(b).

7.2 Assignment

The rights and obligations of Bidder, HoldCo and each Scheme Shareholder under this deed poll are personal and must not be assigned, encumbered or otherwise dealt with at law or in equity and no person may attempt or purport to do so without the prior written consent of Bidder, HoldCo and Pepper.

7.3 Further assurances

Bidder and HoldCo must execute all deeds and other documents and do all things (on their own behalf or on behalf of each Scheme Shareholder) necessary or expedient to give full effect to this deed poll and the transactions contemplated by it.

7.4 Waiver

- (a) Bidder and HoldCo may not rely on the words or conduct of any Scheme Shareholder as a waiver of any right unless the waiver is in writing and signed by the Scheme Shareholder granting the waiver.
- (b) No Scheme Shareholder may rely on words or conduct of Bidder or HoldCo as a waiver of any right unless the waiver is in writing and signed by Bidder or HoldCo, as appropriate.
- (c) The meanings of the terms used in this clause 7.4 are set out below.

Term	Meaning
conduct	includes delay in the exercise of a right.
right	any right arising under or in connection with this deed poll and includes the right to rely on this clause.
waiver	includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel.

7.5 Remedies cumulative

The rights, powers and remedies of Bidder, HoldCo and the Scheme Shareholders under this deed poll are cumulative and are in addition to, and do not exclude any, other rights, powers and remedies given by law independently of this deed poll.

7.6 Governing law

This deed poll is governed by the laws of New South Wales, Australia. Each of Bidder and HoldCo irrevocably submit to the non-exclusive jurisdiction of the courts of New South Wales, Australia, and any court that may hear appeals from any of those courts, for any proceedings in connection with this deed poll.

7.7 Counterparts

This deed poll may be executed in any number of counterparts. All counterparts together will be taken to constitute one instrument.

Executed as a deed poll.

Executed by Red Hot Australia Bidco Pty Limited (ACN 620 321 600) in accordance with section 127 of the Corporations Act 2001 (Cth):



Director Signature

YEW HWAN CHEAH

Print Name



Director/Secretary Signature

NIRAJ SAVERI

Print Name

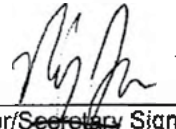
Executed by Red Hot Australia Holdco Pty Limited (ACN 620 321 351) in accordance with section 127 of the Corporations Act 2001 (Cth):



Director Signature

YEW HWAN CHEAH

Print Name



Director/Secretary Signature

NIRAJ SAVERI

Print Name

Annexure E – Notice of Scheme Meeting

Pepper Group Limited

ABN 55 094 317 665

Notice of Court-Ordered Meeting of Pepper Group Limited Shareholders

Notice is given that, by an Order of the Federal Court of Australia (“**Court**”) made on 12 October 2017 under section 411(1) of the *Corporations Act 2001* (Cth) (“**Corporations Act**”), the Court has directed that a meeting of the holders of ordinary shares in Pepper Group Limited (“**Pepper**”) be held at Christie Offices, 100 Walker Street, North Sydney, New South Wales on 15 November 2017 commencing immediately following the conclusion of the General Meeting which is scheduled to be held at 10.00am (Sydney time) on 15 November 2017.

The Court has directed that Seumas Dawes, or, failing him, Melanie Willis act as chair of the meeting and has directed the chair to report the result of the meeting to the Court.

Purpose of the meeting

The purpose of the meeting is to consider and, if thought fit, to agree (with or without any modification or conditions approved by the Court to which Pepper and Bidco agree) to a scheme of arrangement proposed to be made between Pepper and the holders of its ordinary shares as at the Scheme Record Date pursuant to Part 5.1 of the Corporations Act (“**Scheme**”).

Resolution

The meeting will be asked to consider and, if thought fit, pass the following resolution:

‘That, subject to and conditional on the resolution at the General Meeting being passed, pursuant to and in accordance with the provisions of section 411 of the Corporations Act, the scheme of arrangement proposed to be entered into between Pepper and Pepper Shareholders, as more particularly described in the Scheme Booklet accompanying the notice convening this meeting, is agreed to (with or without any modifications or conditions ordered by the Court to which Pepper and Bidco agree) and, subject to approval of the Scheme by the Court, the Pepper Board is authorised to implement the Scheme with any such modifications or conditions.’

Dated 12 October 2017 BY ORDER OF THE COURT and the Pepper Board



John Williams

Pepper General Counsel and Company Secretary

Important Notice

To enable you to make an informed voting decision, a copy of the Scheme and a copy of the explanatory statement required by section 412 of the Corporations Act in relation to the Scheme are contained in the Scheme Booklet of which this Notice of Meeting forms part. Terms used in this Notice of Meeting have the same meanings as set out in the glossary in Section 7 of the Scheme Booklet. Details about your entitlement to vote, how to vote and how to appoint a proxy, attorney or a corporate representative are set out in the Section “What you should do” and under the heading “The Scheme Meeting, voting and approvals” in the “Frequently asked questions” Section of the Scheme Booklet.

Annexure F – Notice of General Meeting

Pepper Group Limited

ABN 55 094 317 665

Notice of General Meeting of Pepper Group Limited Shareholders

Notice is given that a general meeting of the holders of ordinary shares in Pepper Group Limited (“**Pepper**”) will be held at Christie Offices, 100 Walker Street, North Sydney, New South Wales on 15 November 2017 commencing at 10:00am (Sydney time) (**General Meeting**).

Purpose of the meeting

The purpose of the General Meeting is to consider and, if thought fit, to agree to pass the resolution below as a special resolution.

Resolution

To consider and, if thought fit, pass the following resolution as a special resolution of the members of Pepper:

That, subject to and conditional on the resolution at the Scheme Meeting being passed, rule 4.1(e) of the constitution of Pepper be amended to add the underlined words below, so that it states:

“Subject to any rights or restrictions attached to any shares or class of shares or the terms of any dividend resolved by the Board to be payable in connection or in conjunction with a scheme of arrangement approved under section 411 of the Act (including that the dividend is not to be paid equally on all shares):”

(1) all dividends must be paid equally on all shares, except that a partly paid share confers an entitlement only to the proportion of the dividend which the amount paid (not credited) on the share is of the total amounts paid and payable (excluding amounts credited);

(2) for the purposes of rule 4.1(e)(1), unless the Board decides otherwise, an amount paid on a share in advance of a call is to be taken as not having been paid until it becomes payable; and

(3) interest is not payable by the company on any dividend.”

Dated 12 October 2017 by the Pepper Board



John Williams

Pepper General Counsel and Company Secretary

NOTES TO THE GENERAL MEETING

Explanatory notes

These notes should be read in conjunction with the Notice of General Meeting and the information in the Scheme Booklet of which that notice forms part (**Scheme Booklet**). Unless the context requires otherwise, terms used in the Notice of General Meeting and in these notes have the same meaning as set out in the glossary in the Scheme Booklet.

Chairperson of the General Meeting

Mr Seumas Dawes has been appointed Chairperson of the General Meeting. If Seumas Dawes is unable or unwilling to attend, Melanie Willis is to act as Chairperson of the General Meeting.

Conditionality of resolution

The resolution to be considered at the General Meeting is conditional on the resolution being put to the Scheme Meeting being passed by the requisite majorities.

Quorum

The constitution of Pepper provides that the quorum for a meeting of members is five or more members present at the meeting and entitled to vote on a resolution at the meeting.

Required majorities

The General Meeting resolution is a special resolution and will only be passed if at least 75% of the votes cast by Pepper Shareholders entitled to vote are in favour.

Entitlement to vote

For the purposes of the General Meeting, Pepper has determined that the time for determining the eligibility to vote at the General Meeting is 7.00pm (Sydney time) on Monday, 13 November 2017. Only those Pepper Shareholders entered on the Pepper share register at that time will be entitled to attend and vote at the General Meeting.

Voting will be conducted by poll.

Voting at the meeting

You may vote in person at the General Meeting or appoint a proxy, attorney or, if you are a body corporate, a corporate representative to attend and vote on your behalf.

(a) Voting in person

To vote in person, attend the General Meeting on the date and at the place set out in the Notice of General Meeting.

(b) Voting by proxy

A Pepper Shareholder entitled to attend and vote at the General Meeting can vote by proxy by completing and returning to the Pepper Registry the general proxy form enclosed with the Scheme Booklet.

You may appoint not more than two proxies to attend and act for you at the General Meeting. Your proxy need not be another Pepper Shareholder. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. If no such number or proportion is specified, each proxy may exercise half of your votes. If you do not instruct your proxy on how to vote, you will be taken (for all relevant purposes) to have given your proxy discretion as to how to vote and your proxy may vote as he or she sees fit at the General Meeting.

Pepper Shareholders who return their proxy form with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the Chairperson of the General Meeting as their proxy to vote on their behalf. If a proxy form is returned but the nominated proxy does not attend the General Meeting, the Chairperson of the General Meeting will act in place of the nominated proxy and vote in accordance with any instructions.

Instructions on how to complete and lodge the proxy form are included on the form. Proxy forms must be received by the Pepper Registry by no later than 10.00am (Sydney time) on Monday, 13 November 2017. Proxies can also be lodged online at www.investorvote.com.au by no later than 10.00am (Sydney time) on Monday, 13 November 2017.

(c) Voting by attorney

You may appoint an attorney to attend and vote at the meeting on your behalf by providing the Pepper Registry the original (or certified copy) of the instrument appointing an attorney by no later than 10.00am (Sydney time) on Monday, 13 November 2017 (unless a copy has already been provided to the Pepper Registry). Your attorney need not be another Pepper Shareholder.

(d) Voting by corporate representative (in the case of a body corporate)

If you are a body corporate, you can appoint a corporate representative to attend and vote at the General Meeting on your behalf. The appointment must comply with section 250D of the *Corporations Act 2001* (Cth). A corporate Pepper Shareholder or corporate proxy should obtain a "Certificate of Appointment of Corporate Representative" form from the Pepper Registry, and complete and sign the form in accordance with the instructions on it. The corporate representative must attend the General Meeting in person.

Corporate Directory

Registered office

Pepper Group Limited
ABN 26 123 652 862
Level 27
177 Pacific Highway
North Sydney NSW 2060
Australia

Shareholder Information Line

1300 618 051 (within Australia) or +61 3 9415 4003 (outside Australia), from 9:00am to 5:00pm (Sydney time) Monday to Friday.

Pepper Registry

Computershare Investor Services Pty Limited
Level 4
60 Carrington Street
Sydney NSW 2000
Australia

Enquiries + 61 2 8234 5000
Facsimile + 61 2 8234 5050

Financial Adviser to Pepper

Citi
Level 23
2 Park Street
Sydney NSW 2000
Australia

Legal Adviser to Pepper

Jones Day
Level 41
88 Phillip Street
Sydney NSW 2000
Australia

Financial Adviser to the Independent Board Committee

Highbury Partnership
Level 12 The Chifley Tower
2 Chifley Square
Sydney NSW 2000
Australia

Legal Adviser to the Independent Board Committee

Herbert Smith Freehills
Level 27, ANZ Tower
161 Castlereagh Street
Sydney NSW 2000
Australia



Pepper Group Limited
 ABN 55 094 317 665

PEP

MR SAM SAMPLE
 FLAT 123
 123 SAMPLE STREET
 THE SAMPLE HILL
 SAMPLE ESTATE
 SAMPLEVILLE VIC 3030

Lodge your vote:

Online:
www.investorvote.com.au

By Mail:
 Computershare Investor Services Pty Limited
 GPO Box 242 Melbourne
 Victoria 3001 Australia

Alternatively you can fax your form to
 (within Australia) 1800 783 447
 (outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
 (custodians) www.intermediaryonline.com

For all enquiries call:
 (within Australia) 1300 618 051
 (outside Australia) +61 3 9415 4003



General Meeting Proxy Form

XX



Lodge a proxy and view the Notice of Meeting online

- Go to www.investorvote.com.au or scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.

Your access information that you will need to vote:

Control Number: 131018

SRN/HIN: I999999999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.



For your vote to be effective it must be received by 10:00am (Sydney time) on Monday, 13 November 2017

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
 or turn over to complete the form** ➔

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

Proxy Form

Please mark to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Pepper Group Limited hereby appoint

the Chairman of the Meeting **OR**

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the General Meeting of Pepper Group Limited to be held at Christie Offices, 100 Walker Street, North Sydney NSW 2060 on Wednesday 15 November 2017 at 10:00am (Sydney time) and at any adjournment or postponement of that meeting.

STEP 2 Item of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

Resolution That, subject to and conditional on the resolution at the Scheme Meeting being passed, rule 4.1(e) of the constitution of Pepper be amended to add the underlined words below, so that it states:

For Against Abstain

Subject to any rights or restrictions attached to any shares or class of shares or the terms of any dividend resolved by the Board to be payable in connection or in conjunction with a scheme of arrangement approved under section 411 of the Act (including that the dividend is not to be paid equally on all shares);

(1) all dividends must be paid equally on all shares, except that a partly paid share confers an entitlement only to the proportion of the dividend which the amount paid (not credited) on the share is of the total amounts paid and payable (excluding amounts credited);

(2) for the purposes of rule 4.1(e)(1), unless the Board decides otherwise, an amount paid on a share in advance of a call is to be taken as not having been paid until it becomes payable; and

(3) interest is not payable by the company on any dividend.

The Chairman of the Meeting intends to vote undirected proxies in favour of the resolution. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name _____

Contact Daytime Telephone _____

Date / /



Pepper Group Limited
ABN 55 094 317 665

PEP

MR SAM SAMPLE
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Lodge your vote:

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www.investorvote.com.au

By Mail:
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Victoria 3001 Australia

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(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:
(within Australia) 1300 618 051
(outside Australia) +61 3 9415 4003



Scheme Meeting Proxy Form

XX



Lodge a proxy and view the Scheme Booklet online

- Go to www.investorvote.com.au or scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.



Your access information that you will need to vote:

Control Number: 999999

SRN/HIN: I9999999999 PIN: 99999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 10:00am (Sydney time) on Monday, 13 November 2017

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

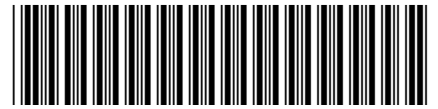
Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,
or turn over to complete the form** →

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Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

Proxy Form

Please mark to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Pepper Group Limited hereby appoint

the Chairman of the Meeting OR

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Scheme Meeting of Pepper Group Limited to be held at Christie Offices, 100 Walker Street, North Sydney NSW 2060 on Wednesday 15 November 2017 immediately following the conclusion of the General Meeting which is scheduled to be held at 10:00am (Sydney time) and at any adjournment or postponement of that meeting.

STEP 2 Item of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

Resolution That, subject to and conditional on the resolution at the General Meeting being passed, pursuant to and in accordance with the provisions of section 411 of the Corporations Act, the scheme of arrangement proposed to be entered into between Pepper and Pepper Shareholders, as more particularly described in the Scheme Booklet accompanying the notice convening this meeting, is agreed to (with or without any modifications or conditions ordered by the Court to which Pepper and Bidco agree) and, subject to approval of the Scheme by the Court, the Pepper Board is authorised to implement the Scheme with any such modifications or conditions.

For Against Abstain

The Chairman of the Meeting intends to vote undirected proxies in favour of the resolution. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name _____

Contact Daytime Telephone _____

Date / /

PEP

999999A

Computershare +