WEST AUSTRALIAN NEWSPAPERS HOLDINGS LIMITED
A.B.N. 91 053 480 845

21 February 2011

By email - Elizabeth.Harris@asx.com.au

Elizabeth Harris
Senior Adviser - Issuers
ASX Limited
Level 8, Exchange Plaza
2 The Esplanade
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Dear Elizabeth

WAN – Release of Independent Expert's Report

Attached for release is an Independent Expert's Report from Ernst & Young Transaction Advisory Services Limited, which has been provided to the Independent Directors of WAN in relation to the proposed acquisition by WAN of Seven Media Group (described in WAN's announcement to the ASX earlier today). In that report, the expert has concluded that the acquisition of SMG from a related party, Seven Group Holdings Limited ("SGH"), is fair and reasonable to WAN Shareholders (other than SGH and its associates). That conclusion is based on the assumptions and qualifications set out in the report.

The Independent Expert's Report has been prepared for the sole purpose of assisting WAN Shareholders in deciding whether or not to approve the resolutions relating to the acquisition, as required under the Corporations Act and the ASX Listing Rules. It has not been prepared for the purposes of the Offers referred to in WAN's earlier announcement. The Independent Expert's Report, and the draft notice and Explanatory Memorandum for the Extraordinary General Meeting of WAN to consider those resolutions, have been lodged with the Australian Securities and Investments Commission today, and remain subject to its review. Those documents are expected to be despatched to all WAN Shareholders on or around 11 March 2011. The Independent Expert's Report may need to be updated prior to despatch to reflect any material changes in market conditions and circumstances.

Yours sincerely

For and on behalf of West Australian Newspapers Holdings Limited

Peter Bryant
Chief Financial Officer and Company Secretary

Independent Expert's Report and Financial Services Guide

in relation to the proposed acquisition of Seven Media Group

21 February 2011

Ernst & Young

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The Independent Directors
West Australian Newspapers Holdings Limited
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50 Hasler Road
Osborne Park WA 6017

21 February 2011

Dear Independent Directors

Independent Expert's Report in relation to the proposed acquisition of Seven Media Group

Introduction

On 21 February 2011, West Australian Newspapers Holdings Limited (WAN) announced that it had entered into a Share Sale Agreement with Seven Group Holdings Limited (SGH) to acquire the Seven Media Group (SMG) at an enterprise value of $4,085 million. The consideration for the acquisition is payable in cash (through the repayment of a parent company loan) as well as through the issuance by WAN of ordinary shares and new convertible preference shares (CPS) to SGH, as well as the assumption of debt of SMG (the Proposed Transaction).

SMG is a diversified media group with its core business comprising free-to-air (FTA) television broadcasting, magazine publishing and digital media operations in Australia. SMG is owned 45%[1] each by SGH and funds affiliated with Kohlberg Kravis Roberts & Co. L.P. (KKR) respectively, with the remaining interest held by financial investors and management. SGH will acquire the remaining 55% interest in SMG that it does not already own before immediately selling the entire SMG business to WAN at an enterprise value of $4,085 million. Based on external net debt as at 25 December 2010 of $2,104 million[2], the Proposed Transaction implies an equity value for SMG of $1,981 million.

In accordance with the Share Sale Agreement between WAN and SGH, the acquisition by WAN will be structured by way of:

- Issue of WAN ordinary shares to SGH for $1,081 million, at a price of $5.99 per WAN share
- Issue of $250 million of new convertible preference shares (CPS) to SGH
- $650 million repayment of SGH loan owed by SMG

In order to fund the Proposed Transaction, WAN will undertake a placement of approximately 77 million ordinary shares in WAN to KKR, mezzanine investors and members of management relating to SMG under the KKR Investment at a price of $5.99 per WAN Share which is expected to raise $461 million.

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[1] SGH and KKR's respective interests in SMG are presently 46.5%. However, each would be 45% if fully diluted for future vesting of the SMG management equity plan
[2] Pursuant to the Share Sale Agreement

In addition, WAN proposes to conduct fully underwritten capital raisings in order to raise approximately $693 million (the Offers). The Offers are in the form of an accelerated non-renounceable pro rata entitlement offer of convertible unsecured loan securities (CULS) which will convert into WAN Shares if the Proposed Transaction is approved, or will otherwise be redeemed for cash plus a redemption premium[3] in the event that the Proposed Transaction is not approved (Redemption Premium), and a fully underwritten public offer of WAN Shares to new and existing WAN Shareholders.

If approved, the Proposed Transaction would result in SGH increasing its voting shares in WAN to 29.6% through the issuance of ordinary shares, and may increase its interest to up to 33.6% upon conversion of the CPS[4]. Further details of the Proposed Transaction and conditions precedent are set out in section 1 of our report, and detailed in the Explanatory Memorandum.

Chapter 10.1 of the Australian Stock Exchange (ASX) Listing Rules regulates acquisitions and disposals of substantial assets between related parties. As SGH currently holds 24.3% of the issued shares in WAN, and has two common directors, the acquisition by WAN of a substantial asset from SGH will need to be approved by the shareholders of WAN not associated with SGH (Non-associated Shareholders).

In accordance with Chapter 10.10.2 of the ASX Listing Rules, the notice of meeting to be sent to the shareholders of WAN must include an independent expert's report. Chapter 10.10.2 of the ASX Listing Rules requires that the independent expert's report "must state whether the transaction is fair and reasonable to holders of the entity's ordinary securities", other than the parties to the transaction.

In addition, under section 606 of the Corporations Act, 2001 (Cth) (the Act), an entity is generally prohibited from increasing its interest in the voting shares of a listed company to greater than 20%. An exception to this prohibition is for the increase to be approved by shareholders of the company under item 7 of section 611 of the Act. As such, shareholder approval for the issuance of the ordinary shares including on the conversion of the convertible preference shares, is being sought pursuant to item 7 of section 611 of the Act.

Furthermore, approval of WAN shareholders for the Proposed Transaction is being sought under Chapter 2E of the Act in relation to related party transactions.

Item 7 of section 611 of the Act requires that the shareholders of the company are provided with all information that is material to the decision as to how to vote on the resolution. Whilst item 7 of section 611 does not explicitly require an independent expert's report to be prepared, it is common for directors of companies to commission an independent expert's report so as to present all available information to their shareholders.

The independent directors of WAN have therefore commissioned the preparation of an independent expert's report to consider whether the acquisition of SMG and issue of WAN Shares and CPS to SGH are fair and reasonable to WAN Shareholders (other than SGH and any WAN Shareholders associated with SGH). This independent expert's report will be included in the Notice of Extraordinary General Meeting and Explanatory Memorandum which will be sent to all shareholders following Australian Securities & Investments Commission (ASIC) review on or around 11 March 2011. The independent expert's report may need to be updated to reflect any material changes in market conditions and circumstances prior to the date of despatch of the Notice of Extraordinary General Meeting and Explanatory Memorandum.

[3] Redemption premium is between 2.5% and 4.5% of the Issue Price. In the event of a delay in the timetable, the Redemption Premium will increase at a rate of 1% per month or part thereof.

[4] In the event that all of the CPS issued to SGH are converted into ordinary shares, and assuming SGH's shareholding and the ordinary WAN Shares on issue immediately post completion of the Proposed Transaction remain unchanged at the time of conversion, SGH's shareholding in WAN would increase to 33.6%.

This independent expert's report has been prepared for the sole use by WAN Shareholders with respect to their decision whether or not to approve the resolutions required by ASX Listing Rule 10.1 and item 7 of section 611 of the Act. We are aware that a Prospectus has been prepared for the purpose of the Offers however our independent expert's report has not been prepared for, and we make no recommendation in respect of, the Offers.

In preparing our report we have had regard to ASIC Regulatory Guide 111, *Content of expert reports* (RG 111). RG 111.21 requires that where the transaction being considered for the purposes of item 7 of section 611 has a similar effect on the company's shareholding as a takeover bid then the transaction should be analysed as if it were a takeover bid. A takeover bid generally involves a control transaction where one entity is looking to acquire or increase a controlling interest in another entity. As the Proposed Transaction will give SGH the right to move to 29.6% of WAN's expanded issued capital, and a higher percentage upon the conversion of the CPS, in our view the Proposed Transaction represents a control transaction as intended under RG 111 and as such has been assessed on a basis consistent with a takeover bid.

In this regard, RG 111.10 provides that "an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer". RG 111.62 provides that an expert should usually give a range of values for the securities that are the subject of the offer. In this independent expert's report, we consider that, if the value of the consideration falls within the range of values assessed for a WAN share, then the Proposed Transaction would be fair.

Under RG 111.11 "an offer is 'reasonable' if it is fair". It might also be 'reasonable' if, despite being 'not fair', there are sufficient reasons for security holders to accept the offer in the absence of any superior proposal.

Basis of evaluation

For the purpose of ASX Listing Rule 10.1 we are required to consider whether the acquisition of SMG by WAN is fair and reasonable to the Non-associated Shareholders. In forming our opinion we recognise that in conjunction with the Proposed Transaction there are a number of interdependent capital raisings, including the KKR Investment, the Entitlement Offer and Public Offer, which impact upon the merits of the Proposed Transaction for the Non-associated Shareholders of WAN. In light of this, whilst being mindful of the form of consideration being provided to SGH, we considered it appropriate to assess the fairness of the transaction on the same basis as under item 7 of section 611 of the Act. We also considered the various advantages and disadvantages of the acquisition to the Non-associated Shareholders, the key aspects of which are further discussed below.

In assessing the transaction under item 7 of section 611, RG 111 allows the independent expert to consider a control transaction to be akin to a takeover by assessing the value of the "target", in this instance WAN, as if the control transaction was successful. Under this analysis, the value of the "consideration" would be taken to be the fair market value of WAN assuming the Proposed Transaction proceeds and the value of the interest notionally being disposed of would be taken to be the fair market value of WAN prior to the Proposed Transaction on a control basis. If the fair market value of one share in WAN after the Proposed Transaction (on a minority basis) is greater than the fair market value of one share in WAN before (on a control basis), then the Proposed Transaction would be considered to be fair. Such a comparison therefore encapsulates the impact of all of the interdependent aspects of the Proposed Transaction.

As a number of resolutions are required in order to give effect to the Proposed Transaction, we considered various advantages and disadvantages, including:

- The strategic rationale for the Proposed Transaction
- The impact of the Proposed Transaction upon WAN's business, future growth prospects and risk profile
- The likely impact on WAN's share price and other potential implications in the event that the Transaction is not approved
- Other qualitative factors that the Non-associated Shareholders should consider in assessing whether to approve the Proposed Transaction

Summary of opinions

Fair market value of SMG and the consideration payable by WAN

With respect to the requirements of ASX Listing Rule 10.1, we have assessed whether the acquisition of SMG from a related party, SGH, is fair. As set out below, our analysis indicates that the enterprise value of SMG falls in the range $4,604 million to $5,071 million. The consideration paid by WAN, inclusive of the debt to be assumed by WAN, of $4,085 million is therefore below our assessed range of enterprise values for SMG.

The results of this comparison are provided in the following table:

Comparison of the fair market value of SMG to the consideration

Currency: A$ millions	Ref	Low	High
Value of SMG including associates	8.5	4,604	5,071
Acquisition price for SMG in the Proposed Transaction	8.7	4,085	4,085

Source: EY analysis

The consideration for the acquisition, as set out above, is in the form of cash (through the repayment of a parent company loan), the issue of WAN ordinary shares and CPS, and will include the assumption of debt of SMG. In conjunction with the Proposed Transaction there are a number of interdependent capital raisings, including the KKR Investment, the Entitlement Offer and Public Offer which impact on the merits of the Proposed Transaction for the Non-associated Shareholders of WAN. In light of this, whilst being mindful of the form of consideration being provided to SGH, we considered it appropriate to assess the fairness of the transaction on the same basis as under item 7 of section 611 of the Act. We also considered the various advantages and disadvantages of the acquisition to the Non-associated Shareholders, the key aspects of which are further discussed below.

Fair market value of WAN before and after the Proposed Transaction

With respect to the requirements of item 7 of section 611 of the Act, we have compared the value of an ordinary WAN share on a control basis pre the Proposed Transaction with the value of one ordinary WAN share on a minority basis post the Proposed Transaction in order to assess whether the Proposed Transaction is fair. While we are required to consider whether the issue of WAN Shares and CPS to SGH are fair and reasonable to WAN Shareholders, as various other resolutions are interdependent with the issuance of the WAN Shares and CPS, we have included the impact of the KKR Investment and the Offers, in our analysis.

Our conclusions on value are provided in the table on the following page:

Comparison of fair market value per WAN share before and after the Proposed Transaction (ex-dividend basis)

Currency: A$	Ref	Low	High
Value per share before the Proposed Transaction (controlling basis)	9.9	5.59	6.41
Value per Combined Group share (minority basis including entitlements)	10.11	6.17	7.51

Source: EY analysis

The table above presents the value per WAN Share on an ex-dividend basis both before and after the Proposed Transaction. As shown in the above table, the range of values for a WAN Share post the Proposed Transaction is either within or above the assessed range of values for a WAN Share pre the Proposed Transaction. Accordingly, for the purpose of item 7 of section 611 of the Act and ASX Listing Rule 10.1, we consider the terms of the Proposed Transaction to be fair.

This comparison assumes that investors who are eligible do in fact take up their entitlements under the Entitlements Offer. Those WAN Shareholders who do not choose to take up their entitlements will be diluted. The resultant value per share for those WAN Shareholders that do not take up their entitlements would be lower than as set out above, however even in these circumstances this would not impact on our opinion as to the fairness of the Proposed Transaction.

In addition to the valuation comparison outlined above, we have also considered the following factors in assessing the reasonableness of the Proposed Transaction (refer to section 11 of this report for further discussion in relation to these matters):

Advantages

Increased diversification and opportunities for growth

WAN's existing operations are currently highly reliant upon the "The West" newspaper which contributes over 80% of its earnings. The acquisition of SMG will significantly diversify WAN's business across media platforms with the addition of strong market positions across FTA broadcasting and magazines. In addition, the acquisition will significantly enhance WAN's digital media offering, with the online market currently experiencing the highest growth within the media sector. As indicated in section 6.0, following the Proposed Transaction, around 60% of WAN's FY11PF EBITDA is expected to be derived from FTA broadcasting, 28% from newspapers, with the balance from magazines, digital and other businesses.

In addition, whilst maintaining WAN's exposure to the strong Western Australian economy, the Proposed Transaction will provide the Combined Group with exposure to all major metropolitan markets, as well as various regions, through its affiliated regional stations. This should assist in diversifying its revenue stream and reduce its reliance on any one market or media platform.

Opportunities may also exist for content sharing and increased advertising across its media platforms, with opportunities for growth in the major advertising markets of FTA broadcasting and increasingly, digital media.

Shareholders will continue to participate in possible future increases in the value of WAN

Our valuation reflects assumptions in relation to potential future growth opportunities available to WAN as a result of the Proposed Transaction. While our valuation gives recognition to the fact that WAN's growth prospects will improve as a result of the Proposed Transaction, it also recognises that the extent to which this will occur is uncertain. To the extent that WAN exceeds the expectations reflected in our valuation, existing Shareholders will continue to participate in any future increases in the value of WAN Shares.

Greater market capitalisation, liquidity and share market indices

As a result of the Proposed Transaction WAN's market capitalisation is likely to significantly increase, on a pro forma free float basis[5], to $3,543 million[6]. While the proportion of shares available to trade, or the free float will reduce, the overall market value of shares available to trade will increase. As a result, WAN is expected to become the largest media company domiciled in Australia on a pro forma free float basis. Although WAN is already included in various indices, such as the S&P/ASX 100 and S&P/ASX 200, there may still be an increase in demand for its shares, particularly from index linked investment or tracker funds.

Disadvantages

Attraction as a takeover target

As a result of the Proposed Transaction, SGH's ownership will increase from currently 24.3% of the issued shares in WAN, to 29.6% of WAN Shares. Further, in the event that all of the CPS issued to SGH are converted into ordinary shares, and assuming SGH's shareholding and the ordinary WAN Shares on issue immediately post completion of the Proposed Transaction remain unchanged at the time of conversion, SGH's shareholding in WAN would increase to 33.6%. The existence of a substantial shareholder in WAN may act as a deterrent to any other parties in making a takeover offer as SGH would in effect have to support a transaction to allow any other party to gain control.

In addition, given the current cross media ownership restrictions, the number of companies which may be allowed to acquire the business may be somewhat reduced compared to those presently able to acquire WAN.

Transaction costs

As set out in the Explanatory Memorandum, WAN estimates that it will incur total transaction costs of approximately $45 million. Of these, around $27.9 million of net costs[7] would be incurred irrespective of whether the Proposed Transaction proceeded. In addition, in the event that the Proposed Transaction is not approved, a Redemption Premium totalling approximately $16.3 million will be payable on the CULS[8].

Other factors

Increased debt levels

WAN currently has relatively low net debt levels of $226.4 million as at 31 December 2010 and is highly cash generative. As a result of the Proposed Transaction WAN's debt levels will increase to a pro forma 31 December 2010 level of $1,991 million, increasing its net debt as a proportion of enterprise value from currently 14%[9] to 29%[10]. While debt levels will increase, its overall gearing levels[11] are expected to remain lower than the average of WAN's Australian media peers of approximately 35%[12].

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[5] Excluding strategic shareholdings held by SGH and KKR
[6] Based on an estimated 610.3 million shares on issue following completion of the Proposed Transaction as set out in section 10.9, and the theoretical ex-rights price of $5.80.
[7] Total estimated costs of $29.7 million less $1.8 million reimbursement from SGH
[8] Based on 2.5% of the value of the CULS, assuming, if the Transaction is not approved, redemption occurs in April 2011
[9] Based on net debt of $226.4 million as at 31 December 2010 and the midpoint of the enterprise value of WAN as set out in section 9.9
[10] Based on net debt of $1,991.2 million as set out in the pro forma balance sheet in the Prospectus and the midpoint of the enterprise value of the Combined Group as set out in section 10.8
[11] Average net debt as a proportion of enterprise value
[12] Based on the average 4 year net debt as a proportion of enterprise value of Fairfax Media Ltd, APN News & Media, Ten Network Limited, Prime Media Group and Southern Cross Media Group

Greater exposure to media regulation

The acquisition of SMG increases WAN's exposure to the FTA television broadcasting market. Any changes in media regulations, such as license fee rebates and the anti-siphoning scheme, may have a significant impact on the future prospects of the company.

Dividend yield

WAN has historically paid regular dividends to shareholders with yields of between 5.5% and 6.3%[13] over the last two years. As set out in the Explanatory Memorandum, WAN intends post acquisition to pay a high proportion of its normalised net profit after tax in dividends after having regard to all relevant factors, including working capital requirements and new growth initiatives. Based on the dividend of $0.19 per share declared for the first half of FY11, WAN has provided guidance that it expects, subject to forecasts being achieved and other relevant considerations, to pay a full year fully franked dividend of $0.45 per share. This represents a dividend yield of around 8.7% based on the issue price of the Offers of $5.20.

Dilution to the extent shareholders do not participate in the Offers

To the extent that Shareholders do not participate in the Entitlement Offer or Public Offer, the Non-associated Shareholders will be further diluted.

Transaction synergies

The value is dependent upon the ability to realise around $15 million of pre-tax synergies per annum. To the extent that these synergies are not fully realised, or are not able to be realised in the timeframe anticipated, this may have a negative impact on value.

Share price if the Proposed Transaction is not approved

If the Proposed Transaction is not approved, WAN will not acquire SMG, and given the interdependence of a number of the proposed resolutions, none of the share placements to SGH, the KKR Investment, or the Public Offer will take effect. In addition, the CULS would be required to be redeemed. WAN would in effect continue to operate its current business in its existing form. However, WAN would be required to redeem the CULS inclusive of a Redemption Premium of $16.3 million[14]. Furthermore, WAN would likely have incurred substantial costs in relation to the Proposed Transaction, irrespective of whether the Proposed Transaction proceeds, estimated by WAN management at $27.9 million.

While we are unable to ascertain with any degree of certainty how WAN's Share may trade if the Proposed Transaction does not proceed, to the extent that any premium is subsequently reflected in WAN's share price following announcement, this would likely then cease to be priced into WAN's Share price, causing it to decline.

[13] Based on the full year dividend for the year ending 30 June 2009 and 30 June 2010 and the average closing share price in the same period

[14] Based on 2.5% of the value of the CULS, assuming, if the Transaction is not approved, redemption occurs in April 2011.

Conclusion

For the purpose of ASX Listing Rule 10.1 and item 7 of section 611 of the Act, in our opinion the acquisition of SMG from a related party, SGH, and the issuance of the ordinary shares and CPS (including the ultimate conversion of the CPS) is fair and reasonable to the Non-associated Shareholders of WAN.

Other matters

This independent expert's report has been prepared specifically for the Independent Directors of WAN and the Non-associated Shareholders. Neither Ernst & Young, Ernst & Young Transaction Advisory Services Limited, nor any member or employee thereof, undertakes any responsibility to any person, other than the Independent Directors of WAN and the Non-associated Shareholders, in respect of this independent expert's report, including any errors or omissions howsoever caused.

This independent expert's report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the Non-associated Shareholders. As such our opinion should not be construed as a recommendation as to whether to approve or not approve the Proposed Transaction. The decision as to whether to vote in favour or against the Proposed Transaction is a matter for individual Shareholders based on their own circumstances, investment objectives, preferences, risk profiles and expectations of future market conditions. WAN Shareholders should have regard to the Explanatory Memorandum prepared by the directors and management of WAN in relation to the Proposed Transaction.

WAN Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional advisers.

Our opinion is made as at the date of this letter and reflects circumstances and conditions as at that date. This letter must be read in conjunction with the full independent expert's report as attached.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

John E Gibson
Director and Representative

Julie Wolstenholme
Representative

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Part 1 – Independent Expert's Report

1. Details of the Proposed Transaction

1.1 The Proposed Transaction

On 21 February 2011, West Australian Newspapers Holdings Limited announced that it had entered into a Share Sale Agreement with Seven Group Holdings Limited to acquire the Seven Media Group at an enterprise value of $4,085 million. The consideration for the acquisition is payable in cash (through the repayment of a parent company loan), as well as through the issuance by WAN of ordinary shares and new convertible preference shares to SGH, and the assumption of debt of SMG.

SMG is a diversified media group with its core business comprising free to air (FTA) television broadcasting, magazine publishing and digital media operations in Australia. SMG is owned 45%[15] each by SGH and funds affiliated with Kohlberg Kravis Roberts & Co. L.P. (KKR) respectively, with the remaining interest held by financial investors and management. SGH will acquire the remaining 55% interest in SMG that it does not already own immediately prior to selling the entire SMG business to WAN at an enterprise value of $4,085 million. Based on external net debt as at 25 December 2010 of $2,104 million[16], the Proposed Transaction implies an equity value for SMG of $1,981 million.

In accordance with the Share Sale Agreement between WAN and SGH, the acquisition by WAN will be structured by way of:

- Issue of WAN ordinary shares to SGH for $1,081 million, at a price of $5.99 per WAN Share as detailed in section 1.2.1 of this report
- Issue of $250 million of new convertible preference shares (CPS) to SGH, the terms of which are detailed in section 1.2.2 of this report
- $650 million repayment of an SGH loan owed by SMG

In order to fund the Proposed Transaction, WAN will undertake a placement of 77.0 million ordinary shares to KKR, mezzanine investors and members of management relating to SMG at a price of $5.99 per WAN Share, to raise approximately $461 million (the KKR Investment).

In addition, WAN proposes to conduct fully underwritten capital raisings in order to raise approximately $693 million (the Offers). The Offers are in the form of an accelerated non-renounceable pro rata entitlement offer of convertible unsecured loan securities (CULS) which will convert into WAN Shares if the Proposed Transaction is approved, or will otherwise be redeemed for cash plus a Redemption Premium in the event that the Proposed Transaction is not approved[17], and a fully underwritten public offer of WAN Shares to new and existing WAN Shareholders.

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[15] SGH and KKR's respective interests in SMG are presently 46.5%. However, each would be 45% if fully diluted for future vesting of the SMG management equity plan
[16] Pursuant to the Share Sale Agreement
[17] Redemption premium is between 2.5% and 4.5% of the issue price. In the event of a delay in the timetable, the redemption premium will increase at a rate of 1% per month or part thereof.

The proceeds from the funds raised through the KKR Investment and the Offers will be used to repay the $650 million SGH loan owed by SMG and reduce the senior debt assumed by WAN, thereby reducing the borrowings of the Combined Group.

If the Proposed Transaction is approved, SGH is expected to hold 29.6% of the expanded share capital of WAN, with the remainder to be held by KKR, mezzanine investors and members of management relating to SMG of 12.6% and other shareholders. In the event that all of the CPS issued to SGH are converted into ordinary shares, and assuming SGH's shareholding and the ordinary WAN Shares on issue immediately post completion of the Proposed Transaction remain unchanged at the time of conversion, SGH's shareholding in WAN would increase to 33.6%.

All amounts in this report are expressed in Australian dollars ($) unless otherwise stated.

1.2 Terms of the Proposed Transaction

The key terms of the Proposed Transaction are detailed below and set out in the Explanatory Memorandum.

1.2.1 WAN share allotment to SGH

Under the terms of the Share Sale Agreement, and conditional upon the approval of the Proposed Transaction, WAN will undertake a share allotment to SGH as part consideration for the acquisition of SMG. Shares issued to SGH will be issued at a price of $5.99 per share.

Based on this price, the number of ordinary shares to be issued to SGH for a value of $1,081 million is 180.5 million. The shares issued to SGH will not be entitled to the interim dividend declared by WAN for the half year ended 31 December 2010 of $0.19 per share.

Following announcement of the Proposed Transaction, SGH will sell down its existing 53.4 million WAN Shares via a book build to be carried out as part of the proposed Entitlement Offer detailed in section 1.2.4. The sale of SGH's shares in WAN will be to new and existing institutional investors in WAN.

1.2.2 Convertible preference shares

WAN will issue $250 million of convertible preference shares to SGH. These may be converted by SGH into ordinary WAN Shares at any time after the release of the WAN accounts for the half ended 31 December 2013 and in limited other circumstances. The CPS are otherwise redeemable five years from the date of issue. Additional key terms and conditions of the issue of the CPS are set out below:

- A total of 2,500 CPS will be issued with a face value of $100,000 each.
- Earlier conversion of the CPS into WAN ordinary shares, prior to the release of the WAN accounts for the half year ended 31 December 2013, is permitted under limited circumstances, including:
    - To enable SGH to maintain its shareholding in WAN of no less than 29.5% (less an adjustment for any WAN shares sold by SGH) in the event of any issue of WAN Shares

- If a change of control event occurs in relation to WAN[18]
- To the extent permitted by the WAN Board in writing

- The conversion price, and therefore, the fixed conversion ratios will be adjusted following any reconstruction, consolidation, division, reclassification, securities issue, rights offer and modifications of conversion rights attaching to other securities (subject to customary exceptions) to ensure that CPS holders are placed in a similar economic position prior to the occurrence of the event that gave rise to the adjustment. The conversion price will be adjusted downwards for any dividends paid to holders of ordinary shares over and above the annual reference dividend yield of 6.5% (excluding franking credits).

- At conversion, the form of settlement in WAN Shares or cash is at the discretion of WAN.

  - In the event of equity settlement, the conversion price is $6.68. The number of shares issued on conversion of the CPS will be calculated by multiplying the number of CPS being converted by the conversion ratio, being the issue price adjusted by 7.143% per annum (compounded on a semi-annual basis) (the Adjusted Issue Price) divided by the conversion price of $6.68.

  - WAN may, at its option, satisfy its obligation to deliver the WAN Shares, in whole or in part, by paying a cash amount equal to the average of the daily VWAPs of the WAN Shares over the 10 trading days commencing on the date of service of the relevant conversion notice from the holder.

- The CPS are redeemable at the Adjusted Issue Price five years after the date of issue and every half-year anniversary thereafter at the sole discretion of WAN with the form of settlement in WAN Shares or cash at the discretion of WAN. The CPS are also redeemable at any time on the occurrence of standard tax and regulatory events.

  - In the event of equity settlement, the number of shares to be issued is to be calculated by dividing the Adjusted Issue Price by the average of the 5 day VWAP prior to the conversion date, (calculated at a 5% discount minus one).

- WAN may not issue any preferred securities ranking ahead of the CPS without prior consent of the holders of 75% of the CPS.

- Voting rights are limited to voting matters mandated under Listing Rule 6.3.

- The CPS do not confer any dividend rights.

Issuance of the CPS is conditional upon the approval of the Proposed Transaction by the Non-associated Shareholders of WAN.

1.2.3 KKR Investment

WAN will conduct a placement of approximately 77 million shares in WAN to KKR, mezzanine investors and members of management relating to SMG at a price of $5.99,

[18] Defined as being a third party acquiring more than 50% of the ordinary shares in WAN under an unconditional takeover bid for all of the shares in WAN or is to acquire 100% of the ordinary shares in WAN under a scheme of arrangement that has become effective

which is expected to raise $461 million. The placement is at the same price as the shares issued to SGH.

Shares issued under the KKR Investment will not be entitled to the interim dividend declared by WAN for the half year ended 31 December 2010 of $0.19 per share.

Issuance of the shares to KKR, mezzanine investors and members of management relating to SMG under the KKR Investment is conditional upon the approval of the Proposed Transaction by the Non-associated Shareholders of WAN.

1.2.4 The Offers

In conjunction with the Proposed Transaction, and as set out in the Prospectus dated 21 February 2011, WAN proposes to conduct:

- A fully underwritten offer of convertible unsecured loan securities (CULS) to existing WAN Shareholders in order to raise approximately $653 million (Entitlement Offer). The Entitlement Offer is pro rata to existing shareholdings and non-renounceable. The CULS are proposed to be quoted on the ASX and will convert into new WAN Shares, on a one-for-one basis, upon completion of the Proposed Transaction. In the event that the Proposed Transaction is not approved, the CULS will be redeemed at their issue price plus a Redemption Premium[19]. Further details of the CULS are set out in the Prospectus dated 21 February 2011 and the Explanatory Memorandum. Existing shareholders will be able to acquire 4 new CULS for every 7 WAN Shares held. The issue is priced at $5.20, being at a 10.4% discount to the theoretical ex-rights price of $5.80, with a total of 125.5 million new shares issued.

- A fully underwritten offer to new and existing WAN Shareholders (Public Offer) of 7.7 million shares to raise $40 million. The Public Offer will occur at a price of $5.20 per share. Settlement of the Public Offer will only occur if the Proposed Transaction proceeds.

The proceeds raised from these Offers, as well as the KKR Investment, will be used to fund the repayment of the SGH loan of $650 million owed by SMG, the proposed voluntary repayment of $450 million of the Combined Group's debt and the payment of transaction costs estimated at $45 million.

The shares to be issued under the Offers will not be entitled to the WAN interim dividend for the half year ended 31 December 2010.

1.3 Key conditions precedent

The Proposed Transaction is subject to a number of conditions precedent including:

- Advice from the Australian Competition and Consumer Commission (ACCC) that it has no objections or does not propose to take any action in respect of the Proposed Transaction

- Receipt of required consents, approvals and waivers from Australian Securities and Investments Commission (ASIC) and the ASX, including the ASX granting official quotation of the WAN Shares to be issued to SGH

[19] Redemption premium is between 2.5% and 4.5% of the Issue Price. In the event of a delay in the timetable, the Redemption Premium will increase at a rate of 1% per month or part thereof.

- Certain conditions precedent in the KKR Subscription Agreement are satisfied or waived in accordance with their terms
- The independent expert concludes that the Proposed Transaction is fair and reasonable to WAN Shareholders (other than SGH and any WAN Shareholders associated with SGH) and does not change that conclusion
- Approval from the Shareholders of WAN not associated with the Proposed Transaction of the necessary resolutions required to give effect to the Proposed Transaction

2. Scope of the independent expert's report

2.1 Purpose of the independent expert's report

Chapter 10.1 of the ASX Listing Rules regulates acquisitions and disposals of substantial assets between related parties. As SGH currently holds 24.3% of the issued shares in WAN, and has two common directors[20], the acquisition by WAN of a substantial asset from SGH will need to be approved by the Shareholders of WAN not associated with SGH.

In accordance with Chapter 10.10.2 of the ASX Listing Rules, the notice of meeting to be sent to the shareholders of WAN must include an independent expert's report. Chapter 10.10.2 of the ASX Listing Rules requires that the independent expert's report "must state whether the transaction is fair and reasonable to holders of the entity's ordinary securities", other than the parties to the transaction.

In addition, under section 606 of the Corporations Act, 2001 (Cth) (the Act), an entity is generally prohibited from increasing its interest in the voting shares of a listed company to greater than 20%. An exception to this prohibition is for the increase to be approved by shareholders of the company under item 7 of section 611 of the Act. As a consequence of the Proposed Transaction, SGH will increase its voting shares in WAN to 29.6% (after allowing for the SGH sell down of its 24.3% interest) through the issuance of ordinary shares, and may increase its interest to up to 33.6% through conversion of the CPS[21]. As such, shareholder approval for the issuance of the ordinary shares and CPS (including future conversion of the CPS) is being sought pursuant to item 7 of section 611 of the Act.

Furthermore, approval of WAN shareholders for the Proposed Transaction is being sought under Chapter 2E of the Act in relation to the provision of financial benefits to a related party. In particular, section 208 of the Act prohibits a public company from giving a financial benefit to a related party without member approval, unless one of the exceptions outlined in Chapter 2E applies. While the arm's length exception may apply to the Proposed Transaction, the Directors of WAN have sought the approval of the shareholders of WAN not associated with the Proposed Transaction in relation to the provision of financial benefits to related parties, including the acquisition of SMG from SGH at an enterprise value of $4,085 million and the issuance of ordinary WAN Shares and CPS to SGH.

Item 7 of section 611 of the Act requires that the shareholders of the company are provided with all information that is material to the decision as to how to vote on the resolution. Whilst item 7 of section 611 does not explicitly require an independent expert's report to be prepared, it is common for directors of companies to commission an independent expert's report so as to present all available information to their shareholders.

The independent directors of WAN have therefore commissioned the preparation of an independent expert's report to consider whether the acquisition of SMG and issue of WAN Shares and CPS to SGH are fair and reasonable to WAN Shareholders (other than SGH and any WAN Shareholders associated with SGH). This independent expert's report will be included in the Notice of Extraordinary General Meeting and Explanatory Memorandum

[20] Mr Kerry Stokes AC and Mr Peter Gammell are directors of SGH and WAN.

[21] In the event that all of the CPS issued to SGH are converted into ordinary shares, and assuming SGH's shareholding and the ordinary WAN Shares on issue immediately post completion of the Proposed Transaction remain unchanged at the time of conversion, SGH's shareholding in WAN would increase to 33.6%.

which will be sent to all shareholders following Australian Securities & Investments Commission (ASIC) review on or around 11 March 2011. The independent expert's report may need to be updated to reflect any material changes in market conditions and circumstances prior to the date of despatch of the Notice of Extraordinary General Meeting and Explanatory Memorandum.

The independent expert's report has been prepared for the sole use by WAN Shareholders with respect to their decision whether or not to approve the resolutions required by ASX Listing Rule 10.1 and item 7 of section 611 of the Act. We are aware that a Prospectus has been prepared for the purpose of the Offers however our independent expert's report has not been prepared for, and we make no recommendation in respect of, the Offers.

2.2 Meaning of fair and reasonable

The ASX Listing Rules do not provide guidance in relation to the definition of "fair and reasonable". As such, our report has been prepared on a basis consistent with legislative requirements and other ASIC guidance relevant to independent expert's reports considering a transaction under item 7 of section 611 of the Act.

In preparing our report we have had regard to ASIC Regulatory Guide 111, *Content of expert reports* (RG 111). RG 111 states that the independent expert should form its opinion after considering all of the circumstances of the proposal and must compare the likely advantages and disadvantages for the non-associated security holders if the proposal is agreed to, with the advantages and disadvantages to those security holders if it is not. RG 111.21 requires that where the transaction being considered for the purposes of item 7 of section 611 has a similar effect on the company's shareholding as a takeover bid then the transaction should be analysed as if it were a takeover bid. A takeover bid generally involves a control transaction where one entity is looking to acquire or increase a controlling interest in another entity.

While SGH's shareholding will be less than 50%, we are of the view that, given the level of influence that SGH would exert even at these lower levels, the Proposed Transaction ought to be considered to be a control transaction to which RG 111.21 applies and should therefore be analysed on a basis consistent with a takeover bid. In the context of a takeover bid the meaning of "fair and reasonable" is outlined in RG 111 paragraphs 111.9 to 111.14. This guidance makes it clear that, in the context of a takeover offer, "fair" and "reasonable" are two distinct concepts. Under this approach:

- An offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison is to be made assuming 100% ownership of the target and it is "inappropriate to apply a discount on the basis that the shares being acquired represent a minority or 'portfolio' parcel of shares".

- An offer is "reasonable" if it is fair. It might also be "reasonable" if, despite being "not fair", the expert believes that there are other significant factors which justify the acceptance of the offer in the absence of a higher bid. RG 111.12 lists a number of items which experts may consider when assessing the reasonableness of an offer.

RG 111.62 provides that an independent expert should usually give a range of values for the securities that are the subject of the offer. If the value of the consideration offered falls within the range of values of the securities, the offer is considered to be fair.

2.3 Fair market value

We have assessed the value of SMG, WAN and the consideration payable on a fair market value basis. Fair market value in this context is considered to be:

"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."

Fair market value does not incorporate any special value. Special value is the additional value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

2.4 Basis of evaluation

For the purpose of ASX Listing Rule 10.1 we considered whether the acquisition of SMG by WAN is fair and reasonable to the Non-associated Shareholders. In doing so, we have assessed the fair market value of SMG, and compared this to the transaction price. However, we recognise that in conjunction with the Proposed Transaction there are a number of interdependent capital raisings, including the KKR Investment, the Entitlement Offer and Public Offer, which impact upon the merits of the Proposed Transaction for the non-associated shareholders of WAN (Non-associated Shareholders). In light of this, whilst being mindful of the form of consideration being provided to SGH, we considered it appropriate to assess the transaction on the same basis as under item 7 of section 611 of the Act. We also considered the various advantages and disadvantages of the acquisition to the Non-associated Shareholders, the key aspects of which are further discussed below.

In assessing the transaction under item 7 of section 611, RG 111 allows the independent expert to consider a control transaction to be akin to a takeover by assessing the value of the "target", in this instance WAN, as if the control transaction was successful. Under this analysis, the value of the "consideration" would be taken to be the fair market value of WAN assuming the Proposed Transaction proceeds and the value of the interest notionally being disposed of would be taken to be the fair market value of WAN prior to the Proposed Transaction on a control basis. If the fair market value of one share in WAN after the Proposed Transaction (on a minority basis) is greater than the fair market value of one share in WAN before (on a control basis), then the Proposed Transaction would be considered to be fair. Such a comparison therefore encapsulates the impact of all of the interdependent aspects of the Proposed Transaction.

As a number of resolutions are required in order to give effect to the Proposed Transaction, we considered various advantages and disadvantages, including:

- The strategic rationale for the Proposed Transaction
- The impact of the Proposed Transaction upon WAN's business, future growth prospects and risk profile, particularly:
  - Financial indicators such as dividend yield
  - The potential liquidity of WAN's shares
  - Intended management and Board arrangements

- The likely impact on WAN's share price and other potential implications in the event that the Proposed Transaction is not approved

- Other qualitative factors that the Non-associated Shareholders should consider in assessing whether to approve the Proposed Transaction

Our assessment of the Proposed Transaction is based on the economic, market and other conditions prevailing as at the date of this independent expert's report. As evidenced in recent years these conditions can change significantly over relatively short periods of time.

2.5 Shareholders' decision

This independent expert's report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of WAN Shareholders. The decision to approve or not approve the Proposed Transaction is a matter for individual shareholders. Shareholders should consider the advice in the context of their own circumstances, investment objectives, preferences, risk profiles and expectations of future market conditions. Shareholders should also have regard to the Notice of Meeting and Explanatory Memorandum prepared by the independent directors and management of WAN in relation to the Proposed Transaction. Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional adviser.

Ernst & Young Transaction Advisory Services Limited has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this report.

2.6 Independence

Prior to accepting this engagement, we considered our independence with respect to WAN, SGH and KKR with reference to ASIC Regulatory Guide 112 *independence of experts*. In our opinion, we are independent of WAN, SGH and KKR.

Ernst & Young, and global affiliates, have previously provided professional services to SGH, its subsidiaries and SMG. This included the provision of tax and valuation advice to SGH in relation to the WesTrac transaction. As part of those valuation services Ernst & Young valued many assets of SGH including its interest in SMG as at April 2010. The principal persons responsible for the preparation of this report were not involved in the provision of the previous valuation report. In addition, Ernst & Young has provided tax advice to SGH in relation to the potential implications of a sale of its interest in SMG, however we have not provided any advice in relation to the Proposed Transaction.

Ernst & Young, and global affiliations, have not provided any services to any of WAN, SGH or KKR in relation to the Proposed Transaction.

2.7 Limitations and reliance on information

We have considered a number of sources of information in preparing our report and arriving at our opinion. These sources of information are detailed in Appendix B.

This independent expert's report is based upon financial and other information provided by WAN and SGH. We have considered and relied upon this information. The information provided to us has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the Proposed Transaction is fair and reasonable to the Non-associated Shareholders of WAN. However, we do not warrant that our enquiries have identified all of the matters that an audit, an extensive examination or tax investigation might disclose.

Preparation of this report does not imply that we have, in any way, audited the accounts or records of WAN or SMG. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and Australian equivalents to International Financial Reporting Standards as applicable.

In forming our opinion we have 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 information set out in the Notice of Meeting and Explanatory Memorandum and accompanying documents to be sent by WAN to its shareholders is complete, accurate and fairly presented in all material respects
- The publicly available information relied upon by us in our analysis was accurate and not misleading
- The pro forma forecasts for WAN and SMG represent best estimates as to the likely future earnings
- The Proposed Transaction will be implemented in accordance with its terms

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, we assume no responsibility and offer no legal opinion or interpretation on any issue.

The statements and opinions given in this independent expert's report are given in good faith and in the belief that such statements and opinions are not false or misleading. This report should be read in conjunction with the declaration outlined in the qualifications and declarations in Appendix A.

We provided draft copies of this independent expert's report to the independent directors and management of WAN for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Changes made to this independent expert's report as a result of this review by the independent directors and management of WAN have not changed the methodology or conclusions reached by us.

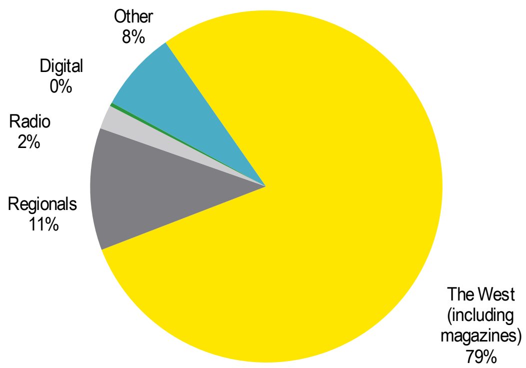
3. Overview of West Australian Newspapers Holdings Limited

Established in 1833, and listed on the ASX in 1992, WAN is a leading newspaper publishing company in Western Australia. WAN currently operates a portfolio of media businesses including metropolitan, regional and community newspapers, radio broadcasting and digital media, as well as providing commercial printing solutions. Its core operations are as follows:

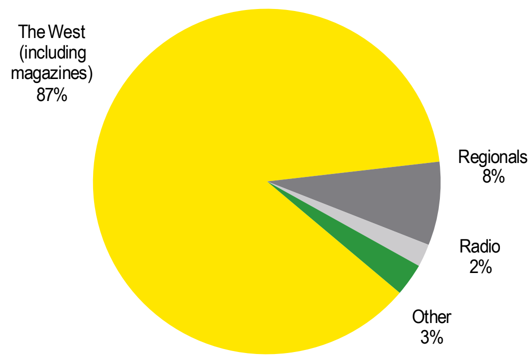
- Ownership of "The West Australian" and "The Weekend West" newspapers (together referred to as The West), the leading metropolitan newspapers in Western Australia by circulation and advertising revenues. As indicated in the charts below, The West contributed 79% of WAN revenues and 87% of earnings before interest and tax (EBIT) during the year ended 30 June 2010 (FY10).
- Publishing of 17 regional newspaper titles and magazines in Western Australia, including the Kalgoorlie Miner, Broome Advertiser, the Midwest Times and the Albany Advertiser. These regional titles represent the second largest contributor to earnings, comprising 8% of EBIT in FY10.
- A network of 9 regional radio licences.
- Digital media including sites such as "thewest.com.au" and "wjobs.com.au" for online news and job searches, respectively, as well as a 25% interest in "bloo.com.au".
- Other operations including specialised classified and publishing businesses.

In addition, WAN owns a 49.9% interest in Community Newspaper Group Limited[22] (CNG) which publishes 21 free suburban newspapers across metropolitan Perth.

WAN Revenue FY10



WAN EBIT FY10



Source: WAN Annual Report as at 30 June 2010
Note: Digital media operations made a negative contribution to EBIT of $1.8 million in FY10 which is not shown above.

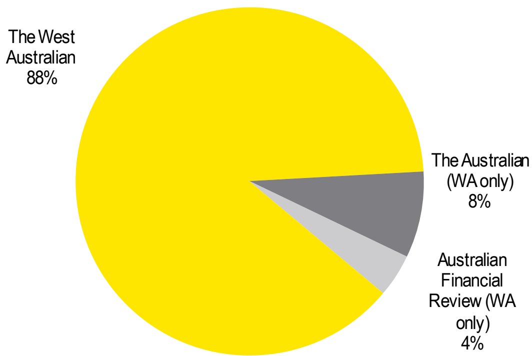
Further details on WAN's key operations are outlined on the following page.

[22] The remaining 50.1% is held by News Corporation

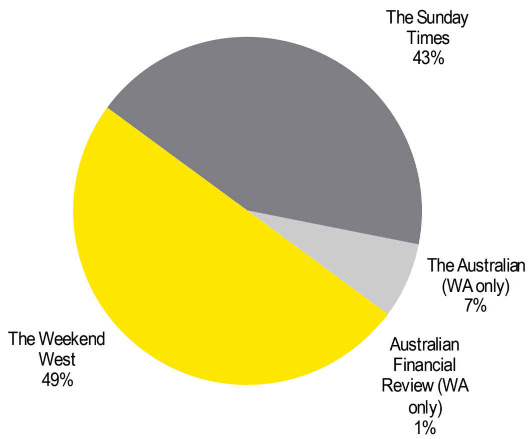
3.1.1 The West newspaper

WAN's core business is publishing The West, the leading newspaper in Perth based on circulation and readership. It was first published in 1833 and now has circulation of approximately 190,000 copies on weekdays, and 320,000 copies for its weekend edition[23]. It is the only metropolitan daily in Western Australia, with a dominant share of the market as indicated in the circulation chart below left. However its weekend edition, The Weekend West has relatively strong competition from The Sunday Times[24].

Circulation market share (Monday to Friday)



Circulation market share (Weekend)



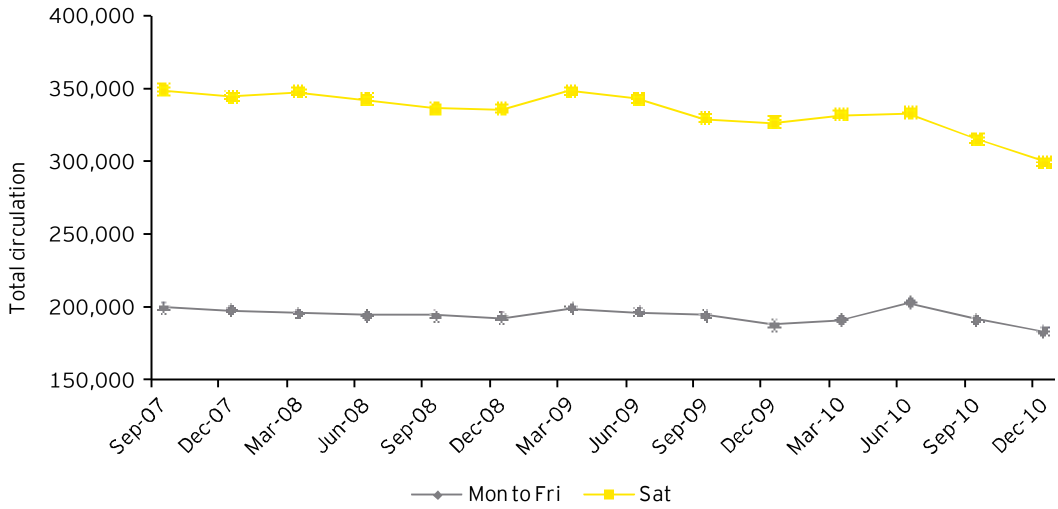
Source: Audit Bureau of Circulations, Roy Morgan Readership Survey, year ended June 2010

Revenue from The West totalled $322.9 million, including approximately $15.6 million from The West magazines, in FY10. The primary source of revenue is from advertising, which contributed approximately 74% of revenues in FY10, of which approximately 50% is generated from display advertising and 40% from classifieds. As a result of the global financial crisis, WAN's advertising revenues declined in FY09 and FY10. While display advertising has since improved, posting a 0.5% increase in FY10, classified advertising declined a further 8% in FY10, with the highest decline seen in the employment and real estate sectors. This is in spite of the Western Australian market being more reliant on newspapers for classified advertising than other states in Australia.

Circulation of The West has historically been relatively stable although has declined in recent quarters, as indicated in the chart on the following page. The decline is more evident for The Weekend West, and from October 2010, the weekend edition was re-positioned as an 'all weekend' read. However the benefits of this may not be evident in the December quarter circulation as it is historically the weakest quarter. The seasonality and circulation trends of The West Australian and The Weekend West are highlighted in the chart on the following page.

[23] Source: Audit Bureau of Circulations
[24] Published by News Corporation

Average circulation of the West by quarter (September 2007 to December 2010)



Source: WAN management

3.1.2 Regional newspapers

WAN publishes 17 regional publications including the Kalgoorlie Miner, Broome Advertiser, the Midwest Times and the Albany Advertiser, the majority of which are free publications. All are regional titles, with only one, "Countryman", being distributed across Western Australia. Furthermore, The Kalgoorlie Miner is the only daily publication, with the other publications produced on a weekly or multiple weekly basis. WAN's regional publications generated revenue of $45.8 million in FY10, contributing 11% of revenue in FY10.

3.1.3 Radio network

WAN holds 9 radio licences and operates a regional radio network covering approximately 50% of Western Australia's rural population. These radio stations are operated under three brands:

- Spirit Radio Network, which covers remote parts of Western Australia with programming from studios in Perth, Broome, Bunbury, Geraldton, Karratha and Port Hedland
- WA FM, which serves major regional towns in northern Western Australia with studios in Perth, Geraldton, Karratha, South Hedland and Broome
- Red FM, which covers regional Western Australia with terrestrial and satellite AM and FM services

WAN's radio operations generated revenue in FY10 of $9.1 million. Southern Cross Media Group Limited (Southern Cross) is WAN's primary competitor in radio broadcasting. However, the majority of Southern Cross' radio stations are clustered in southern Western Australia.

3.1.4 Digital

WAN's digital strategy has been designed to complement rather than compete with WAN's existing publishing operations. To date, WAN's expansion into the digital space has leveraged off existing technology providers in the form of strategic alliances and revenue share arrangements. Typically, WAN's partners provide website technology and are responsible for operating expenditure, with WAN providing content and branding, and include:

- Strategic alliance with Yahoo!7 for thewest.com.au, the number one news site in Western Australia. The strategic alliance with Yahoo!7 relates to reciprocal advertising sales representations in the east and west coast markets. Launched in August 2009, thewest.com.au now has over 1.4 million monthly unique browsers and has achieved approximately 60% growth over the 12 months to December 2010. It continues to maintain its leading position over WAN's two main competitors, PerthNow (owned by News Corporation) and WA Today (owned by Fairfax Media Limited).

- Strategic alliance with Melbourne based JXT for wjobs.com.au. The wjobs.com.au site was launched in February 2010 and has experienced modest growth since launch[25] with approximately 60,000 monthly unique browsers.

- In July 2010, WAN acquired a 25% equity stake in business directory bloo.com.au, Western Australia's leading business directory. The remaining shares are held by its founders (50%) and CNG (25%), in which WAN holds a 49.9% interest.

WAN's digital media businesses contributed revenue of $1.3 million in FY10, although generated losses of $1.8 million.

3.1.5 Other businesses

- WAN publishes Quokka, a free weekly classifieds paper with circulation of over 50,000[26]. In FY10 Quokka generated revenue of $12.0 million and EBIT of $4.6 million.

- Through West Australian Publishers, WAN publishes niche magazine and book titles including the Mining Chronicle, Oil & Gas Bulletin, WA Good Food Guide and WA Wine Guide. West Australian Publishers generated revenue in FY10 of $2.5 million and EBIT of $0.7 million.

- WAN provides commercial printing services through ColourPress which prints titles for Original Group and CNG.

- ComsNet is a provider of telecommunications infrastructure.

- WAN also publishes Tabform, a printed racing guide.

Combined, these businesses contributed 1.3% of EBIT in FY10[27].

3.1.6 Community Newspaper Group Limited

Established in 1985, CNG is the largest publisher of community newspapers in Western Australia. CNG currently publishes 21 local publications throughout the Perth metropolitan region with a combined readership of 750,000 per week. These newspapers are provided free of charge with CNG generating all of its revenues through advertising, largely from

[25] WAN Annual Report for the year ended 30 June 2010
[26] Audit Bureau of Circulations
[27] Including head office costs

small, local advertisers within the regions in which the publications are provided. CNG's equity accounted contribution to net profit after tax was $3.9 million in FY10.

3.2 Financial performance

The table below summarises WAN's historical financial performance for the three years to 30 June 2010, the six months to 31 December 2010 and the forecast performance for the year to 30 June 2011.

Financial performance

Currency: A$ millions	FY08	FY09	FY10	1H FY11A	FY11F
Revenue from operations	469.9	417.6	408.2		
Other revenue	0.4	0.5	0.5		
Other income	5.4	0.0	0.4		
Total revenue	**475.8**	**418.0**	**409.1**	**208.7**	**415.7**
Operating expenses	(260.4)	(260.9)	(241.3)	(122.6)	(240.7)
EBITDA	**215.4**	**157.1**	**167.8**	**86.1**	**175.0**
Depreciation and amortisation	(32.7)	(20.5)	(20.9)	(11.1)	(22.6)
EBIT	**182.7**	**136.5**	**146.9**	**75.0**	**152.5**
Share of net profits of associate - CNG (49.9%)	6.4	4.3	3.9	2.6	4.8
EBIT (including associate)	**189.1**	**140.8**	**150.8**	**77.6**	**157.3**
Net interest expense	(27.9)	(18.7)	(16.7)	(6.9)	(13.1)
Profit before tax	**161.2**	**122.1**	**134.1**	**70.7**	**144.1**
Income tax expense	(44.6)	(34.9)	(37.9)	(20.6)	(42.2)
Net profit	**116.6**	**87.2**	**96.2**	**50.1**	**102.0**
Loss from discontinued operations	(6.7)	-	-	-	-
Net profit from continuing operations	**109.9**	**87.2**	**96.2**	**50.1**	**102.0**
For information only					
Noteworthy costs including accelerated depreciation and additional AGM costs	15.3	-	-	-	-
Noteworthy items - redundancy costs and other	-	14.1	-	-	-
Normalised EBITDA	**230.7**	**171.1**	**167.8**	**86.1**	**175.0**
Revenue growth	5.3 %	(11.1)%	(2.2)%	na	1.6 %
EBITDA growth		(27.1)%	6.8 %	na	4.3 %
EBITDA margin	45.3 %	37.6 %	41.0 %	41.3 %	42.1 %
Normalised EBITDA margin	48.5 %	40.9 %	41.0 %	41.3 %	42.1 %

Source: WAN's Annual Reports, Management accounts, Prospectus

Note: Finance charges relating to finance leases are included in operating expenses in financial information presented for FY09, FY10, 1HFY11 and FY11. FY08 net interest expense includes charges relating to finance leases.

3.2.1 Historical financial performance

In relation to WAN's historical financial performance, we note:

- Revenues indicate a declining trend over the last three financial years reflecting:
  - A reduction in advertising revenues largely as a result of the global financial crisis, with local display advertising, and real estate and employment classifieds, indicating the greatest decline. Advertising in the first half of FY11 was also impacted by the uncertainty associated with the federal election and particularly

the proposed mining tax initiatives, as well as lower than expected revenues from retail display advertising.

- A decline in circulation revenue of 5% in FY09, and 6% decrease in FY10 from The West newspapers. While The Weekend West continues to maintain its market share lead over The Sunday Times, the weekend edition has seen a 13% decline in volumes in the three years to 31 December 2010. Furthermore, the cover price of The West has remained unchanged since 1 July 2008.
- While revenue from The West declined 3% in FY10, revenues from regional newspapers and radio broadcasting remained relatively stable, with positive contributions from WAN's other non-core businesses which increased 4%.
- The decline in revenue in FY09 and FY10 is less than the decline experienced in the Australian newspaper industry as a whole. According to IBISWorld, newspaper industry revenue declined by 12% and 3% in FY09 and FY10 respectively, compared to 11% and 2% for WAN.

- Other revenue relates primarily to rental income from WAN's communications tower (through ComsNet) and regional property holdings.

- Other income of $5.4 million in FY08 relates to a gain on the disposal of property, plant and equipment on relocation of its commercial printing operations. Other income of $0.5 million in FY10 is in respect of a gain on the disposal of various radio assets.

- Expenses indicate a declining trend over the last three financial years, albeit impacted by a small number of non-recurring expenses, including:

  - Expenses of $3.4 million in relation to an additional general meeting held in April 2008[28].
  - One off costs of $14.1 million primarily related to restructuring costs as a result of a strategic cost review in FY09. This included a voluntary redundancy program which resulted in a 9% reduction in employees at a one-off cost of $13.7 million.
  - Newsprint expenses reduced significantly in the first half of FY11 following the expiry of WAN's long term contract with Norske Skog on 30 June 2010, which covered 90% of WAN's newsprint requirements. WAN has negotiated new newsprint supply contracts with Jeonju Paper Corporation South Korea, UPM France and Norske Skog, with effect from 1 July 2010. As a result of the revised supply arrangements WAN's newsprint costs have reduced significantly, as evidenced in the first half of FY11.

- Depreciation and amortisation is relatively stable, although increased in FY08 due to $11.5 million of accelerated depreciation on new printing equipment. The $210 million printing upgrade was commissioned in 2008.

- Net interest expense has declined over the last three financial years. This largely reflects the reduction in WAN's borrowings from $342 million at 30 June 2008 to $241 million at 31 December 2010. WAN has in place interest rate swap contracts which fix the rate at 6.99% (including bank margins). The current swaps reduce on a quarterly basis for approximately 55% of forecast debt and expire in August 2013[29].

- During FY08, WAN sold its 50% share in Hoyts Cinemas for $145.8 million, in concert with its joint venture partner, Publishing and Broadcasting Limited. The proceeds from

[28] In March 2008, major shareholder Seven Network Limited initiated an extraordinary general meeting to consider nomination of additional directors, resulting in two additional directors being appointed to the Board.
[29] WAN Annual Report for the year ended 30 June 2010

the sale were used to reduce WAN's debt, with a loss from these discontinued operations of $6.7 million recorded in FY08.

After adjusting for the non-recurring items of income and expenses discussed above, WAN's normalised EBITDA indicated a 2% decline in FY10. Its EBITDA margins remained strong, increasing to 41% in FY10 reflecting management's focus on cost reductions, improvements in distribution and its near monopoly in the Perth market with substantially less competition from online media than other Australian states.

3.2.2 Forecast financial performance

On 21 February 2011, WAN announced its first half financial results and provided guidance as to its forecast earnings for the year ending 30 June 2011. Based on the actual results for the half year to 31 December 2010, and taking into account the prevailing market conditions, Management is forecasting EBITDA of $175 million in FY11, excluding the expected contribution from its investment in CNG estimated at $4.8 million[30].

Management's earnings guidance for FY11 is presented in section 3.2 of this report with the key underlying assumptions set out in the Prospectus. These assumptions include a 3% increase in advertising revenues in FY11, reflecting WAN's strong leverage to the strengthening Western Australia economy as the advertising market continues to recover from the lows experienced in FY09. Growth in the second half of FY11 is mainly expected from an increase in display advertising of 4% relative to the same period the prior year, with classified revenues broadly unchanged. Circulation revenue is forecast to decrease by 0.8% for the full year.

We note that analyst consensus estimates forecast FY11 EBITDA of $183 million[31].

[30] CNG is a non-controlled business. WAN has prepared forecast information based on WAN's knowledge of the underlying business, which is based on WAN's representation on CNG's Board of Directors, as well as access to the management reports.
[31] Capital IQ, as at 18 February 2011

3.3 Financial position

WAN's financial position as at 30 June 2010 and 31 December 2010 is presented in the table below.

Financial position

Currency: A$ millions	Jun10A	Dec10A
Cash and cash equivalents	12.1	14.6
Trade and other receivables	57.7	54.5
Inventories	13.1	17.2
Investments accounted for using the equity method	11.2	12.1
Other financial assets	0.8	1.0
Property, plant and equipment	213.5	209.4
Intangible assets	132.9	133.2
Total assets	**441.3**	**442.1**
Trade and other payables	23.9	31.5
Borrowings	261.0	241.0
Provisions and other liabilities	19.4	19.6
Total liabilities	**304.3**	**292.1**
Net assets	**137.0**	**150.0**

Source: WAN Annual Reports, Prospectus

In relation to WAN's financial position, we note:

- Cash and cash equivalents amounted to $14.6 million as at 31 December 2010, being at similar levels at prior financial year ends. WAN's trade and other receivables is also relatively consistent over the above period.

- Inventories largely comprise newsprint which is carried at cost. WAN's inventory levels were increased at 31 December 2010 in order to mitigate supply chain risk as a result of its new supply arrangements which requires the importation of newsprint from South Korea and France.

- Investments accounted for using the equity method represents WAN's 49.9% investment in CNG, which is recorded at cost as adjusted for WAN's share of earnings.

- Other financial assets of $0.8 million largely reflect WAN's 8% investment in Australian Associated Press Pty Limited (AAP). AAP was formed by WAN, Rural Press Limited (2%), News Corporation (45%) and Fairfax Media Limited (Fairfax) (45%) to facilitate content sharing with media organisations globally. This investment is held at cost and we understand that AAP did not pay any dividends in FY09 or FY10. The balance of other financial assets at 31 December 2010 includes interest rate swap contracts totalling approximately $0.3 million.

- Property plant & equipment includes freehold land and buildings, residential property and plant and equipment. In relation to property, plant and equipment, we note:

  - Residential property is associated with the regional radio operations.
  - The majority of property, plant & equipment is printing presses housed in Newspaper House and Herdsman Printing Facility, which were upgraded in 2008, with a depreciated value of $146 million.

- Intangible assets relate primarily to mastheads with the balance comprising radio licences, computer software and goodwill.

- Borrowings have declined over the period reducing to $241 million as at 31 December 2010. WAN's borrowings comprise senior bank facilities secured by fixed and floating charges over its assets.

- Provisions and other liabilities include:

  - Provisions relating to libel claims against WAN in relation to published material and employee long service leave benefits
  - Contingent liabilities relating to termination benefits in respect of service agreements which may become payable to various WAN senior executives
  - Taxation liabilities

Overall, WAN's total assets have remained relatively stable over the periods presented, while net assets have increased due to the repayment of debt. WAN's net assets as at 31 December 2010 totalled $150.0 million, with net debt of $226.4 million.

3.4 Capital structure and shareholders

3.4.1 Capital structure

As at 31 December 2010, WAN's capital structure comprised:

- 219,668,970 ordinary shares, of which 218,039,070 shares are fully paid. All issued ordinary shares carry one vote per share and the right to receive dividends. Holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than cash. Of the shares on issue, 1,629,900 relate to shares issued under a legacy executive and employee share plans[32] which are only partly paid.

- 41,081 performance rights issued to the Chief Executive Officer, Chris Wharton.

[32] No new shares have been issued under the share plan since 2002. Under the terms of the share plans, WAN loaned the entire issue price to employees and executives on an interest-free basis, with loans repaid via dividends or voluntary repayment. 1,629,900 shares issued under the plans have loans outstanding, totalling $4.1 million, at the date of this report

3.4.2 Shareholders

As at 10 February 2011, SGH owned or controlled 24.32% of WAN's shares and voting power. There are no other substantial shareholders in WAN. The top twenty shareholders are set out in the table below.

The top twenty shareholders (other than SGH) are largely comprised of institutional investors, and represent around 47% of WAN's equity capital.

Top twenty shareholders

As at 10 February 2011 [1]	No of shares	% of issued shares
Seven Group Holdings Ltd	53,424,268	24.32%
Alleron Investment Management	9,740,937	4.43%
Australian Foundation Investment Co. Ltd	8,046,230	3.66%
Macquarie (Institutional Group)	5,711,469	2.60%
ING Investment Management Ltd	4,157,754	1.89%
BT Investment Management Ltd	4,075,504	1.86%
Vanguard Investment (Institutional Group)	2,657,988	1.21%
Lion Global Investors	2,401,487	1.09%
Djerriwarrh Investments Ltd	2,250,000	1.02%
State Street Global Advisors (Institutional Group)	1,667,413	0.76%
Perpetual Investments Ltd	1,575,827	0.72%
Milton Corporation	1,059,223	0.48%
Argo Investments	1,039,558	0.47%
Mellon Capital Mgt	1,024,278	0.47%
AMP Capital Investors	1,010,276	0.46%
DFA Australia Ltd	867,009	0.39%
Masterkey Custom	846,617	0.39%
Mr Malcolm J McCusker	791,667	0.36%
Trust	737,756	0.34%
Credit Suisse	731,779	0.33%
Total	**103,817,040**	**47.26%**

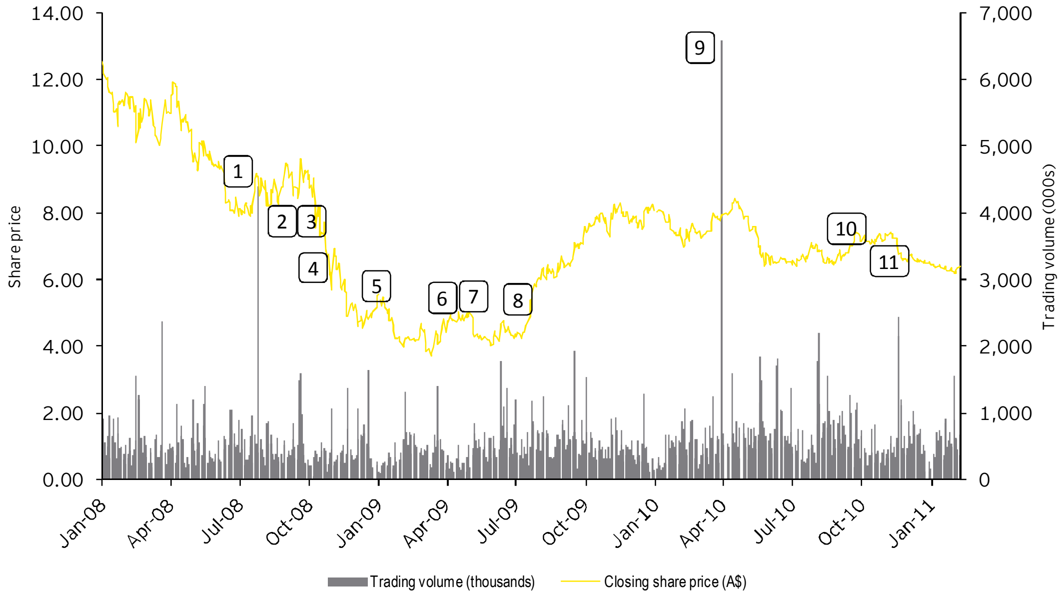
Source: WAN management

[1] *We note that shareholdings are subject to change on a daily basis*

3.5 Recent share price performance

The graph below shows the daily share price and trading volumes for WAN from 1 January 2008 to 8 February 2011.

Daily share price and trading volume for WAN



Source: Bloomberg, ASX announcements, WAN website, Factiva

Over this period WAN's share price has declined from a high of $12.55 on 2 January 2008 to a low of $3.72 on 11 March 2009 impacted by the lower advertising revenues as a result of the global financial crisis. WAN's share price has subsequently risen again to $6.34 as at 18 February 2011.

In relation to WAN's share price performance and trading volume, we note the following:

1. On 24 July 2008, SGH announced that it had increased its shareholding from 19.4% to 22.3%. SGH initially acquired a 14.9% stake in WAN in October 2006, which was subsequently increased to 19.4% in 2007.

2. On 26 August 2008, SGH announced that the ACCC were to conduct an informal merger review of SGH's acquisition of WAN Shares. SGH notes that this was "foreshadowed in May 2008".[33]

3. On 25 September 2008, SGH announced that two directors from the SGH's board had been invited to join the WAN board of directors.

4. After the market close on 29 October 2008, SGH announced that the ACCC "does not propose to intervene in relation to SGH's acquisition of shares in WAN and that at this point in time the ACCC considers that a full acquisition is not likely to raise competition issues."[34]

[33] SGH ASX announcement - 26 August 2008
[34] SGH ASX announcement - 29 October 2008

5. On 11 December 2008, WAN announced the appointment of a new chief executive officer, chairman and directors.

6. On 16 March 2009, WAN announced a new editor for the West Australian.

7. On 3 April 2009, SGH announced that it had increased its interest in WAN from 22.3% to 23.2% as a result of shares issued through the dividend reinvestment plan.

8. On 9 June 2009, WAN announced a restructure including voluntary redundancies which would reduce its full time workforce by approximately 5%.

9. Blackrock Investments announced that it had reduced its interest in WAN by 1% on 30 March 2010. Blackrock Investments subsequently further reduced its interest to less than 1%, ceasing to be a substantial shareholder.

10. On 4 August 2010, WAN released its preliminary results for the year ending 30 June 2010.

11. On 4 October 2010, a change in director's interest notice indicated that SGH had increased its interest in WAN to 24.3% as a result of shares issued through the dividend reinvestment plan.

3.6 Trading volume

Our analysis of the movements in WAN's share price and trading volumes indicates that its shares are relatively liquid. Our analysis is supported by the following:

- The market is relatively informed about the company's performance, with the latest half year and full year results released on 21 February 2011 and 4 August 2010 respectively
- Coverage of WAN is provided by analysts from at least five different institutions
- SGH holds 24.3% of the existing share capital of WAN. As such, WAN's free float is 75.7% with a strong institutional shareholder base
- Over the past twelve months, 73.1% of the shares on issue were traded, representing 95.3% of WAN's free float or an average of 0.6 million shares traded daily
- WAN is a member of a number of indices including the S&P/ASX200 and as such index tracking funds may be required to hold its stock
- The majority of WAN's current top twenty shareholders are institutional investors with the top twenty shareholders holding around 50% of its issued share capital, including strategic investor SGH

As a result of the above factors and given institutional investors may need to maintain or increase their exposure to WAN in line with its weighting on relevant indices, it is likely that WAN Shares are liquid and reflective of market value.

4. Overview of the Seven Media Group

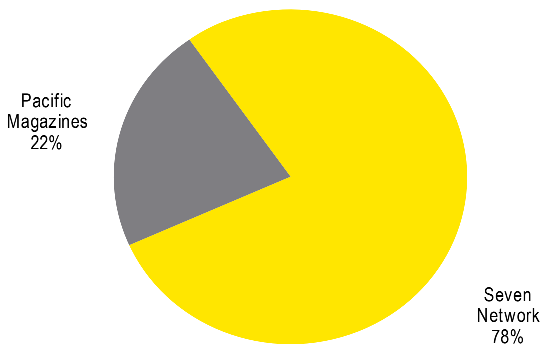
Seven Network Limited was listed on the ASX in 1993 as a television broadcasting company with almost 40 years of history. In 2001, the company acquired an interest in Pacific Publications, which would become the basis for its magazines business. Subsequently, Seven Network Limited restructured its business and contributed its television, magazine and digital business into SMG, of which 47%[35] was sold to KKR, in December 2006. SMG is currently owned by entities associated with SGH, KKR, mezzanine investors and management related to SMG.

SMG's core operations are as follows:

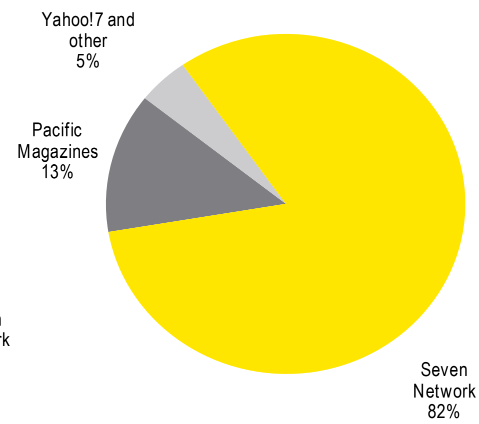
- Ownership of Seven Network, Australia's leading FTA television network. Seven Network is SMG's key contributor to earnings generating 82% of EBIT[36] in FY10.
- Magazine publishing through Pacific Magazines, the second largest magazine publisher by readership in Australia with over 25 magazine titles, including *Better Homes and Gardens, Marie Claire* and *New Idea*. Pacific Magazines contributed 13% of EBIT in FY10.
- Yahoo!7, a 50% joint venture with Yahoo! Inc, which contributed 4% of EBIT in FY10. Yahoo!7 is one of Australia's leading online media platforms.
- Various other investments which contributed 1% of EBIT in FY10.

The diversity of SMG's cross-media operations allows it to offer complementary content across three different mediums. These include the main advertising markets of print media and television broadcasting as well as the high growth online markets. An example of this is the Seven Network's *Better Homes and Gardens* show, which is complemented by the *Better Homes and Gardens* magazine and interactive website (hosted by Yahoo!7), a radio show as well as events organised by SMG, increasing its audience reach and advertising power.

SMG revenue FY10



SMG EBIT FY10



Source: Prospectus

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[35] On a fully diluted basis KKR's interest is 45%
[36] EBIT including associate contribution of $13 million based on section 5.7.3 of the Prospectus

Further details of SMG's key operations are outlined below.

4.1.1 Seven Network

Seven Network is the leading FTA television network in Australia, with the highest ratings and audience market share in 2010[37]. Seven Network's broadcasting reach extends across the majority of Australia through various licences including:

- Five wholly-owned metropolitan commercial television licences in Sydney, Melbourne, Brisbane, Adelaide and Perth

- One wholly-owned regional commercial television licence for the Sunshine Coast in Queensland

- Affiliation and program supply agreements with Prime Media Group Limited (Prime Media), Southern Cross and WIN Corporation Pty Ltd (WIN). These agreements allow Prime Media, Southern Cross and WIN to broadcast Seven Network's content, including high definition (HD) multi-channels where available, in the following areas:

    - Southern Cross – Tasmania, Darwin, Spencer Gulf, Broken Hill and Mt Isa
    - Prime - regional areas of northern and southern New South Wales, the Australian Capital Territory, Victoria, the Gold Coast area of eastern Queensland and all of regional Western Australia
    - WIN – regional South Australia, including Loxton and Mt Gambier

Since 2003, Seven Network has adopted a growth strategy, which resulted in it being the most watched FTA network in Australia since 2006. This began with dominance of breakfast television ratings in 2004 and has grown to include news and current affairs (from 2006), peak time (from 2007) and overall ratings from 2007. In addition, Seven Network has contracts to broadcast various major sporting events including the AFL, V8 Supercars, Australian Open Tennis, Melbourne Cup Carnival and the start of the Sydney Hobart Yacht Race.

As discussed in section 5 of this report, prior to 2001, television in Australia was broadcast exclusively using analogue signals. In 2001, FTA networks began broadcasting a digital signal. Initially, Seven Network's main digital channel broadcast the same content as its analogue channel. However, since 2007, Seven Network has undertaken the following:

- In October 2007, Seven Network launched Australia's first FTA digital multi-channel, Channel 7HD. The new channel complements SMG's main channel with additional programming in a high definition format.

- In February 2008, Foxtel and Seven Network entered into a re-transmission agreement under which Seven Network's digital signal and electronic program guide is re-transmitted on Foxtel's digital platform from 2009. Previously, Seven Network's programming was re-transmitted by Foxtel in analogue format.

- In October 2009, a new digital multi-channel, 7TWO was launched, providing additional programming to complement its main channel. 7TWO is available to viewers with a high definition digital television or on an analogue or standard definition digital television connected to a high definition set top box.

[37] SGH investor presentation - 25 August 2010

- A third digital multi-channel, 7mate, was launched in August 2010. This channel targets a male 16–54 year old audience, leveraging off Seven Network's main channel's success with a female audience and 7TWO's targeting of a 25+ adult audience.

In the first half of FY11, 7TWO and 7mate contributed approximately 12% of SMG's television earnings[38]. Seven Network's digital multi-channel strategy aims to focus on different key target audiences, in order to increase its overall audience share.

Seven Network's primary source of revenue is through the sale of advertising. Since 2007, Seven Network has consistently reported the highest share of FTA advertising revenue of the commercial FTA networks, at approximately 38% or higher[39]. Competitive advantages that Seven Network employs in attracting advertising revenue include:

- Maintenance and growth of ratings leadership in key time slots. This includes leadership in breakfast and morning television, peak time as well as nightly news and current affairs.

- Seven Network reported having 15 of the top 30 most watched regular programmes in 2010[40]. This included *Packed to the Rafters*, which was the most watched regular programme on Australian television in 2010. Notably, most of these shows, including *Packed to the Rafters* are produced by Seven Network thereby fulfilling its regulatory requirement that 55% of all broadcast programmes to be locally produced (6am to midnight).

- In 2010, Seven Network reported having 7 of the top 10 most watched events. These included sporting events such as the two AFL Grand Finals, the Australian Open men's final.

- A mix of local and overseas programming content. Seven Network purchases programming from Disney, NBC Universal in the United States of America (US) and ITV studios in the United Kingdom (UK), under three and five year contracts.

Seven Network also attracts advertisers using its SMG Red integrated advertising agency. SMG Red delivers cross-platform advertising to customers leveraging the integrated benefits of television, magazine and digital advertising platforms.

In addition to the above, in December 2010 SMG signed an exclusive agreement with MirriAd, a provider of digital product placement services. This allows customers to place advertising within Seven Network's shows post-production.

4.1.2 Pacific Magazines

Pacific Magazines is the second largest magazine publishing business in Australia with over 25 magazine titles reaching over 7.2 million Australians each month[41]. Pacific Magazines' titles include women's weeklies *New Idea, That's Life, Who* and *Famous*, home and garden titles *Better Homes & Gardens, Home Beautiful* and *Your Garden*, fashion titles *marie claire* and *In Style*, women's and men's lifestyle titles *Women's Health* and *Men's Health*, health titles *Diabetic Living* and *Weight Watchers* and youth titles *Girlfriend, K-Zone* and *Total Girl*.

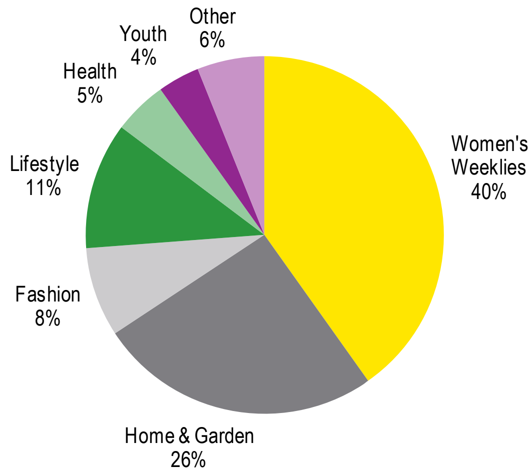
[38] December 2010 management accounts, based on EBIT
[39] SGH investor presentation - 25 August 2010
[40] Seven Network media release - 28 November 2010
[41] SGH Annual Report 2010

In FY10, Pacific Magazines' titles included three of the top five titles based on readership – *Better Homes and Gardens*, *New Idea* and *That's Life!*[42]. In FY10, Pacific Magazines also had the biggest selling titles in the following major advertising categories:

- Homes and lifestyle category - *Better Homes and Gardens*
- Real life category - *That's Life!*
- Celebrity weekly category – *Who*
- Fashion category – *marie claire*
- Men's lifestyle category – *Men's Health*
- Pre-teen category – *Total Girl*

The following chart shows Pacific Magazines' categories of magazines, split by readership[43] as at 30 September 2010:

Pacific Magazines' readership split



Source: Roy Morgan Single Source estimates, September 2010

The majority of Pacific Magazines' magazines are distributed through supermarkets and newsagents, with the remainder through subscription services. During FY10, Pacific Magazines increased its market share in comparison to its competitors, however sales volumes fell due to a reduction in the overall market. Industry analysts suggest that this may be due to changes in consumer interests, with women's interests becoming more varied and moving away from celebrity stories.

The primary components of Pacific Magazines' revenue are circulation and advertising. In FY10, approximately 61% of Pacific Magazines' revenue was from circulation, 35% from advertising and the remainder from publishing and online revenue. Advertising revenue and

[42] Pacific Magazines media release -11 November 2010
[43] Readership based on Roy Morgan Single Source estimates, September 2010

circulation were both impacted in recent years by the global financial crisis, however both showed signs of recovery in FY10, with increases of 1.6% and 2.4% over FY09 respectively.

4.1.3 Yahoo!7

Yahoo!7 is a 50% joint venture between Yahoo! Inc and SMG. Yahoo!7 is an online platform providing users with entertainment, news and sports information as well as access to the online and digital assets of SMG's television and magazines portfolio. Yahoo!7 is used by SMG and Yahoo! Inc as their exclusive online and mobile platform in Australia and New Zealand. According to SMG, Yahoo!7 is visited by approximately one in every two online Australians each month.

Recently, Yahoo!7 has acquired a number of digital businesses including:

- Spreets – the first online group buying site in Australia and New Zealand, with almost 500,000 members
- Total Travel – an Australian online travel guide which was acquired in October 2009
- Oztips – an Australian sports tipping site acquired in July 2010

In addition to these acquisitions, in early 2010 Yahoo!7 launched PLUS7, an online catch-up service offering video streaming of full length episodes of shows from the Seven Network. During 2010, PLUS7 streamed more than 14 million episodes to online users.

4.1.4 Other investments

SMG's other investments are summarised in the table below:

SMG's other investments

Investment	SMG's interest	Principal activities
Australian News Channel Pty Limited (Australian News)	33.3%	Pay TV channel operator
TX Australia Pty Limited	33.3%	Transmitter facilities provider
Coventry Street Properties Pty Limited	50.0%	Property management
Oztam Pty Limited	33.3%	Ratings service provider
Perth Translator Facility Pty Limited	33.3%	Transmitter facilities provider

Source: SMG Annual Reports

The above investments are not significant contributors to SMG's earnings. The largest of these investments is SMG's investment in Australian News, which owns and operates Sky News Australia, a 24-hour news channel that broadcasts on pay TV networks including Foxtel and Austar.

4.2 Financial performance

The table below summarises SMG's historical financial performance for the last three financial years and the half year ended 25 December 2010, as well as the forecast financial performance for the financial year ending 25 June 2011.

Financial performance

Currency: A$ millions	FY08A	FY09A	FY10A	1H FY11A	FY11F
Continuing operations					
Television revenue	na	1,156	1,134	665	1,234
Magazines revenue	na	317	319	160	318
Other revenue	na	11	0	0	0
Total income	**1,509**	**1,484**	**1,453**	**825**	**1,551**
Television EBITDA	na	237	306	239	376
Magazines EBITDA	na	55	53	27	58
Other EBITDA	na	(4)	2	(0)	(0)
Total EBITDA	**391**	**288**	**361**	**266**	**434**
Television EBIT	na	196	270	220	340
Magazines EBIT	na	47	44	22	49
Other EBIT	na	(13)	2	(0)	(0)
Total EBIT	**341**	**230**	**316**	**242**	**388**
Share of net profits from associates	8	9	13	9	17
EBIT (including associates)	**349**	**239**	**329**	**251**	**405**
Reconciliation to statutory accounts					
Monitoring expenses	na	(5)	(5)	(4)	(7)
Options expense	na	(3)	(5)	(2)	(4)
Significant other income	-	0	18	-	-
Significant expense items	-	(1,969)	(55)	-	-
Statutory EBIT	**349**	**(1,738)**	**282**	**245**	**394**
For information only					
Revenue growth	na	(2%)	(2%)	na	7%
EBITDA growth	na	(26%)	25%	na	20%
EBITDA margin	26%	19%	25%	32%	28%

Source: SMG Annual Reports for the three years ending 26 June 2010, Management accounts for the half year ended 25 December 2010, Prospectus

na: Not available

Note: FY08, FY09, FY10 and FY11 refer to the 52 week periods ending 28 June 2008, 27 June 2009, 26 June 2010 and 25 June 2011 respectively. 1H FY11A refers to the half-year ended 25 December 2010

4.2.1 Historical financial performance

In relation to the historical information presented above, we note the following:

- Revenues indicated a declining trend between FY08 and FY10, although have improved in the first half of FY11. Analysis of this trend indicates:
  - A general decline in advertising demand from FY08 to FY09 due to depressed economic conditions. This was somewhat offset by high advertising revenues from Seven Network's coverage of the Beijing Olympics in late 2008, which impacted its FY09 revenues. Magazine revenues were similarly impacted by a decline in advertising as well as circulation.

- The decline in revenues from FY09 to FY10 of 2.1%, was predominantly due to a decrease in television advertising revenues following the Olympics. SMG's share of overall television advertising spend remained relatively stable between FY08 and FY10, with the exception of the first half of FY09, which was higher due to its Olympics coverage.
- FY10 television revenues were higher than had previously been expected due to increased prices achieved for television advertising, particularly in the second half of the year. In addition, FY10 revenue was favourably impacted by improved market conditions and strong ratings performance, including the addition of SMG's new digital channel, 7TWO.
- Overall revenues improved in the first half of FY11 due to stronger television advertising market conditions, the successful launch of SMG's third digital channel, 7mate and the replay of the AFL Grand Final following a draw in the first game. We note, however that this has been partly offset by lower than expected circulation and advertising revenue in the magazines business.

- SMG's expenditure has been relatively stable over the last three years, other than in FY09 which was impacted by additional costs associated with the coverage of the Olympics. Its costs reduced in FY10 without the Olympics as well as due to lower costs associated with the purchase of television program rights.

- Depreciation and amortisation (excluding the amortisation of television program rights) relates to the depreciation of property, plant and equipment, as well as the amortisation of intangible assets including program copyrights, magazine licences and software. In FY09, depreciation and amortisation also included $8.5 million of deferred expenditure which did not occur in FY10.

- Yahoo!7 constitutes the majority of SMG's profits from equity accounted investments. Earnings from Yahoo!7 were higher than expected in both FY10 and the first half of FY11 due to improved advertising market conditions, growth in the digital media display market and increased market share.

- Monitoring expenses are paid annually to KKR as part of the JV arrangement. These expenses will not continue following the Proposed Transaction.

- Options expenses relate to remuneration of executives in accordance with the SMG management equity plan that has been in place prior to the Proposed Transaction. Based on discussions with Management, we understand a revised remuneration plan may be implemented, the details of which have not yet been finalised, although we understand this is not expected to have a material impact on earnings.

- Significant other income of $17.5 million in FY10 relates to the reversal of previously recorded impairment losses on television licences in FY09.

- Significant expense items of $2.0 billion in FY09 relate to impairment losses on intangible assets of Seven Network. This impairment related to goodwill of $1,038 million, television licences of $486 million and brand names of $302 million. The impairment losses in FY09 largely reflected the deterioration of the television advertising market during FY09. Certain of these impairment losses were reversed in FY10 as the market recovered. Significant items in FY10 of $55 million reflect impairment of mastheads in the magazines business, due to a deterioration in magazine advertising.

Overall, after adjusting for various non-recurring items of income and expense, SMG's EBITDA has improved from the low of $288 million in FY09, increasing to $361 million in FY10. SMG achieved strong earnings in the first half of FY11 of $266 million, with its EBITDA margin of 32%, being significantly higher than prior years.

4.2.2 Forecast financial performance

As set out in the Prospectus, SMG EBITDA in FY11 is forecast to be $434 million. This represents an increase of 20% over FY10, primarily driven by increased contributions from Seven Network. In relation to this forecast EBITDA, we note:

- SMG's television business is expected to experience revenue growth due to continued strength of the overall television advertising market, the implementation of SMG's multi-channel strategy as well as a positive outlook for SMG's program pipeline[44]. Television earnings are expected to be favourably impacted by cost savings as well as the licence fee rebate[45]. The forecast for Seven Network's revenues in FY11 is based on the assumption that the metropolitan television advertising market increases by 10.1% over FY10, and that Seven Network's share of metropolitan advertising revenue will remain at 38%.

- Magazines revenue is expected to experience a slight decline in FY11 due to the prevailing economic conditions. However, growth in EBITDA of SMG's magazines business is expected through cost reduction initiatives.

- We note that analyst's estimates for SMG's EBITDA, released after SGH's most recent market guidance in November 2010[44], were between $430 million and $450 million.

SMG's share of profits from associates is forecast to be $17 million in FY11. This reflects growth of $4 million over FY10. This growth is partly due to the contribution of recently acquired companies Total Travel and Oztips. In addition, it reflects the continued strong growth in the digital advertising market and additional advertising relating to online video streaming.

[44] SGH Annual General Meeting Address to Shareholders- 9 November 2010

[45] The licence fee rebate is 50% in calendar year 2011, however due to the timing of its introduction the rebate is expected to be 41.5% of licence fees in FY11

4.3 Financial position

SMG's pro forma financial position as at 25 December 2010 is presented in the table below.

Financial position

Currency: A$ millions	Dec10A
Cash and cash equivalents	186
Trade and other receivables	263
Program rights and inventories	109
Investments accounted for using the equity method	219
Property, plant and equipment	77
Identifiable intangible assets	2,192
Goodwill	192
Other assets	4
Total assets	**3,241**
Trade and other payables	526
Provisions	61
Deferred income	41
Interest bearing loans and liabilities	2,275
Intercompany loans	650
Deferred tax liabilities	32
Total liabilities	**3,586**
Net assets/ (liabilities)	**(345)**

Source: Prospectus

In relation to SMG's pro forma financial position, we note:

- Trade and other receivables relates to receivables from advertising and programming sales.
- Program rights and inventories relate to purchased and developed programming. These rights are recorded at cost less accumulated amortisation.
- Investments accounted for using the equity method relate to SMG's investment in Yahoo!7 and other investments discussed in sections 4.1.3 and 4.1.4 above.
- Intangible assets are predominantly comprised of television licences, of approximately $1,800 million, and magazine mastheads of $312 million. These are recorded at cost less any write downs for impairment.
- Goodwill was recorded upon the acquisition of magazines businesses.
- Interest bearing loans include:
    - A syndicated senior secured debt facility of $1,841 million maturing December 2012.
    - Secured notes of $315 million maturing in December 2013. A fixed rate of interest is paid increasing incrementally from 10.2% to 12.3% and secured by a second ranking charge over all of SMG's assets.
    - Zero coupon notes of $119 million. These notes mature in December 2013, are unsecured and pay a fixed coupon of 12% per annum.

- Intercompany loans of $650 million relate to a loan from SGH to SMG.
- SMG's net liabilities as at 25 December 2010 are $345 million. This negative net asset position has predominantly arisen due to impairment write downs of intangible assets of $1,969 million in FY09 and $55 million in FY10.

4.4 Capital structure and shareholders

SMG was initially formed as a joint venture between SGH and KKR, with KKR holding a 47% interest. Subsequent to the formation of SMG in 2006, this ownership has been diluted as interests in SMG have been issued to mezzanine investors and management.

SMG has had in place management equity plans since 2007, whereby certain executives were issued with share options. Prior to the Proposed Transaction, all of these options will have vested.

SMG's diluted ownership structure is as follows:

Ownership structure – after the impact of dilution from shares issued under the management equity plan

	Ownership interest
SGH	45%
KKR	45%
Management / mezzanine investors	10%

Source: Explanatory Memorandum

5. Australian media industry

The Australian media industry provides news, information and entertainment and includes the advertising, television, publishing, movies and entertainment industries. This section focuses on television broadcasting, magazine and newspaper publishing, and digital media, as the sectors most relevant to WAN and SMG.

5.1 Overview and regulation

In the past decade, the Australian media landscape has undergone significant change with the increasing usage of the internet. Most media companies now have digital operations, with television networks often offering their programs online after having been televised. Similarly, newspapers and magazines also publish complementary content online. Much of this online content can also be accessed through mobile phones. The proposed rollout of the national broadband network (NBN) in Australia, which will provide the population with broadband internet access, is expected to further transform how Australians interact with the media.

This increased usage of mobile phones and the internet for entertainment and information purposes has led the Australian Government to announce a Convergence Review which will review the operation of media and communications regulation in Australia. The review is anticipated to begin in March 2011 and be completed in 2012. It is expected to examine all content delivery platforms and cover a wide range of issues including media ownership, local content rules, spectrum allocation and copyright issues.

The most recent media reform in Australia occurred in 2006 with the passing of the Broadcasting Services Amendment (Media Ownership) Act 2006 (BSA 2006) which resulted in an amendment to media ownership rules. Changes under the BSA 2006 include:

- The relaxation of cross media ownership rules. However, two key safeguards remain to ensure media diversity. These are:
    - The prohibition of a person from controlling more than two of the following businesses in the same area, being a commercial radio licence, a commercial television broadcasting licence which covers more than 50% of the population served by the commercial radio licence, and a newspaper.
    - A minimum of 5 independent media operators within a metropolitan area and 4 independent media operators within a regional area. Media operators are defined as newspaper, commercial radio licence and commercial television operators and any groups with two or more media operations in these sectors.
- The relaxation of foreign media ownership regulations. However, any direct foreign media ownership still requires approval from the Treasurer of Australia.

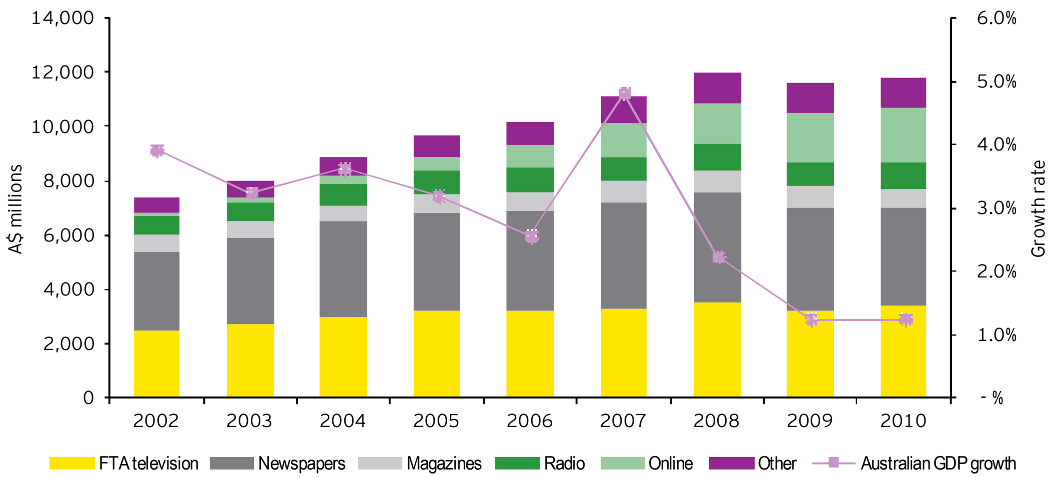
These regulations are enforced by the Australian Communications and Media Authority (ACMA). The ACCC is also responsible for assessing the impact on competition of acquisitions of media groups. Regulations specific to the television sector are further discussed in section 5.3.1.

5.2 Advertising trends

The Australian media industry is driven by advertising expenditure with approximately 90%[46] of FTA television industry's revenue, and 75%[47] of the newspaper publishing industry's revenue, being derived from advertising.

As highlighted in the chart below, the overall advertising market has increased at a compound annual growth rate (CAGR) of 3.9% over the years 2000 to 2009. Of this, print media represents the primary form of advertising followed by television broadcasting. Advertising expenditure in print media has grown at a CAGR of 1.3% over the period, with television advertising having increased at a CAGR of 2.7%. Combined, print and television represent around 73% of advertising revenues. However this represents a decline from 88% of the market in 2000 with the change in relative shares reflecting the impact of technological changes, as users are increasingly seeking information and entertainment through the internet. This has led to strong growth in online advertising, as evidenced from the trend of job and real estate classified being placed online rather than in traditional forms of media such as newspapers.

Advertising expenditure



Source: Commercial Economic Advisory Service of Australia, Explanatory Memorandum, International Monetary Fund

Advertising expenditure is strongly impacted by real gross domestic production (GDP). In times of subdued GDP growth, which also affects consumer and business sentiment, advertising spending falls as corporate profitability decreases. Conversely, advertising expenditure generally rises in periods of economic growth. As shown in the chart above, this is consistent with previous economic downturns, such as in 2001, where advertising expenditure declined. According to Commercial Economic Advisory Service of Australia (CEASA), advertising expenditure in the year ending 30 June 2010 was $11.8 billion, a decrease of 8% or $1.1 billion compared to the prior year. However, as the economy recovers, advertising revenues are expected to improve, with analysts' consensus estimates indicating growth of approximately 10% in the year ended 31 December 2010.

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[46] Free to Air Television Services in Australia, IBISWorld, October 2010
[47] Newspaper Printing or Publishing in Australia, IBISWorld, November 2010

The industry is also susceptible to the retail cycle with the retail sector accounting for approximately 20% of advertising expenditure[48]. The current outlook for the retail sector is uncertain with retail sales growing by only 0.2% in December 2010[49], compared to economists' expectations of 0.5%[50]. Economists anticipate that consumer spending will remain weak in light of the Queensland flooding, as food and energy prices increase.

The Australian automotive sector also influences advertising expenditure. According to the Federal Chamber of Automotive Industries, there were 1.04 million new cars sold in 2010, which was the second highest result on record. This high level of sales is expected to continue in 2011 which will drive advertising expenditure by the industry.

5.3 Free to air television broadcasting

FTA television broadcasting is an integral part of the Australian media industry given its ability to reach a mass audience, with average viewership of 13.2 million[51] a day and access to 99.7% of the Australian population. This ability to reach mass audiences drives advertising revenue which accounts for over 90%[52] of the industry's revenue. Other sources of revenue include government grants, sale of in house productions and affiliation agreements for the larger metropolitan networks.

The industry is mainly comprised of commercial television operators who account for 82%[52] of the industry's revenue. There are three main commercial operators based in metropolitan regions: SMG, Nine Entertainment Co and Ten Network Holdings Limited (Ten Network) that operate channels associated with Channel Seven, Channel Nine and Channel Ten, respectively. These networks also provide programming to regional operators, such as Prime Media, Southern Cross, WIN and Imparia Television through affiliation agreements. Other operators include public broadcasters such as Special Broadcasting Service Corporation (SBS) and Australian Broadcasting Corporation (ABC), as well as community television operators, who account for 17% and 1%[52] of industry revenue respectively. These latter two sectors mainly rely on government funding and sponsorship, whilst the commercial television operators rely on advertising revenue.

5.3.1 Industry regulation

The FTA television industry is more regulated than other industries within the media sector. Media ownership controls prevent a person from controlling television licences whose combined area exceeds 75% of the Australian population (also known as 'the audience reach rule') or from holding more than one television licence in a licence area[53]. There is some speculation from analysts that the Government may relax the audience reach rule as part of the Convergence Review. Commercial television operators are also required to meet minimum Australian content quotas of 55% of all programming between 6 a.m. and midnight as well as a minimum quota for children's programming.

The industry is currently in the process of switching from analogue to digital transmission, with the analogue transmission signal to be switched off by the end of 2013. The switch off of analogue signals by television broadcasters will free up a contiguous spectrum in the radiofrequency spectrum, known as a digital dividend, which the Government may use to provide next generation communication services.

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[48] Ad spending tipped to stay on a roll – Neil Shoebridge – Australian Financial Review – 31 January 2010
[49] Australian Bureau of Statistics
[50] Retailers miss holiday cheer as shoppers save – Australian Financial Review – 8 February 2011
[51] Free TV CEO presentation at Radcomms 2010- May 2010
[52] IBISWorld FTA Television Services In Australia – October 2010
[53] Broadcasting Services Act 1992

The switchover to digital transmission has significantly increased the content available to viewers with the introduction of new digital channels. In addition to their main channels, the three commercial networks have each launched two additional digital-only channels. In 2009 and 2010, Channel Seven launched 7TWO and 7mate and Channel Nine introduced Go! And GEM. Channel Ten was the last commercial network to introduce a second digital-only channel. ELEVEN was launched in January 2011, in addition to Channel Ten's first digital-only channel, ONE. Similarly, ABC and SBS have also introduced digital-only channels, with the number of FTA channels available to viewers increasing from 5 to currently 15.

In light of the digital switchover and the Australian content quotas, a licence fee rebate of 33% for the 2010 calendar year and 50% for the 2011 calendar year was announced in February 2010[54]. Currently, Australian commercial television operators pay a licence fee of 9% of advertising revenue, which is reportedly the highest in the world[55]. In Australia, licence fees represent 7.8% of industry revenue compared to the UK and the US where licence fees represent 1.5% and 0.04% of industry revenue respectively[56]. Ten Network noted in their 2010 annual review that other markets undergoing digital switchover have reduced both their licence fees and local content quotas. The Australian Government has not indicated whether the rebate will be extended beyond 2011, however has recognised that "commercial television broadcasters will require some assistance to maintain Australian content production"[54]. Analysts anticipate that licence fees will be reviewed as part of the Convergence Review and that these fees will be permanently lowered, particularly in light of the revenue that may be received by the Australian Government from any sales of the digital dividend and to recognise the increased costs associated with delivering digital television services across Australia.

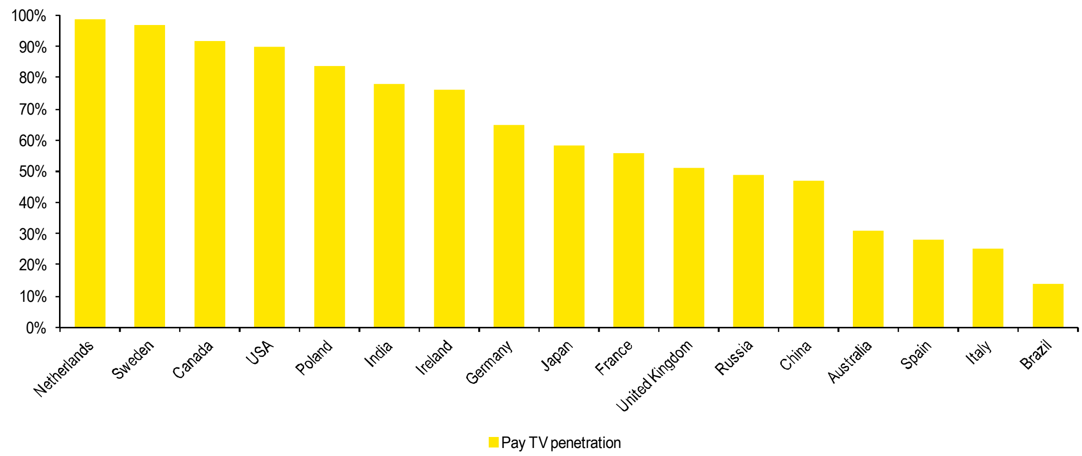
The regulatory environment has also undergone changes with the review of the anti-siphoning scheme. The anti-siphoning scheme ensures that events of national and cultural significance, traditionally major sporting events, are made available to the general public by giving FTA broadcasters the first option to acquire the broadcasting rights. In November 2010, the Australian Government announced changes to the anti-siphoning scheme including:

- The introduction of two tiers of events on the anti-siphoning list:
  - Tier A will comprise events such as the Melbourne Cup, Bathurst 1000, finals of major Australian tournaments such as the NRL and AFL Premiership. These events must be broadcast live and in-full with limited exceptions.
  - Tier B will comprise of events such as regular games of AFL and NRL premiership seasons and non final games of the Australian Open tennis. These can be televised on digital multi-channels and must be shown within four hours of the game.
- FTA broadcasters must televise the events or otherwise offer the broadcasting rights to other FTA broadcasters, followed by pay TV operators.
- New legislation preventing exclusive rights being granted to new media such as online.

[54] Government to protect Australian content on commercial television – Media release – Senator Stephen Conroy – 7 February 2010
[55] Ten Network Holdings Limited Annual Review 2010
[56] Free TV media release- Free TV welcomes recognition of industry role in delivering Australian Content – 7 February 2010

The anti-siphoning list is of particular importance to FTA television as the majority of the highest rating programs on Australian television are sporting events[57]. Consequently, FTA television operators are more competitive against pay TV operators in Australia than in other countries. This may be seen in the chart below which highlights the relatively low pay TV penetration in Australia compared to other countries, which do not have anti-siphoning laws. Whilst the recent modifications to the anti-siphoning list may be seen as favouring pay TV operators, they largely recognise events which pay TV operators currently have, and in addition, permit increased scheduling flexibility to FTA operators by allowing the use of multi-channels for listed sporting events.

Pay television penetration

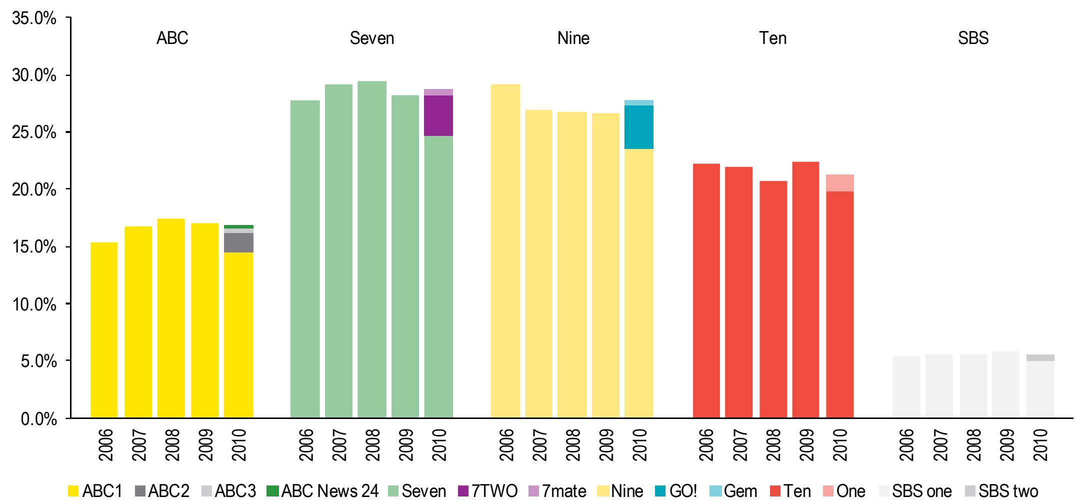


Source: Ofcom International Communications Market Report 2010

5.3.2 FTA television industry performance

Competition between television networks is based primarily on ratings, or audience share, in order to increase their share of the advertising market. The chart below shows each network's share of audiences between 6 p.m. and midnight.

Network's share of television audiences between 6 p.m. and midnight – 5 cities



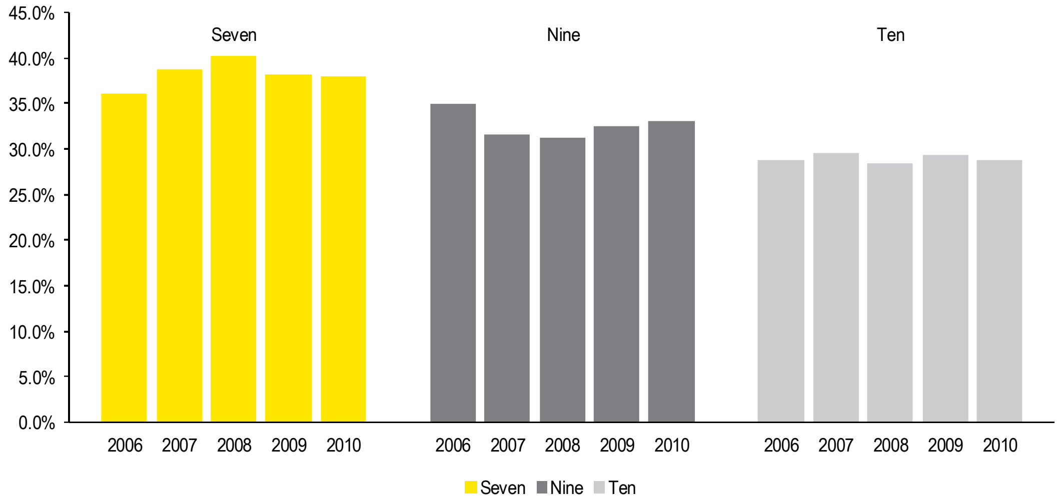
Source: OzTam

[57] ScreenAustralia

In the last OzTam survey of 2010, Seven Network was the market leader of television between 6 p.m. and midnight with 28.7% share of audience. This was followed by Channel Nine with 27.7% share of television audiences, and Channel Ten with 21.2%. The remaining share was held by ABC and SBS at 16.8% and 5.6%, respectively.

The chart below reflects the split of television advertising revenue between the commercial television broadcasters.

Commercial television advertising revenue market share



Source: FreeTV Australia Limited
Note: data for 2010 represents 6 months to 30 June 2010

5.3.3 FTA television industry prospects

The industry is heavily influenced by factors that impact upon advertising expenditure such as consumer and business sentiment. These, in turn, are influenced by changes in household disposable income and real GDP. During the global financial crisis, television advertising expenditure declined by 0.6% and 6.6% in 2008 and 2009 respectively[58]. Analysts estimate that growth in 2010 would be between 7% and 10% partly driven by political advertising expenditure in August 2010 around the federal election, but also reflecting the economic recovery. As detailed in section 5.2, FTA television has historically experienced the second highest advertising growth in Australia after online.

The FTA television industry is increasingly competing with emerging technologies, such as electronic tablets and internet protocol television (IPTV). As a response, networks are increasingly offering their content on a variety of platforms. Many networks offer 'catch up' television online or through gaming consoles such as PlayStation 3, allowing viewers to watch television shows via the internet after having been televised. Networks are also offering complementary material to their broadcast channel, allowing viewers to engage with the programs in a different format. This can be seen in Seven Network's *Better Homes and Gardens* program, which is presented in a television format, a monthly magazine as well as providing complementary material on its Yahoo!7 site. This multi format approach enables advertisers to engage with their target audience in multiple platforms.

[58] Commercial Economic Advisory Service of Australia

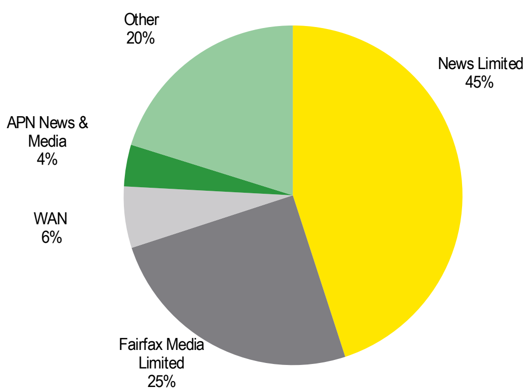
In 2011, Mediabrands forecasts that FTA television advertising revenue will grow by 4.5%[59] driven in part by the increasing popularity of digital channels. Some media commentators also note that the digital channels have made FTA television more competitive against pay TV, with a recent survey finding 25% of current pay TV subscribers are likely to consider cancelling or downgrading their pay TV subscription as a result of the increased choice offered by the digital channels[60].

5.4 Newspaper and magazine publishing industry

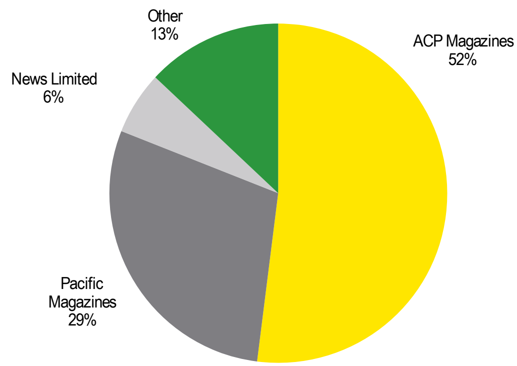
The newspaper and magazine publishing industries have been undergoing change. While each is impacted by slightly different factors, both industries are reliant on circulation and advertising sales, and increasingly impacted by the widespread availability of free information through other outlets, such as mobiles and the internet. This is challenging the traditional means of disseminating information for both newspapers and magazines.

The newspaper publishing industry in Australia is dominated by four companies with a combined 80% share of the total newspaper industry. Similarly the magazine publishing industry in Australia is dominated by four companies with a 72% share of the total market. The breakdown between the main industry participants are highlighted in the graph below. However as the market shares indicated are national, for the newsprint industry in particular, the market shares are not indicative of the Western Australian market, where WAN is the clear market leader.

Newspaper publishing industry split by revenue



Magazine publishing industry based on annual gross circulation[61]



Source: IBISWorld, Explanatory Memorandum

The magazine industry is dominated by titles targeted specifically at women who represent over 50% of the advertising revenues.

[59] Ad spending tipped to stay on a roll – Neil Shoebridge – Australian Financial Review – 31 January 2011
[60] 25% likely to switch-off pay TV – Free TV Australia – 1 December 2010
[61] Based on audited magazine titles only (12 months to December 2010)

5.4.1 Current performance

According to IBISWorld, in the five years to FY10, revenue in the Australian newspaper publishing industry and magazine publishing industry decreased at a CAGR of 3.7% and 0.5% respectively, due to the global financial crisis.

Newspaper revenues, particularly advertising revenues, are sensitive to economic conditions and were impacted by the global financial crisis. According to CEASA, metropolitan newspaper advertising revenue was down 20.9% in the six months to 30 June 2009. Since 2010, improved confidence in the real estate, employment and automotive markets has increased overall advertising revenue. However, for newspaper publishers, this recovery has been offset by the increasing migration of classified advertising from print media to online sites.

Similar to other media industries, the ability of a newspaper to attract advertising revenue is dependent on circulation. In Australia, newspaper circulation has declined in each of the five quarters to September 2010 impacted by the increasing availability of free news online. This declining circulation trend is also evident in international markets such as the US, with a recent study indicating that the internet is the third most popular source for news content behind local and national television, followed by radio, and local and national newspapers[62].

In Australia, the decline in readership of print newspapers is more evident amongst internet users, compared to non internet users. Readership of any weekday newspaper declined from 60% of internet users in the FY08 to 53%[63] in FY10. In comparison, readership of any weekday newspaper by non internet users declined by 3%, from 62% in FY08, to 59% in FY10. As such, while there is a decline in overall newspaper circulation, the impact will differ by state, with Western Australia remaining more reliant on newspapers than other states in Australia.

In response to the changing consumer attitudes towards news, newspaper publishers are increasingly providing online content. Currently, most Australian newspapers provide free access to their news online although charge fees to access archives. Currently, the Australian Financial Review is the only Australian print newspaper which requires an online subscription to access its digital content. However News Corporation has indicated that it is considering introducing a charge for full online access to its broadsheet newspaper, The Australian[64]. This is in contrast to various other countries, such as the , with major newspapers including The Wall Street Journal and New York Times charging for full access to their online content. The Wall Street Journal also offers subscriptions through e-readers.

Magazines are also sensitive to economic factors as readership is directly impacted by consumer spending. Advertising sales were negatively impacted during the global financial crisis, particularly in the fashion and home improvement markets which are heavily aligned with consumer sentiment and discretionary spend.

5.4.2 Outlook

IBISWorld forecasts that in the five years to FY15, the newspaper publishing industry revenue will grow at a CAGR of 0.7%, whilst the magazine publishing industry will grow at a CAGR of 1.4% in line with economic recovery.

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[62] PRC-Internet & American Life Project and PRC-Project for Excellence in Journalism Online News Survey, 28 December 2009-19 January 2010

[63] ACMA Communications Report 2009-10 Report 4

[64] Paywall on the way for The Australian – Sydney Morning Herald – 26 January 2011

The newspaper industry in Australia will continue to be impacted by the shift to digital media. The impact of this has been particularly evident in the US, with several large cities' newspapers, such as the Seattle Post-Intelligencer, having ceased print newspapers and only providing online publications. In order to address these structural issues in Australia, many newspapers are introducing magazine inserts targeting specific markets, adding colour to their publications, increasing tabloid content and introducing their own internet websites.

Similarly, the growth of digital media is a challenge for the magazine industry as it allows consumers to access similar content online. However, the effect of digital media has not been as severe for the magazine industry compared to the newspaper industry, as it is harder to replicate the experience of reading a magazine online and as magazines are targeted at niche markets. The growth of digital media also offers magazines new opportunities to grow and engage its readers through providing value added content such as podcasts, analysis tools and blogs. It also allows magazines to offer advertisers a different value proposition through a more integrated advertising strategy across the magazines and its accompanying website.

5.5 Digital media industry

The digital media industry is becoming an increasingly important source of information and targeted advertising. This industry is expected to continue to show strong growth, with more than 77% of the Australian population aged 14 and over having internet access at home[65]. The rollout of the NBN is expected to further increase Australians' interactions with the digital media industry by providing high speed internet access to 93%[66] of Australian homes, schools and businesses. The internet is now a major source of information for most Australians. This is evident in the most popular sites visited by Australians, with Google search being visited by 85%[67] of Australian internet users. Yahoo!7 is the second most used search site in Australia.

The emergence of numerous classified sites, particularly for employment and real estate classifieds, such as seek.com and realestate.com.au, has impacted upon other forms of media. According to ANZ Job Advertisements Series, newspaper employment classifieds represented 6.3% of total advertisements in FY10 compared to 24.9% in FY03[68]. In more developed digital markets like the US, some newspapers no longer offer employment classifieds.

Sites such as Google and Yahoo!7 provide a range of service offerings such as access to email and other content including news and entertainment. Similar to the other media industries, these websites provide their services free of charge and generate revenue through providing online advertising services.

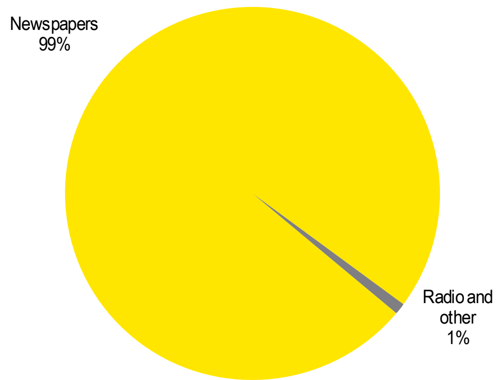
As discussed in section 5.2, the online advertising industry is the fastest growing adverting market with online advertising expenditure growing at a CAGR of 41.2% between 2002 and 2009. In 2009, advertising expenditure was $1.9 billion, compared to $167 million in 2002. This growth is expected to continue with Mediabrands forecasting advertising revenue growth in the online search sector of 30.6% in 2011.

[65] As at 30 June 2010
[66] National Broadband Network website
[67] Nielsen Online. Australia in the digital economy: The shift to the online environment, ACMA, June 2010
[68] ANZ Job Advertisement Series - December 2010 and December 2006

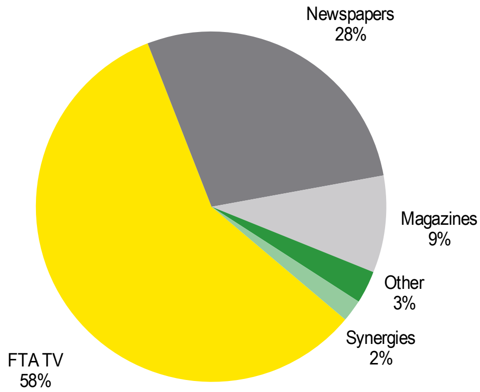
6. Overview of the Combined Group

If the Proposed Transaction is approved, the combined business of WAN and SMG (the Combined Group) will be significantly larger and more diversified than WAN prior to the Proposed Transaction. WAN is primarily a newspaper publishing company with a dominant share of the Western Australian market. SMG adds diversification in terms of FTA television broadcasting, magazines and digital media, across Australia. The greater diversification of WAN by media segment is indicated in the charts below.

WAN FY11PF EBITDA by segment



Combined Group FY11PF EBITDA by segment (including associates)



Source: Explanatory Memorandum

Furthermore, the Combined Group will be more diversified geographically expanding WAN's focus beyond Western Australia into the east coast metropolitan markets.

If the Proposed Transaction is approved, the Combined Group is expected to benefit from significant scale being the second largest media company in Australia on a pro forma free float basis.

6.1 Strategy and potential synergies

The combination of FTA television, newspapers, magazine and digital media is expected to significantly increase the Combined Group's audience reach, content and access for its advertising customers to multiple media platforms.

As set out in the Explanatory Memorandum, WAN management expect to be able to realise revenue and cost synergies of approximately $15 million per annum principally comprising:

- Incremental advertising opportunities from introducing WAN's customer base to new media platforms and regions
- Newsprint cost savings leveraging WAN's existing supplier arrangements to reduce newsprint costs within SMG's magazine business
- Operational efficiencies from consolidating certain administrative and support functions

Further details on the expected synergies are provided in the Explanatory Memorandum.

6.2 Directors and management

If the Proposed Transaction is approved, as set out in the Explanatory Memorandum, WAN has indicated that:

- David Leckie will be appointed as Group Chief Executive Officer and Managing Director of the Combined Group
- SGH will nominate one additional Director for appointment to the Board
- KKR will be entitled but not obligated to nominate one Director for appointment to the Board during the period in which KKR and the mezzanine investors in aggregate hold 10% or more of the ordinary equity in WAN.

6.3 Pro forma financial performance

6.3.1 Financial performance

The pro forma statement of financial performance for the Combined Group is set out in section 6.10 of the Prospectus. A summary of the pro forma financial performance for FY11 is provided below.

FY11PF Financial performance

Currency: A$ millions	WAN	SMG	Synergies	Combined
Revenue	416	1,551		1,967
Other income	0	0		0
Operating costs	(241)	(1,117)		(1,358)
Synergies			15	15
EBITDA	**175**	**434**	**15**	**624**
Depreciation & amortisation	(23)	(46)	-	(68)
EBIT	**152**	**388**	**15**	**556**
Share of results from equity accounted investees	5	17	-	21
EBIT (including associates)	**157**	**405**	**15**	**577**
Net interest expense				(152)
Profit before income tax				425
Income tax expense				(120)
NPAT				**305**

Source: Prospectus

Note: may not add due to rounding

The pro forma statement of financial performance presented above reflects the expected full year results for both WAN and SMG for the year ending 30 June 2011, assuming the acquisition took place on 1 July 2010. We note that the actual result for FY11 will differ from the pro forma due to:

- The actual results will only reflect SMG's contribution from the date of acquisition.
- Transaction costs of $45 million, of which $27 million will be expensed during FY11.
- The proportion of synergies that may be realised from the date of acquisition.

6.3.2 Financial position

The pro forma statement of financial position for Combined Group is set out in section 6.11 of the Prospectus. A summary of the pro forma financial position as at 31 December 2010 is provided below.

Financial position

Currency: A$ millions	WAN as at 31-Dec-10	Adjustment for Acquisition of SMG	Adjustment for SMG Period End	Adjustment for capital raisings	Pro Forma Transaction Adjustments	Combined Group Pro Forma 31-Dec-10
Current assets						
Cash and cash equivalents	15	186	(120)	1,154	(1,145)	**90**
Trade and other receivables	55	263	(17)	-	-	**301**
Program rights and inventories	17	103	-	-	-	**121**
Other assets	0	4	-	-	-	**4**
Total current assets	**86**	**556**	**(136)**	**1,154**	**(1,145)**	**515**
Non-current assets						
Program rights and inventories	-	6	16	-	-	**22**
Property, plant & equipment	209	77	-	-	-	**286**
Intangible assets	133	2,383	-	-	1,671	**4,187**
Investments accounted for using the equity method	12	219	-	-	-	**231**
Other assets	1	-	-	1,331	(1,331)	**1**
Total non-current assets	**356**	**2,685**	**16**	**1,331**	**340**	**4,727**
Total assets	**442**	**3,241**	**(120)**	**2,485**	**(805)**	**5,242**
Current liabilities						
Trade & other payables	31	380	(134)	-	-	**277**
Provisions	5	47	-	-	-	**52**
Other liabilities	3	-	-	-	-	**3**
Deferred revenue	-	35	-	-	-	**35**
Total current liabilities	**39**	**462**	**(134)**	**-**	**-**	**367**
Non-current liabilities						
Interest bearing loans & liabilities	241	2,275	14	-	(450)	**2,081**
Loan to SGH	-	650	-	-	(650)	**-**
Trade & other payables	-	145	-	-	-	**145**
Deferred income	-	6	-	-	-	**6**
Deferred tax liabilities	11	32	-	-	(5)	**38**
Provisions	1	14	-	-	-	**15**
Total non-current liabilities	**253**	**3,123**	**14**	**-**	**(1,105)**	**2,285**
Total liabilities	**292**	**3,586**	**(120)**	**-**	**(1,105)**	**2,652**
Net assets	**150**	**(345)**	**-**	**2,485**	**300**	**2,590**

Under the agreed terms of the CPS, the CPS are treated as an equity instrument for accounting purposes.

Source: Prospectus

The pro forma balance sheet adjustments outlined above are discussed in further detail in section 6.11 of the Prospectus. In relation to the pro forma Combined Group balance sheet, we note:

- The adjustment for the acquisition of SMG represents the acquisition of SMG based on its balance sheet as at 25 December 2010.
- Adjustments for SMG year end reflect adjustments to SMG's balance sheet between 25 December 2010 and 31 December 2010. These include payment of license fees and accrued interest, as well as collection of trade receivables and advance payments in relation to programming rights for the Australian Open.
- Adjustments for the capital raising include for cash and other assets as part of the issue of equity by WAN to SGH and under the KKR Investment, the issue of CPS and securities issued in relation to the Offers.
- Pro forma transaction adjustments include the assumption of external net debt, the payment of transaction costs and a preliminary acquisition accounting adjustment to recognise intangible assets on acquisition.

WAN currently has a low level of indebtedness, as described in section 3.3. As indicated in the pro forma balance sheet, the Combined Group is expected to have net debt of approximately $1,991.2 million.

6.4 Capital structure and shareholders

Based on the current number of shares on issue for WAN, as well as the shares likely to be issued as a result of the Proposed Transaction, the KKR Investment and the Offers, the total number of shares assumed to be on issue for the Combined Group are as set out in the table below:

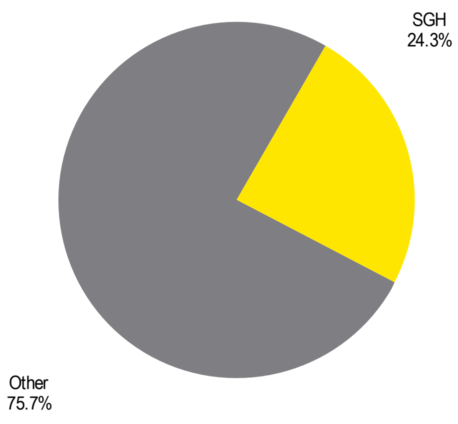
WAN Shares on issue

	Ref	Shares ('000)
WAN shares on issue prior to announcement of Proposed Transaction	3.4.1	219,669
Shares issued to SGH	1.2.1	180,467
KKR Investment	1.2.3	76,962
Entitlement Offer	1.2.4	125,525
Public Offer	1.2.4	7,692
Total shares (undiluted)		**610,315**
CPS converted into ordinary equity	1.2.2	37,452
WAN performance rights	3.4.1	41
Total shares (diluted)		**647,808**

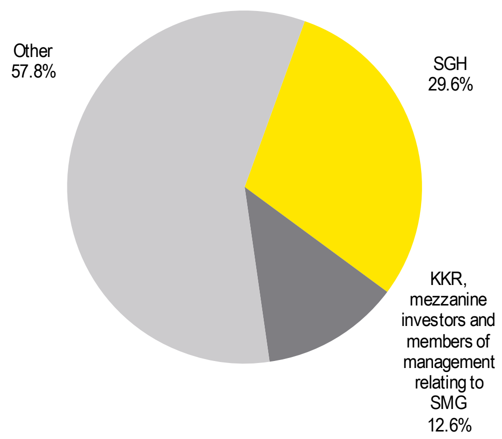
Source: Explanatory Memorandum

The pro forma shareholder mix in the event that the Proposed Transaction is approved is set out in the chart below. In the event that SGH exercises its rights to convert the CPS into ordinary shares, and assuming SGH's shareholding and the ordinary WAN Shares on issue immediately post completion of the Proposed Transaction remain unchanged at the time of conversion, SGH's shareholding in WAN would increase to 33.6%.

WAN shareholder mix pre the Proposed Transaction



Pro forma shareholder mix Combined Group-undiluted



Source: Explanatory Memorandum

7. Valuation approach

A number of valuation approaches may be applied in determining the fair market value of an asset, investment or business. These are outlined in Appendix C of this report and typically comprise the income, cost and market approaches.

In assessing the fair market value of SMG, and the value of WAN Shares before and after the Proposed Transaction, we have applied the capitalised earnings methodology, a form of the market approach, as our primary valuation method. We have adopted this methodology for the following key reasons:

- The established nature of both the WAN and SMG businesses and track record of profitability.
- The availability of information in respect of broadly comparable companies. There are a number of quoted media companies such that trading multiples are able to be drawn from the market to be applied to an assessment of WAN and SMG's earnings.
- The lack of long term financial forecasts that may be relied upon for the purpose of using an income approach to determine fair market value.

The capitalised earnings methodology requires an assessment of the following:

- The earnings stream that may be considered representative for the business. In applying this methodology we relied upon the FY11PF forecasts for WAN and SMG on a standalone basis, as well as the FY11PF forecasts for the Combined Group inclusive of any synergistic benefits likely to be realised.
- For the primary operations of WAN and SMG (excluding the assets accounted for using the equity method), we have adopted EBITDA as the appropriate earnings basis for our analysis as:
    - The depreciation policies adopted by comparable companies may be inconsistent.
    - Amortisation expense, which is driven by intangible assets recognised in the balance sheet, can be significantly different across companies. We note that many media companies, including SMG, recorded impairment write downs on the value of certain intangible assets during the global financial crisis. More recently, some companies, including SMG, have reversed some of these impairment losses due to improving conditions.
    - Different gearing levels and working capital requirements of companies impact on the interest expense.
    - Different tax rates and assessment of deductible expenses in various jurisdictions.
- An appropriate earnings multiple to apply to the EBITDA, having regard to comparable listed companies, relevant transactions, growth prospects and other factors specific to WAN, SMG and the Combined Group.
- The fair market value of equity accounted investments. In determining the fair market value of these investments, we have capitalised the share of the net profit after tax from these equity accounted investments using an appropriate price to earnings (PE) multiple.

- Any other assets, liabilities and contingent liabilities that are not reflected in the value determined by the capitalisation of earnings approach.

In order to arrive at the equity value we then deducted the net debt. We note that WAN has declared a dividend of $0.19 per share which is expected to be paid prior to completion of the Proposed Transaction. As such, in our valuation of WAN both before and after the Proposed Transaction we have reduced the cash available by the total proposed dividend of $41.7 million[69] in order to present our analysis on an ex-dividend basis.

In applying this methodology we considered:

- The fair market value of SMG to be acquired by WAN on a control basis. We have compared our assessed fair market value of SMG to the consideration payable to SGH. We cross checked our range of fair market values of SMG to analysts' sum-of-the-parts valuations as well as the valuation of an interest in SMG detailed in the Scheme Booklet dated 12 March 2010[70].

- The fair market value of one share in WAN before the Proposed Transaction on a control basis, being the value of the interest notionally being disposed. In doing so we also considered those expenses associated with the transaction that would have been incurred up until the date of the General Meeting of Shareholders including the Redemption Premium payable on the CULS. We cross checked our range of fair market values to the historical share price of WAN prior to the announcement of the Proposed Transaction, as adjusted for a control premium. Our assessment of the control premium is discussed further in section 8.3 of this report.

- The fair market value of one share in the Combined Group on a minority basis assuming the Proposed Transaction is approved and implemented. We cross checked our range of fair market values to the implied price to earnings multiples.

[69] Based on 219.7 million shares and dividend of $0.19 per WAN Share

[70] Scheme Booklet for the scheme of arrangement between Seven Network Limited and the holders of Seven Shares and TELYS3 in relation to the proposed merger of Seven Network Limited and WesTrac Holdings Pty Limited to form Seven Group Holdings Limited, 12 March 2010

8. Valuation of SMG

8.1 Approach

As outlined in section 7 of this report, when considering the value of SMG on a standalone basis, we applied the capitalised earnings approach.

8.2 Assessment of EBITDA

In assessing the level of earnings to apply in our valuation of SMG, we had regard to the following key factors:

- The historical financial performance of SMG as set out in section 4.2 of this report. In this respect we note that SMG's EBITDA decreased from $391 million in FY08 to $288 million in FY09 due to the significant downturn in the advertising market. However, SMG's EBITDA subsequently rose to $361 million in FY10, with continued growth experienced in the first half of FY11, generating EBITDA of $266 million.

- The cyclical nature of the advertising and media industry as a whole. SMG's historic earnings are reflective of reduced advertising spend during the global financial crisis, as well as lower circulation of magazines. With a recovery in advertising, particularly in television advertising, being observed and expected to continue into FY11, historic earnings may not be reflective of future expected performance.

- As set out in section 4.2.2 of this report, EBITDA in FY11 is forecast to be $434 million, excluding share of profits from associates of $17 million. This forecast includes actual results for the six months to 25 December 2010 and best estimates for the remainder of the financial year. FY11 EBITDA is forecast to be 20% higher than what was achieved by SMG in FY10. However when compared to the actual EBITDA in FY08, the forecast represents CAGR of only 3.6% since FY08.

- FY11 forecast EBITDA includes a license fee rebate of $36 million, or 41.5% of the FY11 license fee expense. Going forward, the rebate is assumed to be 50% of license fees. We have not adjusted the pro forma forecasts to assume a rebate of 50% as the impact of this is instead reflected in the market's assessment of forecast capitalisation multiples for Australian FTA broadcasters.

Based on the factors discussed above, we have adopted forecasts as set out in the Prospectus for FY11 EBITDA of $434 million, excluding contributions from associates, as a basis for our valuation. We note that at the date of this report, analyst consensus forecasts for SMG's FY11 EBITDA are $440 million, including the contribution from equity accounted investments.

8.3 Earnings multiples

In assessing an appropriate earnings multiple to apply in valuing SMG on a control basis, we considered the current trading multiples of companies that may be considered broadly comparable. In addition, we analysed the multiples implied from recent acquisitions of television broadcasting and magazine publishing companies globally, as well as transactions in the wider media sector globally.

Trading multiples

There are few companies that may be considered directly comparable to SMG. As a consequence, in our analysis, we have considered a range of global companies with interests in television broadcasting and magazine publishing.

The table below summarises the trading multiples of the selected comparable companies. The multiples are based on the observed share prices of minority parcels of shares as at 18 February 2011 and are therefore not reflective of a premium for control.

Trading multiples

Company name	Country headquarters	Market cap (million)	EBITDA Multiple (H)	EBITDA Multiple (1F)	PE Multiple (H)	PE Multiple (1F)
Ten Network Holdings Limited	AUS	1,453	8.7x	8.7x	14.7x	14.6x
Southern Cross Media Group	AUS	746	8.1x	7.2x	14.0x	12.1x
Prime Media Group Limited	AUS	264	8.7x	7.5x	14.1x	10.6x
ProSiebenSat.1 Media AG*	Germany	7,014	12.2x	9.5x	19.8x	14.0x
Gestevisión Telecinco SA*	Spain	5,119	nm	17.5x	nm	17.5x
ITV plc*	UK	5,434	16.9x	9.5x	nm	16.8x
Belo Corp.	USA	1,023	6.1x	8.1x	13.1x	13.2x
Sinclair Broadcast, Inc	USA	842	6.9x	8.3x	9.5x	13.3x
Journal Communications, Inc.*	USA	325	5.0x	5.8x	10.4x	14.9x
Gray Television Inc.	USA	125	14.4x	na	nm	nm
Low			**5.0x**	**5.8x**	**9.5x**	**10.6x**
Average			**9.7x**	**9.1x**	**13.6x**	**14.1x**
Median			**8.7x**	**8.3x**	**14.0x**	**14.0x**
High			**16.9x**	**17.5x**	**19.8x**	**17.5x**

Source: Bloomberg, Capital IQ
nm: Not meaningful
na: Not available
**Historical multiple based on EBITDA for the year ending 31 December 2009*

Further information on these comparable companies is provided in Appendix D.

In addition, we have considered the multiples implied in recent transactions in the media industry, as outlined in Appendix E.

Assessment of earnings multiples

In assessing an appropriate range of earnings multiples to apply in valuing SMG we considered the following:

- SMG generates the majority of earnings from FTA television broadcasting where it has a strong market position. SMG's prime time ratings and advertising market share are currently higher than Ten Network, which is trading on an FY11 EBITDA multiple of

8.7x on a minority basis, and 10.1x as adjusted to a control basis[71]. We note that analyst consensus estimates for Ten Network forecast growth of 11.4% in FY12, being higher than other listed Australian media companies, reflecting the license fee rebate and continued growth of the FTA television advertising market.

- Australian regional television broadcasters Prime Media and Southern Cross are trading on FY11 EBITDA multiples of 7.2x and 7.5x respectively, on a minority basis. SMG is significantly larger than these companies, both in terms of market share and geographic reach.

- On 27 August 2009, Canwest sold its 50.1% stake in Ten Network to various institutional investors. The transaction price implied a one-year forecast EBITDA multiple of between 10.0x and 11.0x[72]. More recently, various investors have acquired significant stakes in Ten Network in on and off-market transactions.

- European and UK listed FTA television companies, particularly ProSiebenSat.1 in Germany are trading on higher multiples than the Australian companies. ProSiebenSat.1 has recently launched its digital platform, including multi-channels, in various markets in which it broadcasts. The one-year forecast trading multiple of ProSiebenSat.1 on a minority basis is 9.5x, or 10.7x as adjusted to a control basis.

- We note that the listed US FTA television broadcasters are typically regional, rather than national, operators.

- Southern Cross Broadcasting's television business was acquired by Macquarie Media Group in July 2007. The one-year forecast EBITDA multiple implied in this transaction was 11.6x. We note that this transaction took place in a different advertising and economic market environment to the prevailing environment.

Premium for control

As the Proposed Transaction is considered to be a control transaction, we have considered the value of SMG inclusive of a premium for control. A control premium is the additional consideration that an investor would pay over a marketable minority equity value in order to acquire a controlling interest. A controlling interest is considered to have greater value than a minority interest because of the purchaser's ability to:

- Control the cash flows including, inter alia, dividends and capital expenditure

- Access financial and other information required for decision making

- Effect changes in the business and influence business strategy

- Make acquisitions and divestments

[71] In adjusting the comparable company multiples to a control basis we increased the equity value of the comparable companies by 20%, which depending on the level of net debt of the comparable company, impacts on the uplift on enterprise value. As such the difference between the minority multiple and control multiple may not equate to 20%.

[72] On the date of announcement of the transaction, Ten Network pre-announced its financial year end results, which were significantly higher than previously anticipated. Consensus estimates available at the date of announcement do not take into account these improved results. As such, in calculating the implied prospective transaction multiple we have considered analysts' reports immediately following the announcement of the transaction, which take into account its improved prospects.

- Control the composition of the Board
- Appoint and remove management of the entity

In assessing the appropriateness of a control premium to be applied to the multiples observed in our comparable company analysis, we note that the premium paid on successful acquisitions may comprise two elements - a "pure" control premium recognising the ability to exert control over the entity being acquired as well as the value of synergies that may be available to purchasers.

Control premia are observable from prices paid in actual transactions and have been the subject of numerous studies. We have analysed a range of acquisitions of quoted companies in the publishing industry that have occurred since October 2006, as presented in Appendix E. The premiums paid in successful takeovers may be influenced by:

- The number of bidders
- Economic factors and investment conditions
- The company's performance and growth expectations
- Structural and regulatory framework
- Strategic attractions of the target such as market position, strength of competition, barriers to entry
- The potential synergies that may be extracted from the transaction, and the acquirers ability to extract synergies

In our assessment of the appropriate control premium applicable to SMG, we have considered:

- The median bid premium paid on global transactions across all industries in the twelve months to December 2010 of 36.9%[73]. However there have been no significant transactions in the media sector in the observed period.
- The median bid premium paid on Australian transactions with a deal size of greater than $50 million across all industries in 2010 of 31%[74], based on the share price of the target one month prior to announcement of the transaction.
- Bid premia observed in 2010 are on average higher than seen prior to the global financial crisis. This may reflect the depressed nature of the share markets as well as the relatively fewer transactions that have occurred, which limits the ability to draw meaningful conclusions from this data.
- A range of control premia consistently referred to in Australia is generally between 20% and 40%[75], which highlights that premia will vary significantly from circumstance to circumstance.
- The nature of the media industry in Australia and particularly the impact of cross media ownership restrictions. The existence of these restrictions may limit the

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[73] MergerStat, Control Premium Study, 4th Quarter 2010
[74] Excluding any transaction with a negative premium or premium over 100%
[75] Lonergan, W, *The Valuation of Businesses, Shares and Other Equity* 4th Edition, 2003

potential number of buyers for media assets in Australia, as well as the ability of an acquirer to realise material synergies. This may imply a lower control premium may be applicable to reflect the reduced synergies available to market acquirers in this sector.

In light of the restrictions on cross media ownership in Australia, we consider that the premium for control that may be applicable for SMG would lie at the lower end of the range observed in historical acquisitions, of between 15% and 20%.

Based on the above, we have adopted an FY11 EBITDA multiple of between 10.0x and 11.0x on a control basis.

8.4 Equity accounted investments

In order to value SMG's equity accounted investments we have adopted a capitalised earnings approach based on SMG's forecast share of associates' net profit after tax.

8.4.1 SMG's share of associates' earnings

We adopted SMG's forecast share of after tax profits of associates of $17 million for FY11. In assessing SMG's share of earnings from associates, we have considered the following:

- SMG's share of profit from associates increased by 49%, from $9 million in FY09, to $13 million in FY10. The majority of its profits from associates relates to Yahoo!7 which is experiencing strong organic growth, as well as incremental earnings from its recent acquisitions of Total Travel and Oztips.

- As set out in the Prospectus, FY11 profits from associates are forecast to be $17 million. This assumes continued high growth in the digital media advertising market, as well as increases in Yahoo!7's market share due to higher expected demand for advertising relating to online television video streaming. This guidance excludes any contribution from Spreets as it was acquired by Yahoo!7 subsequent to 31 December 2010, although we understand any contribution is not likely to have a material earnings impact[76].

8.4.2 Earnings multiple

We have capitalised the selected after tax profits at a PE multiple of between 16.0x and 18.0x. This is based on:

- The current trading multiples of digital media companies as set out in Appendix D. There are five listed digital media companies in Australia, with an average FY11 PE multiple of 19.7x. These multiples reflect the strong growth prospects of digital media companies with average analysts' consensus estimates for EBITDA growth in FY12 of 20%.
- One-year forecast EBITDA multiples for transactions since 2005 involving Australian digital media companies are, on average, 15.2x.

[76] We also did not adjust for any consideration payable for the acquisition as Spreets was acquired by Yahoo!7 (not SMG) and is equity accounted

8.5 Enterprise value of SMG

The table below shows our enterprise valuation of SMG:

Enterprise valuation of SMG

Currency: A$ millions	Earnings	Capitalisation multiple Low	Capitalisation multiple High	Fair market value Low	Fair market value High
EBITDA - SMG excluding associates	434	10.0	11.0	4,339	4,773
SMG equity accounted associates	17	16.0	18.0	264	297
Enterprise value of SMG including associates				**4,604**	**5,071**

Source: EY analysis

Note: May not add due to rounding

Our analysis indicates that the enterprise value of SMG falls in the range $4,604 million to $5,071 million. The consideration paid by WAN, inclusive of the debt to be assumed by WAN, of $4,085 million is therefore below our assessed range of enterprise values for SMG. We understand that this may reflect that, as a result of regulatory restrictions, there may be limited companies able to acquire the business or fund the transaction in the current market environment.

8.6 Valuation cross checks

In cross-checking our assessed value of SMG, we have considered:

- The enterprise value of SGH's investment in SMG determined by the independent expert in relation to the merger of WesTrac and Seven Network Limited in March 2010[77] of between $2,941 million and $3,340 million[78]. Our valuation of SMG is significantly higher than this previous valuation. However, this largely reflects the substantial increase in forecast earnings since March 2010, an improvement in the overall advertising market, as well as expected continuation of license fee rebates.

  The previous valuation in March 2010 was based on forecast EBITDA of $300 million, with the forecast EBITDA now being $434 million, or 43% higher. The multiple assumed in the previous independent expert's report was between 9.0x and 10.0x on a minority basis.

- The equity value implied by the carrying value of SGH's interest in SMG[79], as reported in SMG's 2010 annual report, was $1,169 million. After adding the net debt as at 30 June 2010 of $2,293 million, this results in an enterprise value of $3,462 million. We note that this value was based on lower assumed forecasts earnings, which as highlighted earlier have significantly improved.

- Recent SGH analysts' reports, which estimate SMG's enterprise value to be between $3,825 million and $4,300 million. These are based on estimates of forecast EBITDA of between $430 million and $450 million, and multiples of between 8.5x and 10.0x.

[77] Scheme Booklet for the scheme of arrangement between Seven Network Limited and the holders of Seven Shares and TELYS3 in relation to the proposed merger of Seven Network Limited and WesTrac Holdings Pty Limited to form Seven Group Holdings Limited, 12 March 2010

[78] Based on an equity value on a controlling interest basis of between $649 million and $1,1048 million and net debt of $2,292 million

[79] At the time SGH's interest was 46.5%

8.7 Consideration to be paid to SGH

As stated in the Prospectus, the consideration to be paid to SGH for the acquisition of SMG is $4,085 million comprises:

- $1,081 million in WAN Shares issued to SGH
- $250 million of CPS issued to SGH
- $650 million repayment of SGH loan owed by SMG
- $2,104 million of external net debt assumed

We note that the WAN Shares to be issued to SGH are based on a price of $5.99 per Share. SGH is therefore acquiring its Shares in WAN at a price above that which the Entitlement Offer and Public Offer are being made of $5.20 per WAN Share.

The CPS to be issued to SGH are convertible into WAN Shares. The number of shares to be issued is ascertained with reference to a conversion price of $6.68, as adjusted by 7.143% per annum, compounded on a semi-annual basis. In the event that WAN opts to satisfy its obligation to deliver WAN Shares in cash, the price is based on the 5 day VWAP prior to conversion calculated at a 5% discount. As such, as with the issue of Shares to SGH, the conversion price is above that which the Offers are being made.

In conjunction with the Proposed Transaction there are a number of interdependent capital raisings, including the KKR Investment, the Entitlement Offer and Public Offer which impact on the merits of the Proposed Transaction for the Non-associated Shareholders of WAN. In light of this, whilst being mindful of the form of consideration being provided to SGH, we considered it appropriate to assess the fairness of the transaction on the same basis as under item 7 of section 611 of the Act. Our analysis is provided in sections 9 and 10 of this report, with the various advantages and disadvantages of the acquisition to the Non-associated Shareholders discussed in section 11.

9. Value of WAN before the Proposed Transaction

9.1 Approach

As outlined in section 7 of this report, when considering the value of WAN on a standalone basis, we applied the capitalised earnings approach. We then compared our assessed value of WAN on a standalone basis to the value of WAN post the Proposed Transaction.

9.2 Assessment of EBITDA

In assessing the level of earnings to apply in our valuation of WAN on a standalone basis, we had regard to the following key factors:

- The historical financial performance of WAN as set out in section 3 of this report. WAN's EBITDA in FY09 fell by 27% to $157.1 million, reflecting the reduced advertising spend during the global financial crisis, coupled with declining circulation. However, the subsequent recovery in the Western Australian economy and increased advertising spend resulted in earnings in FY10 rising to $167.8 million. With a recovery in advertising being observed and expected to continue into 2011, historic earnings may not be reflective of future expected performance.

- WAN Management's guidance indicates forecast EBITDA for FY11 of $175 million, excluding share of profits from associates of $4.8 million. This guidance reflects actual results for the six months ended 31 December 2010 and Management's best estimates for six months ending 30 June 2011. The FY11 EBITDA forecast assumes a 3% increase in advertising revenues in FY11, with growth in the second half of FY11 primarily driven by an increase in display advertising of 4% relative to the same period the prior year. Circulation revenues are assumed to fall by 0.8% for the full year. These trends are broadly in line with historic performance.

As such, based on our discussions with WAN management and the factors considered above, we have selected normalised FY11 EBITDA of $175 million, excluding contributions from associates, as a basis for our fair market valuation of WAN.

The forecast EBITDA excludes any transaction costs associated with the Proposed Transaction of $27.9 million and any costs associated with the payment of a Redemption Premium on the CULS in the event that the Proposed Transaction is not approved of $16.3 million.

We note that as at the date of this report, analysts consensus forecasts for WAN's FY11 EBITDA are $183 million[80].

9.3 Earnings multiples

We have capitalised the selected EBITDA at a multiple that we consider reasonably reflects the business and growth prospects of WAN.

In assessing appropriate earnings multiples we considered the current trading multiples of companies that may be considered broadly comparable to WAN. In addition, we analysed the multiples implied from recent acquisitions of publishing companies globally, as well as transactions in the wider media sector.

[80] Source: Capital IQ, as at 18 February 2011

9.3.1 Trading multiples

There are few companies that may be considered directly comparable to WAN. As a consequence, in our analysis, we have considered a range of global companies with newspaper publishing interests.

The table on the following page summarises the trading multiples of the selected comparable companies. The multiples are based on the observed share prices of minority parcels of shares as at 18 February 2011 and are therefore not reflective of a premium for control.

Trading multiples

Company name	Country headquarters	Market cap (million)	EBITDA Multiple (H)	EBITDA Multiple (1F)	PE Multiple (H)	PE Multiple (1F)
West Australian Newpapers Ltd	AUS	1,393	9.8x	9.0x	14.5x	13.0x
Fairfax Media Ltd	AUS	3,293	7.6x	7.2x	12.6x	10.3x
APN News & Media Ltd*	AUS	1,079	9.0x	7.9x	10.8x	10.0x
Roularta Media Group NV*	Belgium	443	8.5x	6.3x	23.5x	9.3x
Axel Springer AG*	Germany	5,353	15.9x	8.1x	23.8x	12.9x
RCS Media Group SpA	Italy	1,332	17.2x	9.6x	nm	18.9x
Trinity Mirror PLC	UK	340	3.9x	3.3x	5.5x	3.1x
Johnston Press PLC*	UK	100	5.1x	5.0x	4.1x	2.6x
News Corporation	USA	46,042	9.3x	8.5x	19.0x	16.6x
Gannett Co, Inc.	USA	4,030	5.1x	5.3x	6.9x	7.6x
New York Times Co	USA	1,526	5.8x	6.3x	13.1x	18.1x
The E.W. Scripps Company*	USA	544	7.2x	4.3x	nm	20.5x
The McClatchy Company	USA	359	5.6x	6.2x	6.7x	9.8x
A.H. Belo Corp*	USA	177	2.9x	2.8x	nm	nm
Media General, Inc.	USA	172	6.3x	10.3x	nm	nm
Lee Enterprises	USA	133	6.8x	5.9x	5.8x	na
Low			**2.9x**	**2.8x**	**4.1x**	**2.6x**
Average			**7.9x**	**6.6x**	**12.2x**	**11.8x**
Median			**7.0x**	**6.3x**	**11.7x**	**10.3x**
High			**17.2x**	**10.3x**	**23.8x**	**20.5x**

Source: Bloomberg, Capital IQ
nm: Not meaningful
na: Not available
**Historical multiple based on EBITDA for the year ending 31 December 2009*

Further information on these comparable companies is provided in Appendix D.

9.3.2 Transaction multiples

There have been no relevant acquisitions of Australian newsprint businesses since December 2006. Details of various transactions where the target operates within the publishing industry and for which information is available publicly are presented in Appendix E.

9.3.3 Assessment of earnings multiples

In assessing an appropriate range of earnings multiples to apply in valuing WAN on a standalone basis before the Transaction on a controlling basis, we considered the following factors:

- The publishing companies with operations in Australia, including Fairfax, APN News and Media Limited (APN) and News Corporation, have significantly greater diversification in terms of their businesses and geographic reach. We note that Fairfax and APN are currently trading on FY11 EBITDA multiples of 7.2x and 7.9x, respectively and 8.2x and 8.8x as adjusted to a control basis. By contrast, WAN is highly dependent upon the Perth based newspaper, The West, which underpins the majority of its earnings. However while WAN is less diversified, the nature of its market in Western Australia is such that it benefits from a quasi-monopolistic position in a parochial market which has allowed the company historically to achieve one of the highest EBITDA margins in the newspaper publishing sector globally. Possibly as a reflection of this, WAN has historically traded at a premium to its Australian publishing peers.
- Analyst consensus forecasts indicate that the Australian based publishing companies will continue to show earnings growth in FY12. While forecasts are not available for WAN beyond FY11 its future growth may be impacted by:
  - Continued business confidence in Western Australia which may support its advertising earnings relative to its east coast peers. On the other hand, WAN, and the industry as a whole is experiencing a decline in circulation.
  - Digital media is expected to be a key driver of future growth in the industry, as indicated by recent acquisitions of online businesses. WAN has a relatively low exposure to digital media, although to an extent, to date the threat of digital media has been less in Western Australia than other regions.
- The differences between the markets in which WAN operates compared to the US newsprint companies. In this respect we did not place reliance on the multiples of the US based newsprint companies as:
  - The US market has seen an earlier move from print to digital with many of the US newspaper publishers now offering content under a digital subscription model which generates lower advertising revenues.
  - Corporate profitability is a key driver of advertising spend. While newsprint advertising revenues showed some overall improvement in Australia in FY10, many US newspapers reported continued advertising revenue declines, despite other parts of the US media, such as television returning to growth.

Premium for control

As the Proposed Transaction is considered a control transaction, under RG 111 we are required to consider the value of WAN inclusive of a premium for control. The premium for control is discussed in more detail in section 8.3 of this report. In our assessment of the appropriate control premium applicable to WAN, we have considered:

- There have been no recent acquisitions of publishing companies from which to ascertain current control premia.
- WAN already benefits from high margins which may limit the cost synergies available to an acquiror.
- The acquisition of Rural Press Limited by Fairfax in December 2006 implied a bid premium of 22% based on the Rural Press share price one day prior to speculation of a potential transaction, or 19% based on Rural Press' share price one day prior to announcement. The transaction provided for stronger geographical footprint and greater revenue diversification and was expected to generate synergies of approximately $35 million per annum within 12 to 18 months.

In light of the restrictions on cross media ownership in Australia, we consider that the premium for control that may be applicable for WAN would lie at the lower end of the range observed in historical acquisitions, of between 15% and 20%.

Based on the foregoing, we have adopted an EBITDA multiple range on a control basis of 8.5x to 9.5x FY11 EBITDA.

9.4 Net debt

In order to arrive at the equity value, it is necessary to deduct the net debt from the enterprise value calculated for WAN. As at 31 December 2010, WAN had net debt of $226.4 million as set out in the table below.

Net debt as at 31 December 2010

Currency: A$ millions	Ref	Dec10A
Borrowings	3.3	241.0
Less: cash and cash equivalents	3.3	(14.6)
Net debt		**226.4**

Source: WAN Management

In addition, WAN has declared a dividend of $0.19 per share which is expected to be paid prior to completion of the Proposed Transaction. As such we have reduced the cash available by the total proposed dividend of $41.7 million[81] in order to present our analysis on an ex-dividend basis. We have taken this approach as incoming shareholders are not entitled to the dividend for the half year ended 31 December 2010.

We have therefore deducted total net debt of $268.1 million in arriving at our equity value.

9.5 Assets and liabilities not included in the enterprise value

WAN holds an 8% investment in AAP. We note that no dividends were paid by AAP in FY09 or FY10 and therefore WAN's historic earnings do not include any earnings associated with this investment. In considering this investment we have taken into account the minority interest nature of WAN's investment in AAP, its inability to influence the dividend policy of AAP and the historically low level of profitability of AAP. Given the above, we do not consider WAN's investment in AAP to be material and have not therefore included WAN's interest in AAP as a surplus asset.

We have considered the cash of $4.1 million outstanding on the 1.6 million partly paid shares relating to the executive and employee share plans as a surplus asset.

Management of WAN have advised that as at the date of this report there are no other surplus assets or liabilities (other than transaction expenses) which require inclusion in the valuation.

9.6 Proposed Transaction expenses

Expenses relating to the Proposed Transaction to be incurred by WAN are estimated at around $45 million, of which $27 million relate to general transaction costs and $18 million relate to underwriting costs associated with the Offers. Of these costs, WAN estimates that up to $27.9 million will be incurred even if the Proposed Transaction is not approved. We note that in the event that the Proposed Transaction does not proceed, SGH has undertaken

[81] Based on 219.7 million shares and dividend of $0.19 per share

to reimburse WAN for 50% of all its third party costs incurred, which are reasonable and customary, in relation to the Proposed Transaction, up to $1.75 million.

In the event that the Proposed Transaction is not approved, the CULS will be redeemed at their issue price plus a Redemption Premium[82]. Based on 125.5 million CULS issued, the total Redemption Premium to be paid in the event that the Proposed Transaction is not approved is $16.3 million.

We have therefore deducted total expenses of $44.2 million in arriving at our equity value.

9.7 Equity accounted investment in CNG

In valuing WAN's equity accounted investment in CNG, we have adopted WAN's forecast share of after tax profit of $4.8 million for FY11. We have capitalised the selected after tax profits at an appropriate PE multiple.

In assessing an appropriate PE multiple to apply in valuing WAN's share of CNG on a minority basis, we considered the current trading multiples of comparable companies as set out in Appendix D. We note that of the publishing companies with Australian operations, Fairfax and APN are currently trading at 10.3x and 10.0x forecast PE multiple, on a minority basis, respectively.

We have adopted a PE multiple of 10.0x to 11.0x. While the upper end of our range is above the aforementioned comparable companies this largely reflects the benefits of influence that may be attached to a 49.9% interest.

9.8 Shares outstanding

As detailed in section 3.4 of this report, WAN currently has 219,668,970 ordinary shares outstanding.

[82] Redemption premium is between 2.5% to 4.5% of the issue price. In the event of a delay in the timetable, the redemption premium will increase at a rate of 1% per month.

9.9 Summary of valuation analysis

We summarise our fair market valuation of WAN on a controlling basis as follows:

WAN value per share – pre Proposed Transaction (control basis)

		Fair market value	
Currency: A$ millions	Ref	Low	High
Pro forma FY11 EBITDA	9.2	175.0	175.0
FY11 EBITDA multiple	9.3	8.5	9.5
Enterprise value of WAN		**1,487.7**	**1,662.7**
less: Net debt	9.4	(268.1)	(268.1)
add: Surplus assets / (liabilities)	9.5	4.1	4.1
less: Transaction expenses	9.6	(44.2)	(44.2)
Equity value of WAN excluding contribution from associates		**1,179.4**	**1,354.4**
Equity accounted associate	9.7	48.4	53.3
Total Equity Value		**1,227.9**	**1,407.7**
Number of ordinary shares (million)	9.8	219.7	219.7
Value per WAN share ($)		5.59	6.41

Source: EY analysis

The above valuation reflects the ex dividend value of one share in WAN inclusive of a premium for control.

9.10 Cross check to WAN share price

We have considered the reasonableness of our valuation by cross checking the value per share to recent traded prices in WAN Shares prior to the announcement of the Proposed Transaction.

The last closing price prior to the date of this report was $6.34 per share. In the 30 trading days prior to the announcement of the Proposed Transaction, WAN's shares have traded in the range of $6.18 to $6.46. These share prices reflect trading prices of minority interests and are cum-dividend. In considering the reasonableness of our price per share on a control basis, we note:

- Our valuation includes $27.9 million of transaction costs which will be borne by WAN in the event that the Proposed Transaction is not approved, which equate to 13 cents per share. In addition, our valuation includes $16.3 million premium payable on the CULS in the event that the Proposed Transaction is not approved, which equate to 7 cents per share.
- Our valuation represents the value of an individual share on an ex dividend basis, assuming a dividend of 19 cents per share.
- As discussed in section 8.1, analysts' consensus estimates for FY11 are currently around 4.6% higher than WAN Management's FY11 EBITDA upon which our valuation is based.

10. Valuation of WAN post the Proposed Transaction

10.1 Approach

As outlined in section 7 of this report, when considering the underlying value of WAN post the Proposed Transaction, we applied a capitalised earnings approach. In doing so, we considered the pro forma earnings of the Combined Group, including synergies. We also made an assessment as to an appropriate multiple for WAN post the Proposed Transaction reflecting its larger, more diversified operations.

Based on this approach, we have derived the fair market value per share of the Combined Group on a minority basis.

10.2 Assessment of EBITDA

In assessing the earnings of WAN post the Proposed Transaction, we have considered the FY11PF forecast EBITDA of $623.9 million (excluding associates), which is set out in section 6.3.1.

This pro forma forecast includes the forecast earnings for WAN and SMG as well as synergies that are expected to arise as a result of the Proposed Transaction. We note that Management and its external advisers have undertaken a review of the potential synergies, which are estimated at $15 million per annum. These synergies, are set out in section 6.10.3 of the Prospectus, and are made up of:

- Advertising revenue synergies. Management expects that the Combined Group will be able to leverage its broader range of assets and sales force, particularly SMG Red, in the Western Australian market to drive additional advertising revenue.

- Cost synergies, including purchasing benefits, operational efficiencies and the ability to centralise certain overhead functions.

We recognise that there is some uncertainty as to the timing of any synergistic benefits. In this respect, the full extent of any benefits are not likely to be realised in FY11 given the acquisition will not complete before April 2011. However, as the synergies do not have a material impact on earnings, with the full $15 million of synergies representing only 2.5% of WAN's FY11PF EBITDA, and given they are expected to be realised by FY12, we have used the FY11PF earnings, including synergies, as the basis for our valuation.

10.3 Earnings multiples

In valuing WAN post the Proposed Transaction, we considered trading multiples on a control basis for companies similar to the diversified operations of the Combined Group, and the multiples implied in recent transactions. In considering these multiples, we note:

- Approximately 69% of the Combined Group's FY11PF EBITDA is expected to be derived from FTA television and magazines businesses. As discussed in section 8 of this report, Ten Network is the only listed Australian FTA broadcaster and is currently trading on a FY11 EBITDA multiple of 10.1x, as adjusted to a controlling basis. WAN post the Proposed Transaction is expected to be more diversified by media platform as well as having the market leading FTA television business by prime time ratings.

- The Combined Group will be a diversified Australian media company with the ability to leverage four different media (television, magazines, newspapers and digital). The Combined Group will be larger and more diverse than most of the listed media Australian companies. While we applied a lower multiple for WAN pre the Proposed Transaction, which was reflective of its newsprint business, we consider that the greater size, diversification and leverage towards higher growth media businesses support the assessed multiple.

- The most recent controlling interest transaction involving an Australian media company was the acquisition of 50.1% of Ten Network in September 2009. The one-year forecast EBITDA multiple implied in this transaction was between 10.0x and 11.0x.

- The most recent acquisition of a diversified media company was the acquisition of PBL Media in October 2006. CVC Asia acquired a 50% interest in PBL Media at an implied one-year forecast EBITDA multiple of 11.0x. CVC Asia subsequently acquired an additional 25% of PBL Media in June 2007 at an historical EBITDA multiple of 12.2x. However we recognise that there has been significant change in the Australian media environment since the date of these transactions.

- Southern Cross Broadcasting, at the time a diversified television and radio broadcasting business, was acquired by Macquarie Media Group in July 2007. The one-year forecast EBITDA multiple implied in this transaction was 11.6x.

Based on the above, we have adopted an FY11 EBITDA multiple of between 10.0x and 11.0x on a control basis. This is the same range of multiples applied in the valuation of SMG. While we recognise that lower multiples may be applicable for WAN's newsprint business, which is expected to represent 27% of FY11PF EBITDA, this is offset by the benefits of additional scale, diversification and exposure to high growth digital segment, of the combined businesses.

10.4 Net debt and other adjustments

In arriving at the equity value, we made the following adjustments:

- We deducted from our enterprise value the pro forma net debt of the Combined Group of $1,991.2 million as at 31 December 2010. This is based on the pro forma balance sheet for the Combined Group presented in section 6.3.2 of this report. This net debt includes an adjustment for transaction expenses of $45 million.

- For the same reasons set out in section 9.4 of this report we deducted the total cash expected to be paid to existing shareholders of WAN by way of a dividend of $41.7 million.

10.5 Assets and liabilities not included in the equity value

The value of WAN's surplus assets is $4.1 million, as outlined in section 9.5.

We understand that there are no further surplus assets or liabilities which require inclusion in the valuation.

10.6 Equity accounted investments

The value of WAN's interest in CNG on a minority basis is between $43.4 million and $53.3 million, as outlined in section 9.7.

The value of SMG's interest in equity accounted investments on a minority basis is between $264.0 million and $297.0 million, as outlined in section 8.4.

10.7 Discount for lack of control

With regard to the analysis performed in section 8.3, we have considered a control premium of approximately 20% for the Combined Group when determining the enterprise values of SMG and WAN. In order to calculate the equity value on a minority interest basis, we have applied a discount for lack of control.

Based on the control premium of 20%, we have determined a discount for lack of control of 17%[83] to be applied to the equity value of the Combined Group.

10.8 Fair market value of equity in WAN post the Proposed Transaction

The table below shows our fair market valuation of the equity in WAN post the Proposed Transaction:

Equity value of the Combined Group

			Capitalisation multiple		Fair market value	
Currency: A$ millions	Ref	Earnings	Low	High	Low	High
EBITDA of the Combined Group	10.2 and 10.3	624	10.0	11.0	6,239	6,863
WAN equity accounted associates	9.7	5	10.0	11.0	48	53
SMG equity accounted associates	8.4	17	16.0	18.0	264	297
Total enterprise value					**6,551**	**7,213**
less: Net debt	10.4				(1,991)	(1,991)
less: Dividend to existing shareholders	10.4				(42)	(42)
add: Surplus assets / (liabilities)	10.5				4	4
Total Equity Value (control basis)					**4,523**	**5,184**
less: Discount for lack of control	10.7	17%			(754)	(864)
Total Equity Value (minority basis)					**3,769**	**4,320**

Source: EY analysis

Based on the above analysis, the fair market value of the equity of the Combined Group on a minority basis is between $3,769 million and $4,320 million.

[83] Discount for lack of control = 1 – [1 / (1 + control premium)]

We have cross checked our valuation with reference to the implied PE multiples as follows:

Implied PE multiples

Currency: A$ millions	Low	High
Equity value of the Combined Group - minority basis	3,769	4,320
FY11 pro forma NPAT	305	305
PE (FY11) - minority basis	12.4x	14.2x

Source: EY analysis

In relation to the table above we note the following:

- The implied PE multiples are lower than the one-year forecast PE multiple of Ten Network, which is 14.6x. Ten Network is predominantly a television broadcaster, with consensus estimates forecasting strong growth in FY12 after tax profits for Ten Network of 18%.
- The implied multiples are significantly lower than News Corp, which is trading at a one-year forecast PE multiple of 16.6x. News Corp is significantly larger and more geographically diverse than the Combined Group.
- The implied multiples are higher than Fairfax, which is trading at 10.3x. Fairfax predominantly operates in publishing in Australia, and may therefore have a lower revenue outlook than the Combined Group. Similarly, the implied multiples are higher than Southern Cross, which is smaller and less diverse than the Combined Group, and is trading at 12.1x.
- WAN is trading at a one-year forecast PE multiple of 13.0x, which is within the range of implied multiples.

10.9 Shares outstanding

Our calculation of the shares on issue is as follows:

Shares on issue in the Combined Group

	Ref	Shares ('000)
WAN shares on issue prior to announcement of Proposed Transaction	3.4.1	219,669
Shares issued to SGH	1.2.1	180,467
KKR Investment	1.2.3	76,962
Entitlement Offer	1.2.4	125,525
Public Offer	1.2.4	7,692
Total shares (undiluted)		**610,315**
CPS converted into ordinary equity	1.2.2	37,452
WAN performance rights	3.4.1	41
Total shares (diluted)		**647,808**

Source: EY analysis

10.10 Summary of valuation analysis

Based on the equity value, calculated in section 10.8 above, and the diluted number of shares illustrated in section 10.9 above, we have calculated our fair market valuation of issued shares in the Combined Group on a minority basis as follows:

Value per share – Combined Group

	Low	High
Total equity value on a minority basis ($ million)	3,769	4,320
Number of ordinary shares - diluted through CPS conversion (million)	648	648
Value per Combined Group share (diluted) ($)	5.82	6.67

Source: EY analysis

Based on our analysis, the estimate of fair market value of one share in WAN post the Proposed Transaction, on a minority basis, falls in the range $5.82 to $6.67 per share.

WAN Shareholders should be aware that the estimated value per share does not necessarily reflect the price at which the shares will trade if the Proposed Transaction is approved. The share price at which WAN will trade depends on a range of factors including the market sentiment following the announcement of the Proposed Transaction, the prevailing economic conditions as well as any changes in the business that may occur subsequent to the date of this report.

10.11 Adjustment for the Entitlement Offer

The above analysis provides a valuation of one share in WAN after the Proposed Transaction. However this analysis assumes that existing Shareholders do not take up their entitlement to participate in the Offers and are instead diluted. However, on the basis that the issue price for the Offers of $5.20 per share is lower than our assessed value per share post the Proposed Transaction, in our view investors who are eligible are likely to take up their entitlements.

On this basis, we have compared the value of one share pre the Proposed Transaction to the value of an equivalent share holding after the Proposed Transaction. We therefore assume that 4 new WAN Shares are issued (through the conversion of CULS) for every 7 WAN Shares currently held. As set out in the table below we have:

- Grossed up the value of one share in the Combined Group by 57%, or 4 divided by 7
- Deducted the cash required in subscribing for the additional shares (via the CULS). The cost is calculated as being 57% of the issue price of $5.20

Our analysis, which is set out in the table below, results in a value per equivalent share holding of between $6.17 and $7.51.

Adjustment to equivalent shares assuming participation in the Entitlement Offer

Currency: A$		Low	High
Value per share (post Proposed Transaction - minority basis)		5.82	6.67
Entitlement Offer adjustment	57%	3.32	3.81
Cash adjustment		(2.97)	(2.97)
Adjusted value per Combined Group share (minority basis including entitlements)		6.17	7.51

Source: EY analysis

11. Evaluation of the Proposed Transaction

11.1 Fairness

11.1.1 Fair market value of SMG and the consideration payable by WAN

With respect to the requirements of ASX Listing Rule 10.1, we have assessed whether the acquisition of SMG from a related party, SGH, is fair. As set out below, our analysis indicates that the enterprise value of SMG falls in the range $4,604 million to $5,071 million. The consideration paid by WAN, inclusive of the debt to be assumed by WAN, of $4,085 million is therefore below our assessed range of enterprise values for SMG.

Comparison of the fair market value of SMG to the consideration

Currency: A$ millions	Ref	Low	High
Value of SMG including associates	8.5	4,604	5,071
Acquisition price for SMG in the Proposed Transaction	8.7	4,085	4,085

Source: EY analysis

The consideration for the acquisition, as set out above, is in the form of cash, the issue of WAN ordinary shares and CPS, and will include the assumption of debt of SMG. However, we recognise that in conjunction with the Proposed Transaction there are a number of interdependent capital raisings, including the KKR Investment, the Entitlement Offer and Public Offer which impact on the merits of the Proposed Transaction for the Non-associated Shareholders of WAN. In light of this, whilst being mindful of the form of consideration being provided to SGH, we considered it appropriate to assess the fairness of the transaction on the same basis as under item 7 of section 611 of the Act.

11.1.2 Fair market value of WAN before and after the Proposed Transaction

With respect to the requirements of item 7 of section 611 of the Act, we have compared the value of an ordinary WAN share on a control basis pre the Proposed Transaction with the value of one ordinary WAN share on a minority basis post the Proposed Transaction in order to assess whether the Proposed Transaction is fair. While we are required to consider whether the issue of WAN Shares and CPS to SGH are fair and reasonable to WAN Shareholders, as various other resolutions are interdependent with the issuance of the WAN Shares and CPS, we have included the impact of the KKR Investment and the Offers, in our analysis.

Our conclusions on value are provided in the following table, with the value per WAN Share provided on an ex-dividend basis:

Comparison of fair market value per WAN share before and after the Proposed Transaction (ex-dividend basis)

Currency: A$	Ref	Low	High
Value per share before the Proposed Transaction (controlling basis)	9.9	5.59	6.41
Value per Combined Group share (minority basis including entitlements)	10.11	6.17	7.51

Source: EY analysis

As shown in the above table, the range of values for a WAN Share post the Proposed Transaction is either within or above the assessed range of values for a WAN Share pre the Proposed Transaction. Accordingly, for the purpose of item 7 of section 611 of the Act, and ASX Listing Rule 10.1, we consider the terms of the Proposed Transaction to be fair.

This comparison assumes that investors who are eligible do in fact take up their entitlements under the Entitlements Offer. Those WAN Shareholders who do not choose to take up their entitlements will be diluted. The resultant value per share for those WAN Shareholders that do not take up their entitlements would be lower than as set out above, however even in these circumstances this would not impact on our opinion as to the fairness of the Proposed Transaction.

11.2 Reasonableness

In accordance with RG 111.11, as we have concluded that the terms of the Proposed Transaction are fair, we also consider them to be reasonable.

11.3 Other factors

Other factors that WAN Shareholders should consider in forming their views as to whether or not to vote in favour of the Proposed Transaction are set out below:

11.3.1 Advantages

Increased diversification and opportunities for growth

WAN's existing operations are currently highly reliant upon the "The West" newspaper which contributes over 80% of its earnings. The acquisition of SMG will significantly diversify WAN's business across media platforms with the addition of strong market positions across free-to-air (FTA) broadcasting and magazines. In addition, the acquisition will significantly enhance WAN's digital media offering, with the online market currently experiencing the highest growth within the media sector. As indicated in section 6.0, following the Proposed Transaction, around 60% of WAN's FY11PF EBITDA is expected to be derived from FTA broadcasting, 27% from newspapers, with the balance from magazines, digital and other businesses.

In addition, whilst maintaining WAN's exposure to the strong Western Australian economy, the Proposed Transaction will provide the combined group with exposure to all major metropolitan markets, as well as various regions, through its affiliated regional stations. This should assist in diversifying its revenue stream and reduce its reliance on any one market or media platform.

Opportunities may also exist for content sharing and increased advertising across its media platforms, with opportunities for growth in the major advertising markets of FTA broadcasting and increasingly, digital media.

Shareholders will continue to participate in possible future increases in the value of WAN

Our valuation reflects assumptions in relation to potential future growth opportunities available to WAN as a result of the Proposed Transaction. While our valuation gives recognition to the fact that WAN's growth prospects will improve as a result of the Proposed Transaction, it also recognises that the extent to which this will occur is uncertain. To the extent that WAN exceeds the expectations reflected in our valuation, existing Shareholders will continue to participate in any future increases in the value of WAN Shares.

Greater market capitalisation, liquidity and share market indices

As a result of the Proposed Transaction WAN's market capitalisation is likely to significantly increase, on a pro forma free float basis[84], to $3,543 million[85]. While the proportion of shares available to trade, or the free float will reduce, the overall market value of shares available to trade will increase. As a result, WAN is expected to become the largest media company domiciled in Australia on a pro forma free float basis. Although WAN is already included in various indices, such as the S&P/ASX 100 and S&P/ASX 200, there may still be an increase in demand for its shares, particularly from index linked investment or tracker funds.

11.3.2 Disadvantages

Attraction as a takeover target

As a result of the Proposed Transaction, SGH's ownership will increase from currently 24.3% of the issued shares in WAN, to 29.6% of WAN Shares. In the event that all of the CPS issued to SGH are converted into ordinary shares, and assuming SGH's shareholding and the ordinary WAN Shares on issue immediately post completion of the Proposed Transaction remain unchanged at the time of conversion, SGH's shareholding in WAN would increase to 33.6%. The existence of a substantial holder in WAN may act as a deterrent to any other parties in making a takeover offer as SGH would in effect have to support a transaction to allow any other party to gain control.

In addition, given the current cross-media ownership restrictions, the number of companies which may be allowed to acquire the business may be somewhat reduced compared to those presently able to acquire WAN.

Transaction costs

As set out in the Explanatory Memorandum, WAN estimates that it will incur total transaction costs of approximately $45 million. Of these, around $27.9 million of net costs[86] would be incurred irrespective of whether the Proposed Transaction proceeded. In addition, in the event that the Proposed Transaction is not approved, a Redemption Premium totalling approximately $16.3 million will be payable on the CULS[87].

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[84] Excluding strategic shareholdings held by SGH and KKR

[85] Based on an estimated 610.3 million shares on issue following completion of the Proposed Transaction as set out in section 10.9, and the theoretical ex-rights price of $5.80.

[86] Total estimated costs of $29.7 million less $1.8 million reimbursement from SGH

[87] Based on 2.5% of the value of the CULS, assuming, if the Transaction is not approved, redemption occurs in April 2011

11.3.3 Other factors

Increased debt levels

WAN currently has relatively low net debt levels of $226.4 million as at 31 December 2010 and is highly cash generative. As a result of the Proposed Transaction WAN's debt levels will increase to a pro forma 31 December 2010 level of $1,991 million, increasing its net debt as a proportion of enterprise value from currently 14%[88] to 29%[89]. While debt levels will increase, its overall gearing levels[90] are expected to remain lower than the average of WAN's Australian media peers of approximately 35%[91].

Greater exposure to media regulation

The acquisition of SMG increases WAN's exposure to the FTA broadcasting market. Any changes in media regulations, such as license fee rebates and the anti-siphoning scheme, may have a significant impact on the future prospects of the company.

Dividend yield

WAN has historically paid regular dividends to shareholders with yields of between 5.5% and 6.3%[92] over the last two years. As set out in the Explanatory Memorandum, WAN intends post acquisition to pay a high proportion of its normalised net profit after tax in dividends after having regard to all relevant factors, including working capital requirements and new growth initiatives. Based on the dividend of $0.19 per share declared for the first half of FY11, WAN has provided guidance that it expects, subject to forecasts being achieved and other relevant considerations, to pay a full year fully franked dividend of $0.45 per share. This represents a dividend yield of around 8.7% based on the issue price of the Offers of $5.20.

Dilution to the extent shareholders do not participate in the Offers

To the extent that WAN Shareholders do not take up their entitlement or participate in the Entitlement Offer or Public Offer, the Non-associated Shareholders will be further diluted.

Transaction synergies

The value is dependent upon the ability to realise around $15 million of pre-tax synergies per annum. To the extent that these synergies are not fully realised, or are not able to be realised in the timeframe anticipated, this may have a negative impact on value.

Share price if the Proposed Transaction is not approved

If the Proposed Transaction is not approved WAN will not acquire SMG, and given the interdependence of a number of the proposed resolutions, none of the share placements to SGH, the KKR Investment, or the Public Offer will take effect. In addition, the CULS would be required to be redeemed. WAN would in effect continue to operate its current business in its existing form. However, would be required to redeem the CULS inclusive of a Redemption Premium of $16.3 million. Furthermore, WAN would likely have incurred substantial costs in

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[88] Based on net debt of $226.4 million as at 31 December 2010 and the midpoint of the enterprise value of WAN as set out in section 9.9

[89] Based on net debt of $1,991.2 million as set out in the pro forma balance sheet in the Prospectus and the midpoint of the enterprise value of the Combined Group as set out in section 10.8

[90] Average net debt as a proportion of enterprise value

[91] Based on the average 4 year net debt as a proportion of enterprise value of Fairfax Media Ltd, APN News & Media, Ten Network Limited, Prime Media Group and Southern Cross Media Group

[92] Based on the full year dividend for the year ending 30 June 2009 and 30 June 2010 and the average closing share price in the same period

relation to the Proposed Transaction, irrespective of whether the Proposed Transaction proceeds, estimated by WAN management at $27.9 million[93].

While we are unable to ascertain with any degree of certainty how WAN's Share may trade if the Proposed Transaction does not proceed, to the extent that any premium is reflected in WAN's share price following announcement, this would likely then cease to be priced into WAN's Share price, causing it to decline.

11.4 Conclusion

For the purpose of ASX Listing Rule 10.1 and item 7 of section 611 of the Act, in our opinion the acquisition of SMG from a related party, SGH, and the issuance of the ordinary shares and CPS (including the ultimate conversion of the CPS) is fair and reasonable to the Non-associated Shareholders of WAN.

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[93] Total estimated costs of $29.7 million less $1.8 million reimbursement from SGH

Appendix A Qualifications and declarations

Ernst & Young Transaction Advisory Services Limited, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Corporations Act and its representatives are qualified to provide this report. The representatives of Ernst & Young Transaction Advisory Services Limited responsible for this report have not provided financial advice to WAN, SGH or KKR.

Prior to accepting this engagement, we considered our independence with respect to WAN, SGH and KKR with reference to ASIC Regulatory Guide 112 *independence of experts*. In our opinion, we are independent of WAN, SGH and KKR.

Ernst & Young, and global affiliates, have previously provided professional services to SGH, its subsidiaries and SMG. This included the provision of tax and valuation advice to SGH in relation to the WesTrac transaction. As part of those valuation services Ernst & Young valued many assets of SGH including its interest in SMG as at April 2010. The principal persons responsible for the preparation of this report were not involved in the provision of the previous valuation report. In addition, Ernst & Young has provided tax advice to SGH in relation to the potential implications of a sale of its interest in SMG, however we have not provided any advice in relation to the Proposed Transaction.

Ernst & Young, and global affiliations, have not provided any services to any of WAN, SGH or KKR in relation to the Proposed Transaction.

This report has been prepared specifically for the Non-associated Shareholders of WAN. Neither Ernst & Young Transaction Advisory Services Limited, Ernst & Young, nor any member or employee thereof, undertakes responsibility to any person, other than a Non-associated Shareholder of WAN, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report we have relied upon and considered information believed after due inquiry to be reliable and accurate. We have no reason to believe that any information supplied to us was false or that any material information has been withheld from us. We have evaluated the information provided to us by WAN as well as other parties, through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. We do not imply and it should not be construed that we have audited or in any way verified any of the information provided to us, or that our inquiries could have verified any matter which a more extensive examination might disclose.

WAN has provided an indemnity to us for any claims arising out of any misstatement or omission in any material or information provided to us in the preparation of this report.

We provided draft copies of this report to the independent directors and management of WAN for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Changes made to this report as a result of this review by the independent directors and management of WAN have not changed the methodology or conclusions reached by us.

We will receive a professional fee based on time spent in the preparation of this report, estimated at approximately $550,000 inclusive of GST. We will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

The principal persons responsible for the preparation of this report are John Gibson and Julie Wolstenholme.

John Gibson, a director of Ernst & Young Transaction Advisory Services Limited and a partner of Ernst & Young, has assumed overall responsibility for this report. He has more than 25 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered.

Julie Wolstenholme, a representative of Ernst & Young Transaction Advisory Services Limited and an executive director of Ernst & Young, has also been involved in the preparation of this report. She has 11 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered.

The preparation of this report has had regard to relevant ASIC Regulatory Guides and APES 225 *Valuation Services* issued by the Accounting Professional and Ethical Standards Board Limited in July 2008. It is not intended that the report should be used for any other purpose other than to accompany the Explanatory Memorandum sent to WAN Shareholders. In particular, it is not intended that this report should be used for any other purpose other than as an expression of our opinion as to whether or not the Proposed Transaction is fair and reasonable to the Non-associated Shareholders of WAN.

Any forward looking information prepared by WAN and used as a basis for the preparation of this report reflects the judgement of WAN management based on present circumstances, as to both the most likely set of conditions and the course of action it is most likely to take. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the relevant future period will almost always differ from the forward looking information and such differences may be material. To the extent that our conclusions are based on such forward looking information, we express no opinion on the achievability of that information.

Appendix B Sources of information

In preparing this report, we have had regard to the following sources of information:

- WAN and SGH annual reports for the years ending 30 June 2008, 2009, 2010
- WAN and SGH results presentations
- Prospectus and Explanatory Memorandum
- Analyst reports for WAN and SGH
- WAN and SGH websites
- Analysts reports and websites of comparable companies
- External information sources including Bloomberg, Factiva and the Australian Financial Review
- Publications by the Australian Communications and Media Authority, Department of Broadband, Communications and the Digital Economy, Ofcom
- Industry bodies including OzTam, FreeTV Australia, Audit Bureau of Circulations

In addition we held discussions and corresponded with various members of senior management of WAN and SGH.

Appendix C Valuation approaches

Most valuation approaches can be categorised under one or more of the following broad approaches:

- The income approach under which an asset is valued as the present value of the future net economic benefits that are expected to accrue to the owner from the use or sale of the asset
- The market approach under which an asset is valued by reference to evidence (if any) of prices obtained in sales of interests in the asset that is the subject of the valuation, or by reference to the value of comparable assets related to some common variable such as earnings, cash flow or revenue
- The cost approach under which an asset is valued by reference to its historical cost or replacement cost.

Each of these approaches is appropriate in certain circumstances. The decision as to which approach and methodology to utilise generally depends on the availability of appropriate information and type of business.

Income approach

The most common methodology within the income approach is the DCF methodology. The DCF methodology involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a rate that reflects the time value of money and the risk inherent in the cash flows.

This methodology is particularly appropriate in valuing projects, businesses and companies that are in a start up phase and are expecting considerable volatility and/or growth in earnings during the growth phase, as well as businesses with a finite life. The utilisation of this methodology generally requires management to be able to provide long term cash flows for the company, asset or business.

Market approach

The main methodology within the market approach is the capitalisation of earnings methodology. This involves capitalising the earnings of a business at an appropriate multiple, which reflects the risks underlying the earnings together with growth prospects. This methodology requires consideration of the following factors:

- Estimation of normalised earnings having regard to historical and forecast operating results, abnormal or non-recurring items of income and expenditure and other factors. The normalised earnings are generally based on net profit after tax, EBIT, EBITA or EBITDA.
- Determination of an appropriate earnings multiple reflecting the risks inherent in the business, growth prospects and other factors. Multiples may be derived from quoted comparable trading companies and well as implied from recent acquisitions of similar companies.
- Earnings multiples applied to net profit after tax are known as price earnings multiple and are commonly used in relation to listed public companies. Earnings multiples

applied to EBIT, EBITA or EBITDA are known, respectively, as EBIT, EBITA or EBITDA multiples, and are commonly used in respect of companies comprising a number of businesses where debt cannot be precisely allocated or in acquisition scenarios where the purchaser is likely to control gearing.

- An adjustment for financial debt, in the event that maintainable earnings are based on EBIT, EBITA or EBITDA.
- An assessment of any surplus assets and liabilities, being those which are not essential to the generation of the future maintainable earnings.

This methodology is appropriate where a company or business is expected to generate a relatively stable record of earnings.

Cost approach

The main method within the cost approach is the net realisable value of assets methodology. This involves the determination of the net realisable value of the assets of a business or company, assuming an orderly realisation of those assets. This value includes a discount to allow for the time value of money and for reasonable costs of undertaking the realisation. It is not a valuation on the basis of a forced sale, where assets may be sold at values materially different to their fair market value.

This methodology is appropriate for asset intensive businesses, or where a business does not generate an adequate return on its assets.

Appendix D Media company trading multiples

Television broadcasting

The following table provides an overview of the current trading multiples of listed companies that operate predominantly in the free to air television broadcasting industry based on share prices at 18 February 2011.

Comparable companies trading multiples on a minority basis as at 18 February 2011

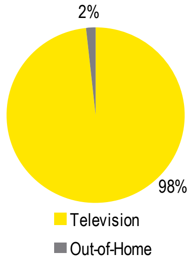
Company name	Country headquarters	Market cap (million)	EBITDA Multiple (H)	EBITDA Multiple (1F)	PE Multiple (H)	PE Multiple (1F)
Ten Network Holdings Limited	AUS	1,453	8.7x	8.7x	14.7x	14.6x
Southern Cross Media Group	AUS	746	8.1x	7.2x	14.0x	12.1x
Prime Media Group Limited	AUS	264	8.7x	7.5x	14.1x	10.6x
ProSiebenSat.1 Media AG*	Germany	7,014	12.2x	9.5x	19.8x	14.0x
Gestevisión Telecinco SA*	Spain	5,119	nm	17.5x	nm	17.5x
ITV plc*	UK	5,434	16.9x	9.5x	nm	16.8x
Belo Corp.	USA	1,023	6.1x	8.1x	13.1x	13.2x
Sinclair Broadcast, Inc	USA	842	6.9x	8.3x	9.5x	13.3x
Journal Communications, Inc.*	USA	325	5.0x	5.8x	10.4x	14.9x
Gray Television Inc.	USA	125	14.4x	na	nm	nm
Low			**5.0x**	**5.8x**	**9.5x**	**10.6x**
Average			**9.7x**	**9.1x**	**13.6x**	**14.1x**
Median			**8.7x**	**8.3x**	**14.0x**	**14.0x**
High			**16.9x**	**17.5x**	**19.8x**	**17.5x**

Source: Bloomberg, Capital IQ
nm: Not meaningful
na: Not available
**Historical multiple based on EBITDA for the year ending 31 December 2009*

A brief overview of the comparable companies and a breakdown of the companies' operations by EBIT, EBITA, EBITDA or revenue (excluding unallocated corporate overheads) and region[94] are provided below:

Ten Network Holdings Limited (Ten Network)

EBIT breakdown

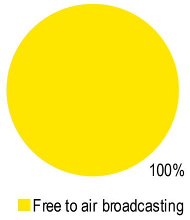


Ten Network operates FTA commercial television stations in Sydney, Melbourne, Brisbane, Adelaide and Perth. It is the third major national FTA television broadcaster in Australia by audience share. Ten Network has recently launched two digital multi-channels and competes directly with Seven Network in the FTA television market. Ten Network also operates an outdoor advertising business comprising digital displays and outdoor signage.

[94] EBIT, EBITA, EBITDA, revenue and region breakdowns are sourced from latest annual report

Southern Cross Media Group Limited (Southern Cross)

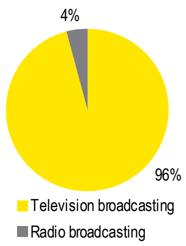
EBIT breakdown



Southern Cross (formerly Macquarie Media Group) is an Australian company engaged predominantly in the broadcasting of regional FTA commercial television. Southern Cross has affiliation agreements with all three FTA commercial broadcasters in Australia. In addition, Southern Cross media has regional radio stations, with the largest regional radio network in Australia.

Prime Media Group Limited (Prime Media)

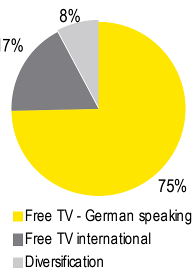
EBIT breakdown[95]



Prime Media operates FTA television and radio stations in regional Australia. Its FTA television covers northern and southern New South Wales, Canberra, Victoria, Gold Coast and regional Western Australia. Prime Media has affiliation agreements predominantly with Seven Network to broadcast FTA programming in regional areas. Its FTA radio network covers coastal Queensland. Its subsidiary, Prime Digital Media Pty Limited, produces and delivers digital content via out-of-home digital displays in retail outlets.

ProSiebenSat.1 Media AG (ProSiebenSat.1)

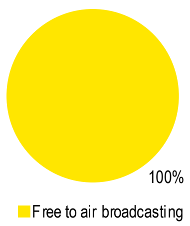
EBIT breakdown



ProSiebenSat.1 is a German FTA television broadcasting company with operations throughout Europe. Its diversified portfolio of assets also includes digital media, radio stations, print and new media companies, as well as activities in music business, live event and artist management. ProSiebenSat.1 is partly owned by KKR.

Gestevisión Telecinco SA (Telecinco)

EBIT breakdown

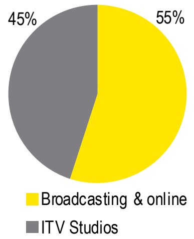


Telecinco is a major Spanish FTA television broadcaster. Through its subsidiaries, it is also involved in the production of advertising projects and internet broadcasting. On 28 December 2010, Telecinco completed the acquisition of Cuatro, the third largest FTA television channel in Spain. The acquisition will complement Telecinco's existing FTA channels and is expected to significantly increase Telecinco's forecast earnings.

[95] Excludes Prime Media's digital operations which is not included in EBIT

ITV plc (ITV)

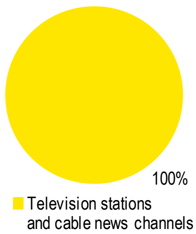
EBITA breakdown



ITV is the largest commercial FTA television network in the UK. ITV's broadcasting and online business delivers content to viewers through FTA television broadcasting, as well as through video streaming on ITV's website. In addition, ITV's production business constitutes significant portion of its earnings, producing content that is broadcast by ITV and also sold. ITV experienced a significant decline in earnings in 2008, which continued in 2009, primarily due to a downturn in the UK advertising market.

Belo Corp. (Belo)

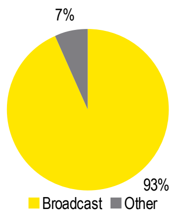
EBIT breakdown



Belo owns and operates 20 FTA television stations and 2 cable news channels, and their affiliated websites, in the US. Belo's operations are concentrated in three regions in the US (Texas, Northwest and Southwest). Belo's FTA stations are affiliated with various broadcasters and television networks in the US.

Sinclair Broadcast, Inc. (Sinclair)

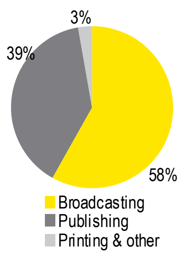
Revenue breakdown



Sinclair is a US television broadcasting company. Sinclair owns and operates, programs, or provides services to 58 FTA television stations in the US, focussing on mid-size markets. Sinclair's television stations are affiliated various broadcasters and television networks in the US.

Journal Communications, Inc.

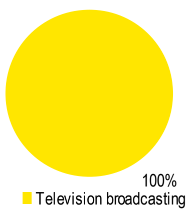
EBITDA breakdown



Journal Communications, Inc. predominantly engages in broadcasting and publishing in the US. The broadcasting segment consists of radio stations and television stations. The publishing segment consists of a daily newspaper for the Milwaukee metropolitan area, and community newspapers and shoppers in Wisconsin and Florida. The company also engages in commercial printing services including the printing of publications, professional journals and documentation.

Gray Television Inc.

EBIT breakdown



Gray Television, Inc. is a US based television broadcasting company. It owns 36 television stations affiliated with CBS, NBC, ABC and FOX.

Publishing

The following table provides an overview of the current trading multiples of listed companies that operate predominantly in the publishing industry based on share prices at 18 February 2011.

Comparable companies trading multiples on a minority basis as at 18 February 2011

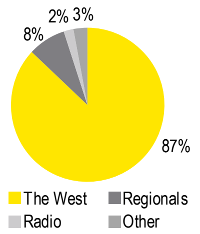
Company name	Country headquarters	Market cap (million)	EBITDA Multiple (H)	EBITDA Multiple (1F)	PE Multiple (H)	PE Multiple (1F)
West Australian Newpapers Ltd	AUS	1,393	9.8x	9.0x	14.5x	13.0x
Fairfax Media Ltd	AUS	3,293	7.6x	7.2x	12.6x	10.3x
APN News & Media Ltd*	AUS	1,079	9.0x	7.9x	10.8x	10.0x
Roularta Media Group NV*	Belgium	443	8.5x	6.3x	23.5x	9.3x
Axel Springer AG*	Germany	5,353	15.9x	8.1x	23.8x	12.9x
RCS Media Group SpA	Italy	1,332	17.2x	9.6x	nm	18.9x
Trinity Mirror PLC	UK	340	3.9x	3.3x	5.5x	3.1x
Johnston Press PLC*	UK	100	5.1x	5.0x	4.1x	2.6x
News Corporation	USA	46,042	9.3x	8.5x	19.0x	16.6x
Gannett Co, Inc.	USA	4,030	5.1x	5.3x	6.9x	7.6x
New York Times Co	USA	1,526	5.8x	6.3x	13.1x	18.1x
The E.W. Scripps Company*	USA	544	7.2x	4.3x	nm	20.5x
The McClatchy Company	USA	359	5.6x	6.2x	6.7x	9.8x
A.H. Belo Corp*	USA	177	2.9x	2.8x	nm	nm
Media General, Inc.	USA	172	6.3x	10.3x	nm	nm
Lee Enterprises	USA	133	6.8x	5.9x	5.8x	na
Low			**2.9x**	**2.8x**	**4.1x**	**2.6x**
Average			**7.9x**	**6.6x**	**12.2x**	**11.8x**
Median			**7.0x**	**6.3x**	**11.7x**	**10.3x**
High			**17.2x**	**10.3x**	**23.8x**	**20.5x**

Source: Bloomberg, Capital IQ
nm: not meaningful
na: not available
**Historical multiple based on EBITDA for the year ending 31 December 2009*

A brief overview of the comparable companies and a breakdown of the companies' operations by EBIT (excluding unallocated corporate overheads), EBITDA or revenue and region[96] are provided below:

West Australian Newspapers Holdings Limited

EBIT split

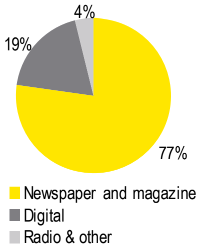


WAN is a media group based in Western Australia. It publishes the West Australian newspapers and other regional and community newspapers. It is also engaged in digital publishing and operates various radio stations in regional Western Australia.

[96] EBIT, EBITDA, revenue and region breakdowns are sourced from latest annual report

Fairfax Media Limited (Fairfax)

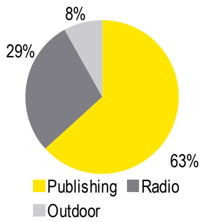
EBIT split



Fairfax is an integrated metropolitan, rural and regional, print and online digital media company in Australasia, with publications and online formats throughout Australia and New Zealand.

APN News & Media Limited (APN)

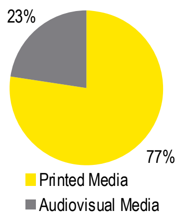
EBIT split



APN is an Australian based media company engaging in regional publishing of newspapers and magazines, radio broadcasting and outdoor advertising with operations in Australia, New Zealand and Asia.

Roularta Media Group NV

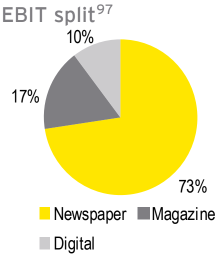
Revenue split



Roularta Media Group NV is a Belgium based publisher and printer of news and niche magazines, newspapers and free sheets. It is also active in audiovisual media and electronic publishing.

Axel Springer AG

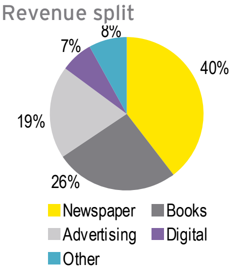
EBIT split[97]



Axel Springer AG is a Germany based media company that is engaged in publishing newspapers and magazines, as well as the operation of digital sales channels.

RCS Media Group SpA

Revenue split

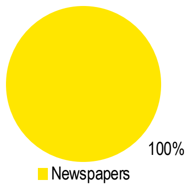


RCS Media Group SpA is an Italian company that has operations in daily newspaper publishing, magazine and book publishing, radio broadcasting, new media and digital and satellite TV. It is also engaged in the advertisement sales and distribution markets. In addition to the Italian, Spanish and French markets, the group is present in Portugal, UK, US, Mexico, Brazil, Argentina, India and China.

[97] Axel Springer AG has a loss making services/holding segment which is comprised of unallocated corporate overheads and commercial printing interests, which is not included in the EBIT split

Trinity Mirror plc

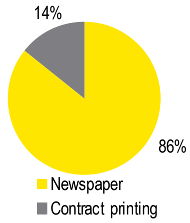
EBIT split



Trinity Mirror plc and its subsidiaries are engaged in the publication and printing of newspapers and related websites primarily in the UK.

Johnston Press plc

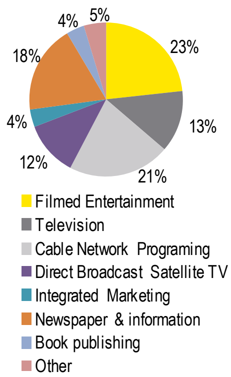
EBIT split



Johnston Press plc is engaged in publishing of local and regional weekly, evening and morning newspapers, both paid-for and free, together with associated websites, and specialist publications in paper, online or mobile in the UK and Republic of Ireland. In addition, the company provides contract printing services.

News Corporation (News Corp)

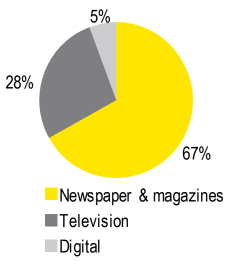
EBIT split



News Corp is a global media company, with operations in Australia, United States, UK, and continental Europe. It operates in newspaper and information services, cable television programming, filmed entertainment and satellite television.

Gannett Co, Inc.

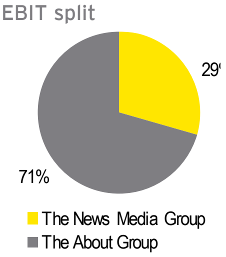
EBIT split



Gannett Co, Inc. is based predominantly in the US and comprises newspaper and magazine publishing, television broadcasting and digital operations. It publishes 83 US daily newspapers with affiliated online sites, direct mail magazines and other special interest publications. It also has commercial printing, newswire, marketing, and data services operations. The company also publishes newspaper titles in the UK and operates 23 television stations and their affiliated websites in the US.

The New York Times Company

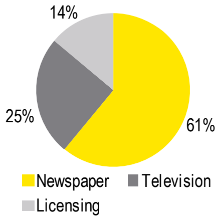
EBIT split



The New York Times Company is a diversified media company based in the US comprising a publishing arm, The News Media Group, and a digital arm, The About Group. The News Media Group predominantly consists of newspaper publishing and associated digital content.

The E.W. Scripps Company

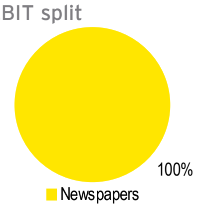
EBITDA split



The E. W. Scripps Company is a US company with interests in newspaper publishing, television stations, licensing and syndication with associated online content and advertising services. The newspaper business includes daily and community newspapers in the US. Licensing and other media primarily include licensing of worldwide copyrights relating to "Peanuts" and "Dilbert.

The McClatchy Company

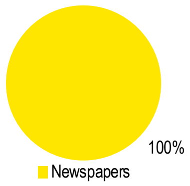
EBIT split



The McClatchy Company is a US based company primarily engaging in newspaper publishing and related websites. The company also owns a portfolio of digital assets.

A.H. Belo Corporation

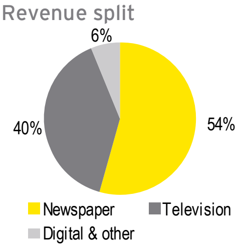
EBIT split



A.H. Belo Corporation is a news and information company primarily in the US and owns and operates three daily newspapers and numerous associated websites.

Media General, Inc.

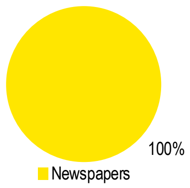
Revenue split



Media General, Inc. is a US company providing local news and information using multiple media platforms in small and mid-size markets in the south-east of the US. It owns metropolitan and community newspapers, specialty publications and network affiliated broadcast television stations and associated websites. It also owns a variety of shopping and coupon websites.

Lee Enterprises Inc.

EBIT split



Lee Enterprises Inc. provides local news, information and advertising in midsize markets in the US, with interests in daily newspapers, weekly newspapers and specialty publications.

Digital

The following table provides an overview of the current trading multiples of listed companies that operated in the digital industry based on share prices at 18 February 2011.

Comparable companies trading multiples as at 18 February 2011

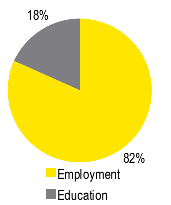
Company name	Country headquarters	Market cap (million)	EBITDA Multiple (H)	EBITDA Multiple (1F)	PE Multiple (H)	PE Multiple (1F)
SEEK Limited	AUS	2,376	20.9x	15.6x	30.2x	21.6x
REA Group Limited	AUS	1,595	20.2x	15.4x	31.4x	24.1x
Carsales.com.au Limited	AUS	1,131	17.6x	14.0x	26.4x	20.9x
Wotif.com Holdings Limited	AUS	943	11.5x	10.4x	18.4x	17.4x
Webjet Limited	AUS	165	10.2x	9.9x	16.0x	14.7x
Google, Inc.	USA	198,963	16.4x	12.4x	29.3x	18.2x
Yahoo! Inc.	USA	22,874	14.4x	12.9x	24.5x	22.7x
Low			**10.2x**	**9.9x**	**16.0x**	**14.7x**
Average			**15.9x**	**12.9x**	**25.2x**	**19.9x**
Median			**16.4x**	**12.9x**	**26.4x**	**20.9x**
High			**20.9x**	**15.6x**	**31.4x**	**24.1x**

Source: Bloomberg, Capital IQ

A brief overview of the comparable companies and a breakdown of the companies' operations by EBIT (excluding unallocated corporate overheads) or EBITDA and region[98] are provided below:

SEEK Limited

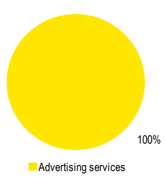
EBIT split



SEEK Limited is an Australian company engaged in advertising employment classifieds and related services on the internet and the provision and distribution of vocational training and higher education courses.

REA Group Limited

EBIT split

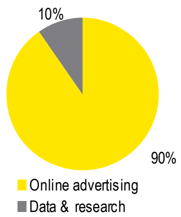


REA Group Limited provides digital marketing services for real estate companies and is based in Australia. It owns and operates real estate and commercial property advertising sites in Australia, including realestate.com.au as well as international real estate property advertising sites such as the Italian casa.it.

[98] EBIT, EBITDA, and region breakdowns are sourced from latest annual report

Carsales.com.au Limited

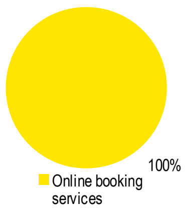
EBITDA split



Carsales.com Limited is based in Australia and is primarily engaged in internet classified advertising in the automotive industry predominantly in Australia.

Wotif.com Holdings Limited

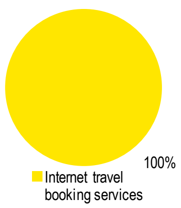
EBIT split



Wotif.com Holdings Limited is an Australian company, engaged in the provision of online travel booking services for accommodation, flights, travel insurance, car hire and activities.

Webjet Limited

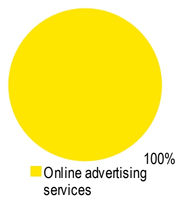
EBIT split



Webjet Limited is an Australian company that operates as an electronic manager and marketer of travel and related services utilising the internet and other mediums.

Google, Inc.

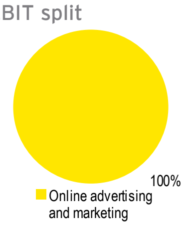
EBIT split



Google, Inc. is a global technology company based in the US that maintains a large index of web sites and other online content, available via the Google search.

Yahoo! Inc.

EBIT split



Yahoo! Inc. is a US based online media company that provides online properties and services to users and a range of marketing services to advertisers.

Ernst & Young

Appendix E Recent transactions

Television broadcasting

The table below provides details of recent acquisitions in the television broadcasting industry in Australia.

Recent transactions in the television broadcasting industry

Date	Target	Acquiror	Target country		Acquired stake	EV	EV/ EBITDA (H)	EV/ EBITDA (1F)
Oct-10	Ten Network	Consolidated Press Holdings Limited	AUS	A$	17.9%	1,853	8.9 x	7.8 x
Sep-09	Ten Network	Various investors	AUS	A$	50.1%	1,803	11.9 x	11.0 x
Jul-07	Southern Cross Broadcasting	Macquarie Media Group	AUS	A$	86.2%	1,350	12.8 x	11.6 x
Jun-07	PBL Media Holdings Pty Limited	CVC Asia	AUS	A$	25.0%	5,555	12.2 x	na
May-07	Channel 9 South Australia Pty Limited	WIN Corporation Pty Limited	AUS	A$	100.0%	105	18.8 x	27.0 x
Apr-07	SP Telemedia (media assets)	Publishing and Broadcasting Limited	AUS	A$	100.0%	250	14.3 x	13.5 x
Dec-06	ProSiebenSat.1 Media AG	KKR & Permira Beteiligungsberatung GmbH	AUS	€	50.7%	6,204	12.8 x	12.4 x
Nov-06	Seven Media Group	KKR	AUS	A$	47.0%	4,000	11.4 x	na
Nov-06	Southern Cross Broadcasting	Macquarie Media Group	AUS	A$	13.8%	1,381	12.5 x	14.2 x
Oct-06	PBL Media Holdings Pty Limited	CVC Asia	AUS	A$	50.0%	5,470	11.5 x	11.0 x
Low						**105**	**8.9 x**	**7.8 x**
Average						**2,797**	**12.4 x**	**12.9 x**
Median						**1,828**	**12.4 x**	**12.0 x**
High						**6,204**	**18.8 x**	**27.0 x**

Source: Mergermarket, Company announcements, Press articles
na: Not available
H: Most recent historical period prior to announcement of the acquisition
1F: Analyst consensus one year forecast

In relation to these transactions, we note the following:

- On 20 October 2010, Consolidated Press Holdings Limited (CPH) acquired a 17.88% stake in Ten Network, an Australian FTA television broadcaster, in a series of on and off market transactions at a price of $1.50 per share. The price implied a 6.4% premium to the closing price one day before the announcement of the transaction, and 6.8% one month prior to announcement

- On 23 September 2009, Ten Network announced the sale of the 50.06% shareholding held by its major shareholder, Canwest MediaWorks Ireland Holdings (Canwest), a diversified Canadian media company. According to Canwest, the proceeds from the sale of its investments will be used to reduce its debt[99]. The sale of the stake to a range of investors was underwritten and managed by Macquarie Capital Advisors Limited. The shares were sold at $1.30 per share, which represented a discount of 4.8% to the closing price of Ten shares the day before the announcement, and a premium of 2.4% to the closing price of Ten shares one month before the announcement.

On the date of announcement of the transaction, Ten Network pre-announced its financial year end results, which were significantly higher than previously anticipated. Consensus estimates available at the date of announcement do not take into account these improved results. As such, in calculating the implied prospective transaction multiple we have considered analysts' reports immediately following the announcement of the transaction, which take into account its improved prospects, and imply a one-year forecast transaction multiple of between 10.0x and 11.0x.

- On 3 July 2007, Macquarie Media Group (MMG) announced that it had acquired the remaining 86.2% of Southern Cross Broadcasting (Australia) Limited (Southern Cross Broadcasting), a regional television and radio broadcasting business, that it did not already own via a scheme of arrangement. The acquisition price was $17.41 per share, and represented a premium to the closing price of Southern Cross shares the day prior to the announcement of 5.9% and one month prior to announcement of 3.9%. MMG had initially acquired a 13.8% stake in Southern Cross in November 2006. In the same announcement, MMG also advised that it had entered into an arrangement whereby subsequent to the completion of the scheme, Fairfax would acquire Southern Cross' radio business, Southern Star, Satellite Music Australia and other associated businesses.

- On 1 June 2007, Publishing and Broadcasting Limited (PBL), the Australian diversified media group, announced that it had sold a further 25% interest in PBL Media Holdings Pty Limited (PBL Media) to CVC Asia. PBL Media is a diversified Australian media group with interests in the Nine Network, ACP Magazines, Ninemsn and carsales.com.au. The acquisition by CVC Asia increases its investment in PBL Media to 75%. CVC Asia acquired its initial 50% investment in October 2006.

- On 29 May 2007, WIN Corporation Pty Limited (WIN), a privately owned Australian regional television broadcasting company, announced that it had made an offer to acquire Channel Nine South Australia Pty Limited, the holder of the commercial FTA television broadcasting licence for the Adelaide TV1 commercial television broadcast area, for cash consideration of $105 million. WIN also holds commercial broadcasting licences in Mount Gambier and Riverland Commercial TV licence areas in South Australia.

- On 23 April 2007, SP Telemedia Limited, an Australian media and telecommunications company, announced that it had entered into an agreement for the sale of its media assets to PBL Media. SP Telemedia's assets included NBN Television, the regional FTA Channel Nine broadcaster (covering Newcastle, Northern NSW and the Gold Coast) and One80 Digital Post, an outside broadcasting and production business for cash consideration of $250 million.

- On 1 December 2006, KKR and Permira Beteiligungsberatung GmbH (Permira) acquired a majority stake in ProSiebenSat.1 Media AG (ProSiebenSat.1), a German television broadcasting group. KKR and Permira jointly acquired 13% of the non-voting preferences shares for €22.45 each and 88% of the common shares for €28.7145

[99] Canwest Global Communications Corp. announcement dated 23 September 2009

each, representing 50.7% of total share capital. The acquisition implied a premium of 26.4% to the closing price of ProSiebenSat.1 shares the day before the announcement date, and a premium of 26.0% to the closing price of ProSiebenSat.1 shares the month before the announcement date.

- On 20 November 2006, Seven Network Limited announced that it had entered into a joint venture with KKR. As part of the joint venture, KKR invested approximately $690 million for a 47% interest in the joint venture with Seven Network Limited retaining the remaining interest in the joint venture.

- On 17 November 2006, Macquarie Media Group confirmed that it had acquired a 13.8% shareholding in Southern Cross Broadcasting at $16.50 per share in an on market transaction. The price paid represented a premium of 13.9% to the closing price of Southern Cross shares the day before the announcement date, and a premium of 16.9% to the closing price of Southern Cross Broadcasting shares the month before the announcement date.

- On 18 October 2006, PBL announced that it had entered into an agreement to transfer certain of its media assets including Nine Network (including its interest in Sky News), ACP Magazines, a 50% interest in Ninemsn and its 41% shareholding in carsales.com.au, to a new entity, PBL Media, in which CVC Asia and PBL each have a 50% economic interest.

Publishing

The table below provides details of recent acquisitions in the publishing industry. As a result of the limited acquisitions that have occurred in Australia, we also considered acquisitions globally.

Recent transactions in the publishing industry

Date	Target	Acquiror	Target country		Acquired stake	EV	EV/ EBITDA (H)	EV/ EBITDA (1F)
Jul-10	Canwest Publishing (print and online)	Postmedia	Canada	C$	100.0%	960	5.6 x	na
Jun-08	Hjemmet Mortensen*	Egmont	Norway	NOK	40.0%	2,375	9.2 x	na
Dec-07	Emap	Apax Partners Worldwide LLP & Guardian Media Group plc	UK	£	100.0%	2,413	12.6 x	na
Dec-06	Rural Press Limited	Fairfax	AUS	A$	100.0%	3,132	16.0 x	15.2 x
Oct-06	Fairfax	News Limited	AUS	A$	7.3%	6,786	13.4 x	12.2 x
Oct-06	WAN	Seven	AUS	A$	14.9%	2,706	14.5 x	14.4 x
May-06	The Border Morning Mail Limited	Fairfax	AUS	A$	100.0%	154	10.4 x	10.0 x
Low						**154**	**5.6 x**	**10.0 x**
Average						**2,647**	**11.7 x**	**13.0 x**
Median						**2,413**	**12.6 x**	**13.3 x**
High						**6,786**	**16.0 x**	**15.2 x**

Source: Mergermarket, Company announcements, Press articles
na: Not available
** EBITA multiple*
H: Most recent historical period prior to announcement of the acquisition
1F: Analyst consensus one year forecast

In relation to these transactions, we note the following:

- On 13 July 2010, Postmedia Network Canada Corp. (Postmedia), a Canadian publisher of newspapers and magazines, announced that it had acquired the print (predominantly newspaper) and online assets of Canwest Publishing Inc. for a total cash consideration of C$1.0 billion. The sale of the assets followed the implementation of the Canwest Plan for Compromise, Arrangement and Reorganization under the *Companies' Creditors Act (Canada)* on 13 July 2010[100].

- On 27 June 2008, Egmont International Holding AS (Egmont), a Denmark based diversified media group, announced that it had acquired the remaining 40% in Hjemmet Mortensen AS, a Norwegian publisher of magazines, it did not already own for a total cash consideration of NOK950 million.

- On 21 December 2007, Emap plc (Emap), a UK based multi-platform media company with operations in business to business, UK consumer magazines, international consumer magazines, radio and TV, announced that it had received an offer from Eden Bidco Limited, a newly incorporated company formed by funds advised by Apax Partners Worldwide LLP and Guardian Media Group plc. Under the terms of the offer, Emap shareholders received cash consideration of £4.70 per share in addition to a

[100] Postmedia Network Canada Corp. announcement dated 13 July 2010

special dividend of £4.61 per share related to the disposal of Emap's consumer media (magazines) and radio divisions to Heinrich Bauer Verlag KG. This disposal was a condition of the offer. The price implied a premium of 23.0% to the closing price one day prior to the announcement and a premium of 13.9% to the closing price one month prior to the announcement.

- On 6 December 2006, Rural Press Limited announced that it had accepted a merger proposal from Fairfax, for a consideration per share of either 2 shares in Fairfax and $3.30 in cash or 2.3 shares in Fairfax and $1.80 in cash, implying an equity value of $2,730 million. Rural Press Limited was a publisher of weekly agriculture newspapers and monthly magazines in eastern Australia. The transaction implied a premium of 19.7% to the closing price one day prior to the announcement and a premium of 18.2% to the closing price one month prior to the announcement. Prior to the announcement date there had been much speculation across the media industry as to potential transactions that may arise upon any change in media regulation.

- On 20 October 2006, News Limited, the Australian arm of the diversified media group News Corp. announced that it had acquired a 7.33% shareholding of Fairfax for a total cash consideration of $388.6 million. The acquisition price was at a premium of 9.7% to the closing price of Fairfax shares the day before the announcement date, and a premium of 31.3% to the closing price of Fairfax shares the month before the announcement date.

- On 18 October 2006, Seven announced that it had acquired a 14.9% interest in WAN in an on-market transaction.

- On 25 July 2006, Fairfax announced that it would acquire The Border Morning Mail Limited, a privately held regional newspaper publisher for the NSW-Victorian border towns of Albury and Wodonga, for a consideration of $155 million.

Digital media

The table below provides details of recent acquisitions of digital media companies.

Recent transactions in the digital media industry

Date	Target	Acquiror	Target country		Acquired stake	EV	EV/ EBITDA (H)	EV/ EBITDA (1F)
Sep-10	Deal Group Media Pty Ltd	ComTel Corporation Ltd	AUS	A$	100.0%	4.8	3.4 x	na
Dec-09	SouFun Holdings Limited	Apax Partners' Funds and General Atlantic	China	US$	38.0%	765.7	15.5 x	na
Sep-09	ReachLocal Australia Pty Limited	ReachLocal Inc	AUS	US$	53.0%	31.2	nm	na
Oct-07	Travel.com.au	Wotif	AUS	A$	100.0%	51.3	103.7 x	na
Apr-07	Hitwise Pty Limited	Experian plc	AUS	US$	100.0%	240.0	na	17.8 x
Mar-06	Trade Me Limited	John Fairfax Holdings Limited	NZ	NZ$	100.0%	700.0	26.9 x	15.6 x
Dec-05	HWW Limited	Ninemsn Pty Limited	AUS	A$	100.0%	12.8	115.7 x	18.0 x
Dec-05	Stayz Australia	John Fairfax Holdings Limited	AUS	A$	100.0%	12.7	na	9.5 x
Low						**4.8**	**3.4 x**	**9.5 x**
Average						**227.3**	**53.0 x**	**15.2 x**
Median						**41.2**	**26.9 x**	**16.7 x**
High						**765.7**	**115.7 x**	**18.0 x**

Source: Mergermarket, Company announcements, Press articles
na: Not available
nm: Not meaningful
H: Most recent historical period prior to announcement of the acquisition
1F: Analyst consensus one year forecast

In relation to these transactions, we note the following:

- On 24 September 2010, ComTel Corporation Limited, an ASX listed digital marketing business, announced that it had entered into an agreement to purchase Deal Group Media Pty Limited, an Australian business offering online marketing, affiliate marketing, search engine marketing and online display, for cash consideration of $4.8m.

- On 1 December 2009, Telstra Corporation Limited (Telstra), the Australian telecommunications business, announced that the shareholders of SouFun Holdings Limited, an online real estate website based in China, were to undertake a partial listing and placement of shares. As a result, Telstra sold its 50.6% shareholding. Apax Partners and General Atlantic each purchased a 19% shareholding for a cash consideration of US$163 million. The business was profitable generating margins of around 39%[101].

- On 11 September 2009, ReachLocal Inc, a US based online marketing business, acquired the remaining 53% interest in ReachLocal Australia Pty Limited it did not previously own for a total consideration of US$17.93 million comprising both cash and scrip.

[101] SouFun Holdings Limited prospectus filed 17 September 2010

- On 1 October 2007, Wotif.com Holdings Limited (Wotif), an ASX listed online travel agency, announced that it intended to make an offer to acquire all the outstanding shares in Travel.com.au Limited (TVL), which was at the same time subject to a takeover bid from Webjet Limited. TVL was an ASX listed owner of online travel sites including lastminute.com.au and travel.com.au. The price paid by Wotif represented a premium of 57.1% to the price one day before announcement of the earlier offer from Webjet Limited, and a one month premium of 71.9%.

- On 19 April 2007, Experian plc (Experian), a global information solutions company based in the US, announced that it had acquired Hitwise Pty Limited, a US based internet marketing intelligence company for a total cash consideration of approximately US$240 million. The acquisition continues Experian's strategy to reposition its marketing solutions activities[102].

- On 6 March 2006, John Fairfax Holdings Limited announced that it had reached an agreement to acquire Trade Me Limited, a privately owned auctions and classified advertising site in New Zealand, for a total cash consideration of NZ$700 million.

- On 22 December 2005, Ninemsn Pty Limited (Ninemsn), an Australian interactive media company, announced that it had agreed to acquire HWW Limited, an ASX listed company that creates, syndicates and publishes content through a variety of sources including newspapers, magazines, mobiles and websites. Ninemsn purchased HWW for a total cash consideration of $14.1 million. The price was at a premium of 30.3% to the closing price one day prior to the announcement and a premium of 73.7% to the closing price one month prior to the announcement.

- On 22 December 2005, John Fairfax Holdings Limited announced that it had acquired Stayz Australia, an online holiday accommodation website for cash consideration of $12.7 million. John Fairfax Holdings Limited stated that Stayz Australia would strengthen the Fairfax digital portfolio[103].

[102] Experian plc announcement dated 19 April 2007
[103] John Fairfax Holdings Limited announcement dated 22 December 2005

Appendix F Glossary

Term	Meaning
the Offers	The Entitlement Offer and Public Offer
$	Australian dollars
£	Pounds
€	Euros
1HFY11	First half of FY11
AAP	Australian Associated Press Pty Limited
ABC	Australian Broadcasting Corporation
ACCC	Australian Competition and Consumer Commission
ACMA	Australian Communications and Media Authority
Act	The Corporations Act, 2001 (Cth)
Adjusted Issue Price	The issue price of the CPS adjusted by 7.143% per annum (compounded on a semi-annual basis)
APN	APN News & Media Limited
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange or ASX Limited
BSA 2006	Broadcasting Services Amendment (Media Ownership) Act (2006)
C$	Canadian dollars
CAGR	Compound annual growth rate
Canwest	Canwest MediaWorks Ireland Holdings
CEASA	Commercial Economic Advisory Service of Australia
CNG	Community Newspaper Group Limited
Combined Group	WAN following completion of the Proposed Transaction
CPH	Consolidated Press Holdings Limited
CPS	Convertible preference shares proposed to be issued by WAN to SGH
CULS	Convertible unsecured redeemable loan note securities to be issued by WAN under the CULS Terms of Issue
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Emap	Emap plc
Entitlement Offer	The offer of approximately 125.5 million CULS to eligible shareholders
Ernst & Young Transaction Advisory Services, "we" or "us"	Ernst & Young Transaction Advisory Services Limited ABN 87 003 599 844 Australian Financial Service Licence No. 240585
EV	Enterprise value
Experian	Experian plc
Explanatory Memorandum	Explanatory memorandum issued in relation to the Proposed Transaction
Fairfax	Fairfax Media Limited
FTA	Free to air
FYXX	Financial year ended 30 June 20XX or 52 week period ended 20XX
GDP	Gross domestic product
HD	High definition
Independent Expert's Report	This report
IPTV	Internet protocol television
KKR	Funds affiliated with Kohlberg Kravis Roberts & Co. L.P.
KKR Investment	The subscription by KKR, mezzanine investors and members of management relating to SMG pursuant to the KKR Subscription Agreement

KKR Subscription Agreement	The subscription agreement between WAN and KKR
MMG	Macquarie Media Group
NBN	National Broadband Network
News Corp	News Corporation
Ninemsn	Ninemsn Pty Limited
NOK	Norwegian Krone
Non-associated Shareholder	Holder of an ordinary share in WAN not associated with SGH
NZ$	New Zealand dollars
P/E multiples	Price to earnings multiple
PBL	Publishing and Broadcasting Limited
pcp	Prior corresponding period
Postmedia	Postmedia Network Canada Corp.
Prime Media	Prime Media Group Limited
Proposed Transaction	The acquisition of SMG and issuance of WAN ordinary Shares and CPS to SGH
Prospectus	The prospectus prepared by WAN in relation to the Entitlement Offer and the Public Offer dated 21 February 2011
Public Offer	The public offer of WAN Shares to new and existing shareholders as described in the Prospectus
RG 111	ASIC Regulatory Guide 111, *Content of expert reports*
SBS	Special Broadcasting Service Corporation
SENs	Subordinated equity notes
Seven	Seven Network Limited
SGH	Seven Group Holdings Limited
Share Sale Agreement	Agreement between WAN and SGH for the acquisition by WAN of the entire issued share capital of SMG
Shareholder	Holder of an ordinary share in WAN
SMG	Seven Media Group
SouFun	SouFun Holdings Limited
Southern Cross	Southern Cross Media Group Limited
Telstra	Telstra Corporation Limited
Ten Network	Ten Network Holdings Limited
TERP	Theoretical ex-rights price
The West	"The West Australian" and "The Weekend West" newspapers
TVL	Travel.com.au Limited
UK	United Kingdom
US	United States of America
US$	United States dollars
VWAP	Volume weighted average share price
WAN	West Australian Newspapers Holdings Limited
WIN	WIN Corporation Pty Limited
Wotif	Wotif.com Holdings Limited
FY11PF	Pro forma FY11

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THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT EXPERT'S REPORT

21 February 2011

PART 2 - FINANCIAL SERVICES GUIDE

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

Ernst & Young Transaction Advisory Services Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is $550,000 (inclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

Contacting Ernst & Young Transaction Advisory Services	Contacting the Independent Dispute Resolution Scheme:
AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.